# 2010 Annual Report



# DeTeam Company Limited
# 弘海有限公司*

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

*Stock code : 65*

* *For identification purpose only*

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# CORPORATE PROFILE

## Board of Directors

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

**Independent Non-Executive Directors**
Mr. Kwok Chi Shing
Mr. Tsang Wai Sum
Mr. Yu Yang

## Compliance Officer

Mr. Mak Shiu Chung, Godfrey

## Company Secretary

Mr. Wong Choi Chak FCCA, CPA

## Authorised Representatives

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

## Qualified Accountant

Mr. Wong Choi Chak FCCA, CPA

## Audit Committee Members

Mr. Kwok Chi Shing *(Chairman)*
Mr. Tsang Wai Sum
Mr. Yu Yang

## Remuneration & Nomination Committee

Mr. Tsang Wai Sum *(Chairman)*
Mr. Mak Shiu Chung, Godfrey
Mr. Yu Yang

## Registered Office

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

## Corporate Website

www.irasia.com/listco/hk/deteam

## Head Office and Principal Place of Business in Hong Kong

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

## Principal Share Registrar and Transfer Office

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

## Hong Kong Branch Share Registrar and Transfer Office

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

## Principal Bankers

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

## Auditor

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

## Legal Advisers

As to Hong Kong Law:
Morrison & Foerster

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

## Stock Code

65

# CHAIRMAN'S STATEMENT

## To the Shareholders

## Final Results

On behalf of the board of directors of DeTeam Company Limited (the "Company"), I am pleased to present the audited consolidated results of the Company (together with its subsidiaries, collectively referred to as the "Group") for the year ended 31 December 2010.

## Business Review

In 2010, the Group's main businesses were the production and sale of plastic woven bags and the trading of coal in the People's Republic of China (the "PRC"). As the underground mine was still under trial production and the quality of the surface of the coal mine was unsatisfactory that adjustments and testing were required during the trial production, the output of underground coal mine was fluctuated during the year. As a result, the plastic woven bags business still dominated the Group's businesses in 2010.

For the first half year of 2010, as fierce competition was experienced by our customers in Changchun Yicheng Packaging Company Limited ("Changchun Yicheng"), Changchun Yicheng had to accordingly adjust its product mix and to reduce the carrying weight of bags, which resulted in a lower profit. Owing to the significant increase in sales to customers in the second half year, there was overall small decrease in the annual profit. The Company expects that the woven bag business will restore some growth in next year due to the recovery of sales to customers. In addition, the Company will enlarge the scale of barrel trading business to enhance the annual returns to shareholders.

The underground coal mine was under examination and acceptance stage as over 80 separate items passing relevant procedures in overall examination and acceptance. Upon successfully passing the overall examination and acceptance, we can obtain the approval for official production, which is expected to be issued in the first half of 2011. Besides, the output of the underground mine rose to a maximum of 51,000 tons per month from approximately 14,000 tons per month at the beginning of the trial production. The Company estimates that the output of coal can reach approximately 100,000 tons per month during the time of formal production.

The principal business of Jilin Province De Feng Commodity Economics and Trade Co., Limited (吉林省德峰物資經貿有限責任公司) ("De Feng") is the sale of coal. As the primary aim of our Company in 2010 was to successfully complete the underground coal mine, all the capital and work forces were placed in it, and hence the business of De Feng this year was underperformed as compared with last year. De Feng will be back to normal business for the year of 2011 since the underground coal mine is approximately completion.

## Prospects

After a construction period of four years, the underground coal mine is in its final stage. We estimate the underground coal mine will be in official production in the first half of this year. The monthly output will reach 100,000 tons then, and our plan is to enhance the output of the underground coal mine by application to the relevant authority and installation of extra equipment and machines. As a result, the revenue and profit of the underground coal mine will be increased.

## Appreciation

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

**Mak Shiu Chung, Godfrey and Xu Bin**
*Co-Chairmen*
Hong Kong, 25 March 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial highlights

| | 2010<br>HK$'000 | 2009<br>HK$'000 | Change |
|---|---|---|---|
| **Operating Results** | | | |
| Turnover | 320,430 | 327,259 | -2% |
| Gross profit | 56,233 | 75,488 | -26% |
| Operating expenses | 38,996 | 31,140 | 25% |
| Finance costs | 4,557 | 2,524 | 81% |
| Profit for the year attributable to owners of the Company | 21,037 | 32,170 | -35% |
| Earnings per share – basic | HK3.45 cents | HK5.27 cents | -35% |
| **Financial Position** | | | |
| Total assets | 920,504 | 693,676 | 33% |
| Bank and cash balances | 57,234 | 57,855 | -1% |
| Equity attributable to owners of the Company | 440,464 | 414,276 | 6% |
| **Financial Ratios** | | | |
| Current ratio | 1.26 | 2.08 | -39% |
| Gearing ratio | 0.25 | 0.09 | 178% |

## Summary of financial information

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

### Results

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | (Restated) 2006 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Turnover** | | | | | |
| From continuing operations | 320,430 | 327,259 | 364,150 | 198,244 | 66,771 |
| From discontinued operation | – | – | – | 903 | 2,918 |
| | 320,430 | 327,259 | 364,150 | 199,147 | 69,689 |
| **Profit from operations** | 18,744 | 45,903 | 68,286 | 31,314 | 12,138 |
| Finance costs | (4,557) | (2,524) | (344) | (579) | (536) |
| Loss on disposals of subsidiaries | – | – | – | – | (90) |
| **Profit before tax** | 14,187 | 43,379 | 67,942 | 30,735 | 11,512 |
| Income tax credit/(expense) | 184 | (11,778) | (14,109) | 1,381 | – |
| Profit for the year from continuing operations | 14,371 | 31,601 | 53,833 | 32,116 | 11,512 |
| Profit/(loss) for the year from discontinued operation | – | – | – | 3,141 | (1,379) |
| **Profit for the year** | 14,371 | 31,601 | 53,833 | 35,257 | 10,133 |
| Attributable to: | | | | | |
| Owners of the Company | 21,037 | 32,170 | 50,956 | 36,073 | 10,133 |
| Non-controlling interests | (6,666) | (569) | 2,877 | (816) | – |
| | 14,371 | 31,601 | 53,833 | 35,257 | 10,133 |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Summary of financial information (Continued)

### Assets, liabilities and equity

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2010 | (Restated) 2009 | 2008 | 2007 | 2006 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Non-current assets | 569,316 | 417,908 | 238,485 | 115,027 | 27,841 |
| Current assets | 351,188 | 275,768 | 296,912 | 259,286 | 34,823 |
| **TOTAL ASSETS** | 920,504 | 693,676 | 535,397 | 374,313 | 62,664 |
| Non-current liabilities | 31,556 | 5,315 | 2,863 | – | 2,375 |
| Current liabilities | 279,820 | 132,575 | 44,552 | 13,277 | 39,118 |
| **TOTAL LIABILITIES** | 311,376 | 137,890 | 47,415 | 13,277 | 41,493 |
| **NET ASSETS** | 609,128 | 555,786 | 487,982 | 361,036 | 21,171 |
| Attributable to: | | | | | |
| Owners of the Company | 440,464 | 414,276 | 397,966 | 337,020 | 21,171 |
| Non-controlling interests | 168,664 | 141,510 | 90,016 | 24,016 | – |
| **TOTAL EQUITY** | 609,128 | 555,786 | 487,982 | 361,036 | 21,171 |

*Notes:*

The results of the Group for the years ended 31 December 2006, 2007, 2008 and 2009 and of the assets, liabilities and equity of the Group as at these dates have been extracted from audited financial statements of the Company for the respective years and restated as appropriate.

The results of the Group for the year ended 31 December 2006 have been restated as a result of the classification of the transportation business to discontinued operations in 2007.

The results of the Group for the year ended 31 December 2010 and of the assets, liabilities and equity of the Group as at 31 December 2010 are those set out on pages 26 and 28 of the financial statements respectively.

## Financial review

Operating loss was incurred by underground coal mine business, as all the machinery, technicians and staffs were positioned in the underground coal mine which commenced the trial production in May of 2010, However when the excavation work proceeded to the surface of the eighth coal seam of the underground coal mine, hosts of gravels and impurities were found in coal seam, which affected the coal quality to a certain extent and the output of coal was fluctuated during the year. As a result, the Group's profit for the year were undoubtedly affected. For the year ended 31 December 2010, the Group's turnover was approximately HK$320,430,000, representing a decrease of approximately HK$6,829,000 as compared with HK$327,259,000 last year. The revenue was mainly generated from Changchun Yicheng. Although the Group's turnover for the year ended 31 December 2010 decreased as compared with last year due to fierce competition in the first half year of 2010, profit attributable to shareholders for the year ended 31 December 2010 reduced to approximately HK$21,037,000 as compared to approximately HK32,170,000 in 2009. The result of the Group's coal business for the year ended 31 December 2010 as reflected in the segmental information included pre-operation expenditures and excavation costs for the underground coal mine business of approximately HK$16,540,000 and profit from sale of open-pit coal of approximately HK$5,532,000.

Selling and distribution expenses for 2010 was approximately HK$1,255,000, representing a decrease of 48% as compared with approximately HK$2,390,000 in 2009 due to the customers of open-pit coal had to bear the transportation cost for the year.

Administrative expenses for 2010 was approximately HK$37,670,000 in 2010 (2009: approximately HK$28,457,000) of which the significant increment was caused by the staff cost and general expenses incurred by the underground coal mine since its trial production commenced in May of 2010.

Finance cost for 2010 was approximately HK$4,557,000 representing an increase of 81% as compared with approximately HK$2,524,000 in 2009 because of the increase in borrowings and the advances from a non-controlling shareholder.

A loan agreement dated 14 September 2010 was entered into between Shenzhen Beidachang Trading Co., Ltd. ("Beidachang") as the creditor and Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Co., Ltd. ("Jinyuanli") as the borrower for an unsecured loan of RMB9.93 million repayable at an interest rate of 6% per annum for the use by Jinyuanli for general working purpose. Beidachang is a related party of the Company to the extent that one of the executive directors, Mr. Zhang Chao Liang, owns 20% of the interest in Beidachang.

De Feng was granted a short term bank loan of approximately HK$38,591,000 during the year which were secured by De Feng's trade and other receivables. De Feng applied the loan for the Group's general working purpose.

Changchun Yicheng entered into a short term bank loan agreement of RMB38 million on 1 December 2010 which were secured by the pledge of land and buildings, pledged bank deposits and corporate guarantee issued by the Company. Application for draw down of the bank loan was still in progress as at the year end date. The Group will apply the loan for general working purpose.

The Group expects that the application of official production for underground coal mine will be finished in the first half year of 2011 and the underground coal mine will contribute a substantial amount of operating profit to the Group in 2011. The Group will continue to seek other coal related investment opportunities with the aim to achieve satisfactory return to the shareholders.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Capital structure, liquidity and financial resources

As a result of the bonus issue of Shares on the basis of one bonus share for every five then existing shares in 2010, the Company has a total number of 1,200,000,000 authorised shares and its issued share capital is 609,914,880 shares.

As at 31 December 2010, the Group had cash and cash equivalents amounting to approximately HK$57 million. Additionally, the Group's gearing ratio was 0.25 which was based on the division of total debts by total equity. The Group's liquidity ratio was 1.26.

## Charge on Assets

At 31 December 2010, the bank overdrafts of approximately HK$2,866,000 (2009: HK$Nil) is secured by the pledged bank deposit and the corporate guarantee issued by a subsidiary.

At 31 December 2010, a bank loan of approximately HK$38,591,000 (2009: HK$40,909,000) is secured by the trade and other receivables. The bank loans of approximately HK$38,995,000 (2009: HK$Nil) is secured by the pledge of the Group's land and buildings, pledged bank deposits and the corporate guarantees issued by the Company and a subsidiary.

The remaining balance is secured by the guarantees issued by the Company and the Government of Hong Kong Special Administrative Region.

At 31 December 2010, the Group had available HK$69,524,000 (2009: HK$47,909,000) of undrawn borrowing facilities.

## Foreign currency risk

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

## Contingent liabilities

As at 31 December 2010, the Group did not have any material contingent liabilities.

## Employee information

As at 31 December 2010, the Group employed a total of 842 full-time employees. The Group has entered into employment contracts with all of its employees. The remuneration package for its staff comprises of monthly salary, provident fund contributions, medical claims, training programmes, housing allowance and discretionary options based on their contribution to the Group.

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

## Material acquisitions and significant investment

The Group had no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2010 and currently it has no plan for material investments or capital assets.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

Mr. Mak Shiu Chung, Godfrey, aged 48, is the Co-chairman of the Company. Mr. Mak has over 20 years of experience in the field of corporate finance, specialising in advisory services for major transactions concerning different sectors. He has participated in various securities and financing activities in Asia. Mr. Mak returned to Hong Kong and joined the Hong Kong Government as an Administrative Officer in 1988. He started his corporate finance career at Morgan Grenfell in 1990. He holds a Bachelor of Science degree in Business Studies from Bradford University School of Management, United Kingdom and a Master of Business Administration degree from the University of Wales, United Kingdom. Mr. Mak is a Member of the Hong Kong Securities Institute, a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators.

Mr. Xu Bin, aged 45, was appointed an executive director and Co-chairman of the Company on 10 August 2009, respectively. Mr. Xu has over 11 years of experience in financial management. Mr. Xu attended Faculty of Finance in Jilin University. He was previously the general manager of Hainan Dongyuan Industrial Company Limited. Apart from being an executive director and Co-chairman of the Company. Mr. Xu does not hold any other positions in the Company or any member of the Group.

Mr. Zhang Chao Liang, aged 42, graduated from the University of Shenzhen in International Trade Finance. He was previously the Head of Sales in China National Machinery Import and Export Corporation (Shenzhen) responsible for sales and marketing and strategic planning.

Mr. Wang Hon Chen, aged 50, is the general manager of the Changchun Yicheng, has over 23 years of experience in the production field. Mr. Wang is responsible for overseeing the operations of Changchun Yicheng Packaging Company Limited, including product development, production process and technical and safety management. He is a member of the People's Congress in Luyuan District, Changchun City, Jilin Province, People's Republic of China.

## Independent Non-executive Directors

Mr. Kwok Chi Shing, aged 48, is currently the managing partner of LKKC CPA Limited. He graduated from the University of Aberdeen, United Kingdom in 1986 with a Master of Arts Honour Degree in Accountancy with Economics. Mr. Kwok is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok has extensive experience in corporate and financial management work especially for the international cross border transactions, real estate development and property management industries. He has extensive experience in public sector work both in Hong Kong and China and he was the president of the Hong Kong Association of Financial Advisors.

Mr. Tsang Wai Sum, aged 50, 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. Yu Yang, aged 44, graduated from the University of Nanjing with a bachelor degree in International Commercial Business. He is currently the chairman of Nanjing Pesishing Technology Company Limited and has over 26 years of experience in Commodity trading business.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## Senior Management

Mr. Fan Xi Lu, aged 46, is the director of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited. He graduated from Jilin Architecture Technical College and has over 24 years of coal trading experience.

Mr. Wang Ping, aged 53, is the general manager of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited. He has over 25 years of mining and mine management experience in China.

Mr. Wong Choi Chak, aged 46, is the financial controller and company secretary of the Company. Mr. Wong has worked for various listed companies for over 17 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.

The Directors have the pleasure in presenting their report and audited financial statements of the Group for the year ended 31 December 2010.

## Principal activities

The Group was engaged in the manufacturing and sale of plastic woven bags, paper bags, and plastic barrels; and the sale of coal during the year.

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

## Results and financial position

The Group's results for the year ended 31 December 2010 are set out in the consolidated income statement on page 26.

The state of the Group's affairs as at 31 December 2010 is set out in the consolidated statement of financial position on page 28.

## Bonus issue of shares

The Board also recommends the issued of bonus shares on the basis of one bonus shares for every five existing shares held by shareholders registered as such on the register of members on Monday, 26 September 2011. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this Annual Report.

## Share capital

Details of the movements in the share capital of the Company are set out in Note 28 to the financial statements.

## Reserves

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

## Sufficiency of public float

Based on the Information available to the Company and to the best knowledge of the Directors at least 25% of the Company's total issued share capital were held by the public as at the date of this report.

## Dividend

An interim dividend of HK0.5 cent (2009 – Nil) per share for the six months ended 30 June 2010 was paid on 3 November 2010. The Directors have resolved to recommend the payment of a final dividend of HK0.6 cent (2009 – HK1.9 cents) per share amounting to approximately HK$3,659,000 for the year ended 31 December 2010 (2009 – HK$9,657,000). Total dividends for the year ended 31 December, 2010 will be HK1.1 cents (2009 – HK1.9 cents) per share.

# DIRECTORS' REPORT

## Property, plant and equipment

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

## Donation

Charitable and other donations made by the Group during the year amounted to HK$Nil (2009: HK$1,000,000).

## Directors

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

**Executive Directors**

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

**Independent Non-Executive Directors**

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

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

The Company has received from each of the independent non-executive Directors an annual confirmation of independence. The Company considers that each of its independent non-executive Directors is independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 5 and 6.

## Directors' service contracts

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

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

## Directors' and Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations

As at 31 December 2010, the interests and short positions of each Director and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the laws of Hong Kong) (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

| | Number of ordinary shares | | | | | |
|---|---|---|---|---|---|---|
| Name | Personal interests | Corporate interests | Family interests | Other interests | Total | Percentage of issued share capital |
| Mr. Mak Shiu Chung, Godfrey | – | 83,710,080(L) (Note 3) | – | – | 83,710,080(L) | 13.72% |
| Mr. Xu Bin | 70,502,400(L) (Note 2) | – | 6,000,000(L) (Note 2) | – | 76,502,400(L) | 12.54% |
| Mr. Tsang Wai Sum | 276,480(L) | – | – | – | 276,480(L) | 0.05% |

Notes:

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

2. Mr. Xu Bin is beneficially interested in 70,502,400 Shares and is deemed to be interested in 6,000,000 Shares by virtue of being a spouse of Ms. Shao Ze Yun.

3. 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 83,710,080 Shares owned by Lucky Team.

4. 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

Save as mentioned in Note 2 above, at 31 December 2010, none of the Directors and Chief Executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers contained in the Listing Rules, were required to be notified to the Company and the Stock Exchange.

## Share option scheme

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

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

Certain principal terms of the Scheme are summarized as follows:

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

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

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

As at the year end date, no share option has been granted or agreed to be granted by the Company under the Scheme in 2010.

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

## Directors' interests in contracts

During the year, the Group entered into the following transactions:

| Name of party contracted with | Nature of contract | Amount HK$ | Interested director |
|---|---|---|---|
| Shenzhen Beidachang Trading Co., Ltd. | Unsecured loan advanced to a subsidiary | Loan – 11,733,000<br>Interest – 201,000 | Mr. Zhang Chao Liang has beneficial interests in the contracted party |

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

## Directors' and Chief Executive's rights to acquire shares or debt securities

Save as disclosed under the section headed "Directors' and Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations", as at 31 December 2010, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and Chief Executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Chief Executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

## Substantial shareholders

Other than interests disclosed in the section headed "Directors and Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations" above, as at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed the following persons or corporations (other than the directors or Chief Executive of the Company) as having an interest of 5% or more of the issued share capital of the Company.

| Name | Capacity/ Nature of interest | Number of Shares (Note 3) | Percentage of issued share capital |
|---|---|---|---|
| Lucky Team International Limited ("Lucky Team") | Beneficial Owner | 83,710,080 (L) (Note 1) | 13.72% |
| Mr. Xu Bin | Beneficial Owner and Interest of Spouse | 76,502,400 (L) (Note 4) | 12.54% |
| Ms. Shao Ze Yun | Beneficial Owner and Interest of Spouse | 76,502,400 (L) (Note 5) | 12.54% |
| Mr. Li Gui Yan | Beneficial Owner | 50,544,000 (L) (Note 2) | 8.29% |

Notes:

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

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

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

4. Mr. Xu Bin is beneficially interested in 70,502,400 Shares and is deemed to be interested in 6,000,000 Shares by virtue of being a spouse of Ms. Shao Ze Yun.

5. Ms. Shao Ze Yun is beneficially interested in 6,000,000 Shares and is deemed to be interested in 70,502,400 Shares by virtue of being a spouse of Mr. Xu Bin.

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any other persons who have interests and/or short positions in the shares, underlying shares and debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## Connected transaction and continuing connected transactions

During the year ended 31 December 2010, the Group had the following continuing connected transactions, details of which have been disclosed in compliance with the requirements in accordance with Chapter 14 and 14A of the Listing Rules:

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

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

Although the annual cap for the lease of a station platform under the Underground Coal Supply Agreement for the year ended 31 December 2010 was RMB9,600,000 (approximately HK$10,909,000), as the underground coal mine was under construction, the actual lease amount of a station platform to the First JV Company during the year ended 31 December 2010 was nil.

(b) On 3 December 2008, Yuan Yuan entered into an agreement with De Feng for the purchase by De Feng from Yuan Yuan of coal required by De Feng and the lease by De Feng from Yuan Yuan of a station platform for the transportation of coal for the period from 8 January 2009 to 31 December 2010 (the "New Open-Pit Coal Supply Agreement"). Yuan Yuan is a connected person of the Company as it is a joint venture partner of De Feng, which is an indirect non-wholly owned subsidiary of the Company. Accordingly, the transaction under the New Open-Pit Coal Supply Agreement constitute continuing connected transactions for the Company.

The 2010 annual cap for the purchase of coal and the lease of a station platform by De Feng under the New Open-Pit Coal Supply Agreement was RMB120,000,000 (approximately HK$138,012,000) and the actual amount of purchase of coal and the lease of a station platform by De Feng for the year ended 31 December 2010 was approximately RMB6,923,000 (approximately HK$7,962,000).

(c) The loan agreement dated 20 October 2010 entered into between Yuan Yuan as the creditor and Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Co., Ltd. ("Jinyuanli") as the borrower for an unsecured loan of RMB30 million repayable at an interest rate of 10.68% per annum for the use by Jinyuanli for general working purpose. The loan is repayable on 20 August 2011. Yuan Yuan is a shareholder of Jinyuanli therefore is a connected person of the Company under Rule 14A.11(1) of the Listing Rules. However, the transaction is exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules under Rule 14A.65(4) as it is a financial assistance provided by Yuan Yuan, a connected party of the Company, for the benefit of Jinyuanli, a subsidiary of the Company on commercial terms better than normal commercial terms to the Group where no security over the assets of the Group is granted in respect of such financial assistance.

## Management contracts

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

## Convertible securities, options, warrants or other similar rights

Apart from the share options, details of which are set out above in the section headed "Share option scheme", the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2010. There had been no exercise of convertible securities, options, warrants or other similar rights during the year ended 31 December 2010.

# DIRECTORS' REPORT

## Major customers and suppliers

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the years ended 31 December 2010 and 2009 are as follows:

| | Percentage of the Group's total | | | |
|---|---|---|---|---|
| | Sales | | Purchases | |
| | 2010 | 2009 | 2010 | 2009 |
| The largest customer | 26% | 31% | | |
| Five largest customers in aggregate | 67% | 76% | | |
| The largest supplier | | | 25% | 23% |
| Five largest suppliers in aggregate | | | 58% | 61% |

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

## Competing interests

None of the Directors or the management shareholders (as defined in the Listing Rules) of the Company had any interest in business which competes or may compete with the business of the Group.

## Distributable reserves

As at 31 December 2010, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$180,380,000. In addition, the share premium account of the Company of approximately HK$288,602,000 as at 31 December 2010 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

## Pre-emptive rights

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

## Purchase, sale or redemption of shares

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

## Compliance with the Listing Rules

Throughout the year ended 31 December 2010, the Company has complied with the Listing Rules except the independent non-executive Directors have not been appointed for a specific term. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company.

## Audit committee

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

The audit committee of the Company held four meetings during the year. The audit committee has reviewed the annual results for the year ended 31 December 2010.

## Auditor

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

## Corporate governance

A report of the principal corporate governance practices adopted by the Company is set out on pages 20 to 23 of the annual report.

By order of the Board

**Mak Shiu Chung, Godfrey**
*Co-Chairman*

25 March 2011, Hong Kong

# CORPORATE GOVERNANCE REPORT

## Introduction

Subject to the deviations as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

## Directors' securities transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Rules Governing the listing of securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2010.

## Board of Directors and Board Meeting

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

## Board Members

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2010, the Company had three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders. The Company has received an annual confirmation from each of the independent non-executive directors on their respective independence Pursuant to Rule 3.13 of the Hong Kong Listing Rules and consider that each of them to be independent. Mr. Kwok Chi Shing, Mr. Tsang Wai Sum and Mr. Yu Yang are the independent non-executive Directors. The appointment of Mr. Kwok Chi Shing and Mr. Tsang Wai Sum is not for a fixed term and is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company or Mr. Kwok Chi Shing and Mr. Tsang Wai Sum with a written notice of not less than one month unless both parties agree otherwise.

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

During the year ended 31 December 2010, the Board held a full board meeting for each quarter.

Details of the attendance of the Board are as follows:

| **Directors** | **Attendance** |
|---|---|
| Mr. Mak Shiu Chung, Godfrey | 4/4 |
| Mr. Xu Bin | 4/4 |
| Mr. Zhang Chao Liang | 4/4 |
| Mr. Wang Hon Chen | 4/4 |
| Mr. Kwok Chi Shing | 4/4 |
| Mr. Tsang Wai Sum | 4/4 |
| Mr. Yu Yang | 4/4 |

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

# CORPORATE GOVERNANCE REPORT

## Remuneration of Directors

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

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

During the period under review, a meeting of the remuneration committee was held on 15 September 2010. Details of the attendance of the remuneration committee meeting are as follows:

| Members | Attendance |
|---|---|
| Mr. Mak Shiu Chung, Godfrey | 1/1 |
| Mr. Tsang Wai Sum | 1/1 |
| Mr. Yu Yang | 1/1 |

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

## Nomination of Directors

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

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

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

During the period under review, a meeting of the nomination committee was held on 15 September 2010 for nomination of Directors. Details of the attendance of the meeting are as follows:

| Members | Attendance |
|---|---|
| Mr. Mak Shiu Chung, Godfrey | 1/1 |
| Mr. Tsang Wai Sum | 1/1 |
| Mr. Yu Yang | 1/1 |

During the meeting on 15 September 2009, the board of Directors recommended that all the existing Directors be retained by the Company. Further, in accordance with the Company's Articles of Association Mr. Mak Shiu Chung, Godfrey, Mr. Wang Hon Chen and Mr. Yu Yang will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

## Auditor's remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HK$745,000 to the external auditor for their services including audit, due diligence and other advisory services.

## Audit committee

The Company established an audit committee with written terms of reference in compliance with the code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2010, the audit committee comprises three members, Mr. Kwok Chi Shing, and Mr. Tsang Wai Sum and Mr. Yu Yang. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Kwok Chi Shing.

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

| Members | Attendance |
|---|---|
| Mr. Kwok Chi Shing | 4/4 |
| Mr. Tsang Wai Sum | 4/4 |
| Mr. Yu Yang | 4/4 |

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

## Directors' and auditors responsibilities for financial statements

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor to the shareholders are set out on page 24.

## Internal control

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

## Investors relations

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

# INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the consolidated financial statements of DeTeam Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 69, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

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

## Auditor's responsibility

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**RSM Nelson Wheeler**
*Certified Public Accountants*
Hong Kong

25 March 2011

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Turnover** | 6 | 320,430 | 327,259 |
| Cost of sales | | (264,197) | (251,771) |
| **Gross profit** | | 56,233 | 75,488 |
| Other income | 7 | 1,507 | 1,555 |
| Selling and distribution expenses | | (1,255) | (2,390) |
| Administrative expenses | | (37,670) | (28,457) |
| Other operating expenses | | (71) | (293) |
| **Profit from operations** | | 18,744 | 45,903 |
| Finance costs | 9 | (4,557) | (2,524) |
| **Profit before tax** | | 14,187 | 43,379 |
| Income tax credit/(expense) | 10 | 184 | (11,778) |
| **Profit for the year** | 11 | 14,371 | 31,601 |
| **Attributable to:** | | | |
| Owners of the Company | | 21,037 | 32,170 |
| Non-controlling interests | | (6,666) | (569) |
| | | 14,371 | 31,601 |
| **Earnings per share** | 15 | | (Restated) |
| – Basic | | HK3.45 cents | HK5.27 cents |
| – Diluted | | N/A | N/A |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Profit for the year** | 14,371 | 31,601 |
| **Other comprehensive income:** | | |
| Exchange differences on translating foreign operations | 23,567 | 407 |
| **Other comprehensive income for the year, net of tax** | 23,567 | 407 |
| **Total comprehensive income for the year** | 37,938 | 32,008 |
| **Attributable to:** | | |
| Owners of the Company | 38,386 | 32,405 |
| Non-controlling interests | (448) | (397) |
| | 37,938 | 32,008 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

| | Note | As at 31 December 2010 HK$'000 | As at 31 December 2009 HK$'000 (Restated) | As at 1 January 2009 HK$'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 16 | 464,983 | 326,527 | 159,318 |
| Prepaid land lease payments | 17 | 2,810 | 2,745 | 2,802 |
| Intangible asset | 18 | 91,360 | 88,636 | 76,365 |
| Deferred tax assets | 27 | 10,163 | – | – |
| | | 569,316 | 417,908 | 238,485 |
| **Current assets** | | | | |
| Inventories | 19 | 60,798 | 39,138 | 42,222 |
| Prepaid land lease payments | 17 | 80 | 76 | 76 |
| Trade receivables | 20 | 82,112 | 106,284 | 82,140 |
| Deposits, prepayments and other receivables | 21 | 107,583 | 60,866 | 25,687 |
| Pledged and restricted bank deposits | 22 | 43,381 | 11,549 | 4,546 |
| Bank and cash balances | 23 | 57,234 | 57,855 | 142,241 |
| | | 351,188 | 275,768 | 296,912 |
| **Current liabilities** | | | | |
| Trade payables | 24 | 3,475 | 4,981 | 13,293 |
| Accrued charges and other payables | | 147,720 | 73,358 | 17,537 |
| Advances from a non-controlling shareholder | 25 | 37,811 | – | – |
| Borrowings | 26 | 88,262 | 52,591 | 7,947 |
| Current tax liabilities | | 2,552 | 1,645 | 5,775 |
| | | 279,820 | 132,575 | 44,552 |
| **Net current assets** | | 71,368 | 143,193 | 252,360 |
| **Total assets less current liabilities** | | 640,684 | 561,101 | 490,845 |
| **Non-current liabilities** | | | | |
| Borrowings | 26 | 24,036 | – | – |
| Deferred tax liabilities | 27 | 7,520 | 5,315 | 2,863 |
| | | 31,556 | 5,315 | 2,863 |
| **NET ASSETS** | | 609,128 | 555,786 | 487,982 |
| **Capital and reserves** | | | | |
| Share capital | 28 | 60,991 | 50,826 | 42,355 |
| Other reserves | 31 | 320,619 | 313,435 | 321,671 |
| Retained profits | | 55,195 | 40,358 | 17,845 |
| Proposed final dividend | 14 | 3,659 | 9,657 | 16,095 |
| Equity attributable to owners of the Company | | 440,464 | 414,276 | 397,966 |
| Non-controlling interests | | 168,664 | 141,510 | 90,016 |
| **TOTAL EQUITY** | | 609,128 | 555,786 | 487,982 |

Approved by the Board of Directors on 25 March 2011.

**Mak Shiu Chung, Godfrey**
*Director*

**Zhang Chao Liang**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Other reserves HK$'000 | Retained profits HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2009 | | 42,355 | 321,671 | 17,845 | 16,095 | 397,966 | 90,016 | 487,982 |
| Total comprehensive income for the year | | - | 235 | 32,170 | - | 32,405 | (397) | 32,008 |
| Issue of bonus shares | 28(a) | 8,471 | (8,471) | - | - | - | - | - |
| Capital contribution from a non-controlling shareholder | | - | - | - | - | - | 51,891 | 51,891 |
| Dividend paid | | - | - | - | (16,095) | (16,095) | - | (16,095) |
| 2009 proposed final dividend | | - | - | (9,657) | 9,657 | - | - | - |
| Changes in equity for the year | | 8,471 | (8,236) | 22,513 | (6,438) | 16,310 | 51,494 | 67,804 |
| At 31 December 2009 | | 50,826 | 313,435 | 40,358 | 9,657 | 414,276 | 141,510 | 555,786 |
| At 1 January 2010 | | 50,826 | 313,435 | 40,358 | 9,657 | 414,276 | 141,510 | 555,786 |
| Total comprehensive income for the year | | - | 17,349 | 21,037 | - | 38,386 | (448) | 37,938 |
| Issue of bonus shares | 28(b) | 10,165 | (10,165) | - | - | - | - | - |
| Capital contribution from a non-controlling shareholder | | - | - | - | - | - | 27,602 | 27,602 |
| Dividends paid | | | | | | | | |
| - 2009 final dividend | | - | - | - | (9,657) | (9,657) | - | (9,657) |
| - 2010 interim dividend | | - | - | (2,541) | - | (2,541) | - | (2,541) |
| 2010 proposed final dividend | | - | - | (3,659) | 3,659 | - | - | - |
| Changes in equity for the year | | 10,165 | 7,184 | 14,837 | (5,998) | 26,188 | 27,154 | 53,342 |
| At 31 December 2010 | | 60,991 | 320,619 | 55,195 | 3,659 | 440,464 | 168,664 | 609,128 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | 14,187 | 43,379 |
| Adjustments for: | | |
| Interest income | (593) | (1,130) |
| Reversal of impairment on loan receivable from an associate | – | (422) |
| Finance costs | 4,557 | 2,524 |
| Depreciation and amortisation | 23,328 | 7,942 |
| Net gain on disposals of property, plant and equipment | (829) | – |
| Operating profit before working capital changes | 40,650 | 52,293 |
| (Increase)/decrease in inventories | (21,660) | 3,084 |
| Decrease/(increase) in trade receivables | 24,172 | (24,144) |
| Increase in deposits, prepayments and other receivables | (46,717) | (35,198) |
| Increase in pledged and restricted bank deposits | (30,807) | (7,000) |
| Decrease in trade payables | (1,506) | (8,312) |
| Increase in accrued charges and other payables | 29,856 | 8,102 |
| Cash used in operations | (6,012) | (11,175) |
| Income taxes paid | (6,685) | (13,461) |
| Interest paid | (3,587) | (1,638) |
| Bank charges paid | (741) | (886) |
| Net cash used in operating activities | (17,025) | (27,160) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (100,059) | (127,631) |
| Purchase of prepaid land lease payments | (19) | – |
| Proceeds from disposals of property, plant and equipment | 795 | 403 |
| Purchase of intangible asset | – | (12,202) |
| Loan settlement received from an associate | – | 422 |
| Interest received | 593 | 1,149 |
| Net cash used in investing activities | (98,690) | (137,859) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Bank loans raised | 90,034 | 52,909 |
| Repayment of bank loans | (59,445) | (8,273) |
| Other loan raised | 11,745 | – |
| Loan from a related company | 11,421 | – |
| Advances from a non-controlling shareholder | 36,803 | – |
| Capital contribution from a non-controlling shareholder | 27,602 | 51,891 |
| Dividends paid to owners of the Company | (12,198) | (16,095) |
| Net cash generated from financing activities | 105,962 | 80,432 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (9,753) | (84,587) |
| Effect of foreign exchange rates changes | 6,266 | 201 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | 57,855 | 142,241 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 54,368 | 57,855 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | 57,234 | 57,855 |
| Bank overdrafts | (2,866) | – |
| | 54,368 | 57,855 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 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 and sale of coal.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. 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 polices, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

### a. Consolidation

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" contains the following requirements:

- Total comprehensive income is 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. The previous HKAS 27 requires excess losses to be allocated to the owners of the Company, except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

- 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). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company. The previous HKAS 27 does not have specific requirements for such transactions.

- When the disposal of a subsidiary results in a loss of control, the consideration of the sale and any investment retained in that subsidiary are required to be measured at their fair values. The previous HKAS 27 does not have specific requirements for such fair value measurements.

The above requirements of HKAS 27 (Revised) has been applied prospectively from 1 January 2010 and there is no impact in the consolidated amounts reported in the financial statements 2009 and 2010.

## 2. Adoption of new and revised Hong Kong Financial Reporting Standards (Continued)

### b. Changes in accounting policies

In November 2010 the HKICPA issued Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause". The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 "Presentation of Financial Statements". It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of Hong Kong Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1 January 2009, with consequential reclassification adjustments to comparatives for the year ended 31 December 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

Effect of adoption of Hong Kong Interpretation 5 on the statement of financial position:

| | As at 31 December 2010 HK$'000 | As at 31 December 2009 HK$'000 | As at 1 January 2009 HK$'000 |
|---|---|---|---|
| **Increase /(decrease) in** | | | |
| **Current liabilities** | | | |
| Bank loan | 3,800 | 7,810 | – |
| **Non-current liabilities** | | | |
| Bank loan | (3,800) | (7,810) | – |

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 3. Significant accounting policies

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

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

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

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

## 3. Significant accounting policies (Continued)

### (a) Consolidation

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

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

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

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

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

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

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

## 3. Significant accounting policies (Continued)

### (b) Business combination and goodwill

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

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

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

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

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

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

## 3. Significant accounting policies (Continued)

### (c) Foreign currency translation

*(i) Functional and presentation currency*

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

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

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

*(iii) Translation on consolidation*

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the 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.

## 3. Significant accounting policies (Continued)

### (d) Property, plant and equipment

Buildings comprise mainly factories and offices. All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

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

| | |
|---|---|
| Buildings | 4% – 5% |
| Leasehold improvements | Over lease term |
| Plant and machinery | 10% – 33% |
| Furniture, fixtures and equipment | 19% – 20% |
| Motor vehicles | 13% – 25% |

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

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

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

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

### (e) Operating leases

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

### (f) Intangible asset

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

## 3. Significant accounting policies (Continued)

### (g) Inventories

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

### (h) Recognition and derecognition of financial instruments

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

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

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

### (i) Trade and other receivables

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

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

## 3. Significant accounting policies (Continued)

### (j) Cash and cash equivalents

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

### (k) Financial liabilities and equity instruments

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

### (l) Borrowings

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

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

### (m) Trade and other payables

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

### (n) Equity instruments

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

### (o) Revenue recognition

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

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

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

## 3. Significant accounting policies (Continued)

### (p) Employee benefits

*(i) Employee leave entitlements*

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

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

*(ii) Pension obligations*

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

*(iii) Termination benefits*

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

### (q) Borrowing costs

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

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

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

## 3. Significant accounting policies (Continued)

### (r) Taxation

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

The tax currently payable is based on taxable profit for the 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.

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

## 3. Significant accounting policies (Continued)

### (s) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

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

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

### (t) Impairment of assets

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

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

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.

## 3. Significant accounting policies (Continued)

### (t) Impairment of assets (Continued)

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

### (u) Provisions and contingent liabilities

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

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

### (v) Events after the reporting period

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

## 4. Critical judgements and key estimates

### Critical judgements in applying accounting policies

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

### (a) Legal titles of certain buildings

As stated in Note 16 to the financial statements, the legal titles of certain buildings were not yet obtained as at 31 December 2010. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings as property, plant and equipment, on the grounds that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling those buildings.

## 4. Critical judgements and key estimates (Continued)

### Key sources of estimation uncertainty

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

#### (a) Property, plant and equipment and depreciation

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

#### (b) Deferred tax assets

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

#### (c) Income taxes

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

#### (d) Impairment of intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the cash-generating unit to which the intangible asset has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of intangible asset at the end of reporting period was approximately HK$91,360,000 (Note 18).

## 5. Financial risk management

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

#### (a) Foreign currency risk

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

## 5. Financial risk management (Continued)

### (b) Credit risk

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

The Group has a number of customers which are under common control of two individual groups of listed company in Hong Kong. One of these groups is also a subsidiary of another individual group. Thus, the Group is exposed to a relatively high concentration of credit risk in terms of trade receivables as the Group's sales to its largest customer were over 94% (2009: 96%) of the turnover for the year and shared over 92% (2009: 93%) 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 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, its compliance with lending covenants and its relationship with bankers to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

## 5. Financial risk management (Continued)

### (c) Liquidity risk (Continued)

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other borrowings is prepared based on the scheduled repayment dates.

| | 2010 Maturity Analysis – Undiscounted cash outflows | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total undiscounted cash outflows HK$'000 |
| Trade payables | – | 3,475 | – | – | 3,475 |
| Accrued charges and other payables | – | 147,720 | – | – | 147,720 |
| Advances from a non-controlling shareholder | 2,363 | 37,854 | – | – | 40,217 |
| Bank overdrafts | 2,866 | – | – | – | 2,866 |
| Bank loan subject to a repayment on demand clause | 8,086 | – | – | – | 8,086 |
| Other bank loans | – | 78,597 | – | – | 78,597 |
| Other loan | – | – | 14,033 | – | 14,033 |
| Loan from a related company | – | – | 12,835 | – | 12,835 |
| | 13,315 | 267,646 | 26,868 | – | 307,829 |

| | 2009 (Restated) Maturity Analysis – Undiscounted cash outflows | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total undiscounted cash outflows HK$'000 |
| Trade payables | – | 4,981 | – | – | 4,981 |
| Accrued charges and other payables | – | 73,358 | – | – | 73,358 |
| Bank loan subject to a repayment on demand clause | 12,305 | – | – | – | 12,305 |
| Other bank loans | – | 41,580 | – | – | 41,580 |
| | 12,305 | 119,919 | – | – | 132,224 |

## 5. Financial risk management (Continued)

### (c) Liquidity risk (Continued)

The table that follows summarises the maturity analysis of a bank loan with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreement. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

| | Maturity Analysis – Bank loan subject to a repayment on demand clause based on scheduled repayments | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total undiscounted cash outflows HK$'000 |
| 31 December 2010 | – | 4,219 | 3,867 | – | 8,086 |
| 31 December 2009 | – | 4,219 | 4,219 | 3,867 | 12,305 |

### (d) Interest rate risk

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

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

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

### (e) Categories of financial instruments

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Financial assets: | | |
| Loans and receivables (including cash and cash equivalents) | 230,484 | 203,351 |
| Financial liabilities: | | |
| Financial liabilities at amortised cost | 301,304 | 130,930 |

### (f) Fair values

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

## 6. Turnover

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Sales of bags and barrels | 249,753 | 253,368 |
| Sales of coal | 70,677 | 73,891 |
| | 320,430 | 327,259 |

## 7. Other income

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interest income | 593 | 1,130 |
| Net gain on disposals of property, plant and equipment | 829 | – |
| Reversal of impairment on loan receivable from an associate | – | 422 |
| Sundry income | 85 | 3 |
| | 1,507 | 1,555 |

## 8. Segment information

The Group has two reportable segments as follows:

| | | |
|---|---|---|
| Bags | – | Manufacture and sale of plastic woven bags, paper bags and plastic barrels; and |
| Coal | – | Trading and distribution of coal. |

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

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

There were no intersegment sales during the year (2009: HK$Nil). Segment assets excluded corporate assets and deferred tax assets. Segment liabilities excluded corporate liabilities and deferred tax liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 8. Segment information (Continued)

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

| | Bags HK$'000 | Coal HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 December 2010** | | | |
| Revenue from external customers | 249,753 | 70,677 | 320,430 |
| Segment profit/(loss) | 38,192 | (11,008) | 27,184 |
| Interest revenue | 526 | 60 | 586 |
| Interest expense | 1,320 | 2,777 | 4,097 |
| Income tax expense/(credit) | 8,281 | (8,465) | (184) |
| Depreciation and amortisation | 7,059 | 16,249 | 23,308 |
| Net gain on disposals of property, plant and equipment | – | 829 | 829 |
| Capital expenditure | 6,431 | 139,833 | 146,264 |
| **At 31 December 2010** | | | |
| Segment assets | 301,306 | 641,975 | 943,281 |
| Segment liabilities | 43,043 | 280,257 | 323,300 |
| **Year ended 31 December 2009** | | | |
| Revenue from external customers | 253,368 | 73,891 | 327,259 |
| Segment profit/(loss) | 43,296 | (1,287) | 42,009 |
| Interest revenue | 973 | 33 | 1,006 |
| Interest expense | 1,119 | 1,135 | 2,254 |
| Income tax expense | 8,863 | 2,915 | 11,778 |
| Depreciation and amortisation | 6,582 | 1,341 | 7,923 |
| Capital expenditure | 3,270 | 184,282 | 187,552 |
| **At 31 December 2009** | | | |
| Segment assets | 276,900 | 428,580 | 705,480 |
| Segment liabilities | 70,148 | 91,564 | 161,712 |

## 8. Segment information (Continued)

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Revenue** | 320,430 | 327,259 |
| **Profit or loss** | | |
| Total profit or loss of reportable segments | 27,184 | 42,009 |
| Interest revenue | 593 | 1,130 |
| Interest expense | (4,557) | (2,524) |
| Reversal of impairment on loan receivable from an associate | – | 422 |
| Unallocated corporate income | 12 | – |
| Unallocated corporate expenses | (8,861) | (9,436) |
| Consolidated profit for the year | 14,371 | 31,601 |
| **Assets** | | |
| Total assets of reportable segments | 943,281 | 705,480 |
| Corporate assets | 7,449 | 14,446 |
| Deferred tax assets | 10,163 | – |
| Elimination of intersegment assets | (40,389) | (26,250) |
| Consolidated total assets | 920,504 | 693,676 |
| **Liabilities** | | |
| Total liabilities of reportable segments | 323,300 | 161,712 |
| Corporate liabilities | 24,671 | 12,520 |
| Deferred tax liabilities | 7,520 | 5,315 |
| Elimination of intersegment liabilities | (44,115) | (41,657) |
| Consolidated total liabilities | 311,376 | 137,890 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 8. Segment information (Continued)

**Geographical information:**

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | 2010 HK$'000 | 2009 HK$'000 | 2010 HK$'000 | 2009 HK$'000 |
| Hong Kong | – | – | 29 | 49 |
| The People's Republic of China (the "PRC") except Hong Kong | 320,430 | 327,259 | 559,124 | 417,859 |
| Consolidated total | 320,430 | 327,259 | 559,153 | 417,908 |

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.

**Revenue from major customers:**

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Bags segment | | |
| Customer a | 249,753 | 253,368 |
| Coal segment | | |
| Customer a | 50,825 | 60,173 |

## 9. Finance costs

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts | 2,860 | 1,638 |
| Interest on other loan | 28 | – |
| Interest on loan from a related company | 201 | – |
| Interest on loan from a non-controlling shareholder | 727 | – |
| Bank charges | 741 | 886 |
| | 4,557 | 2,524 |

## 10. Income tax (credit)/expense

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Current tax – Overseas | | |
| Provision for the year | 7,366 | 9,286 |
| Under-provision in prior year | 138 | 40 |
| | 7,504 | 9,326 |
| Deferred tax (Note 27) | (7,688) | 2,452 |
| | (184) | 11,778 |

(a) No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2010 as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: HK$Nil).

The subsidiary, Changchun Yicheng Packaging Company Limited ("Changchun Yicheng"), operating in the PRC, is subject to enterprise income tax rate of 25% on its taxable profit in accordance with Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprise (中華人民共和國外商投資企業和外國企業所得税法) (the "PRC Income Tax Law"). Changchun Yicheng is located in Hexin Town of High-New Development Zone, Changchun (長春市高新技術開發區合心高科技園). Pursuant to a notice issued by Changchun Green District State Tax Bureau (長春綠園國家税務局), Changchun Yicheng is exempted from enterprise income tax from 1 May 2006 to 31 December 2007, followed by a 50% relief for the next three years (for the years 2008 to 2010). The tax rate applicable to Changchun Yicheng in the PRC, after the 50% relief, is 12.5%.

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

The subsidiary, Jilin Province De Feng Commodity Economics and Trade Co., Limited ("Jilin De Feng") operating in the PRC, is subject to enterprise income tax rate of 25% on its taxable profit in accordance with the PRC Income Tax Law.

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Profit before tax | 14,187 | 43,379 |
| Tax at the PRC enterprise income tax rate of 25% (2009: 25%) | 3,547 | 10,845 |
| Expenses not deductive for tax purposes | 1,552 | 1,625 |
| Income tax exempted | (6,038) | (6,451) |
| Income not taxable | (3) | (167) |
| Tax effect of temporary differences not recognised | 165 | 2,695 |
| Tax effect of temporary differences not previously recognised | (2,541) | – |
| Effect of different tax rates | 791 | 739 |
| Deferred tax on undistributed earnings of the PRC subsidiaries | 2,205 | 2,452 |
| Under-provision in prior year | 138 | 40 |
| Income tax (credit)/expense | (184) | 11,778 |

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 11. Profit for the year

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Auditor's remuneration | | |
| Current | 728 | 688 |
| Under-provision in prior year | 17 | 17 |
| | 745 | 705 |
| Cost of inventories sold | 264,197 | 251,771 |
| Amortisation of mining right | 783 | – |
| Depreciation of property, plant and equipment | 22,484 | 7,882 |
| Operating lease rentals in respect of buildings | 841 | 838 |

Cost of inventories sold includes staff costs, amortisation of mining right and depreciation of approximately HK$28,014,000 (2009: HK$12,380,000) which are included in the amounts disclosed separately.

## 12. Staff costs (including directors' emoluments)

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Wages and salaries | 18,533 | 13,119 |
| Retirement benefits scheme contributions | 5,565 | 4,391 |
| | 24,098 | 17,510 |

## 13. Directors' and employees' emoluments

### (a) Directors' emoluments

The emoluments of each director were as follows:

| Name of director | Fees HK$'000 | Salaries HK$'000 | Inducement fees HK$'000 | Retirement benefit scheme contributions HK$'000 | Compensation for loss of office as director HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Mr. Mak Shiu Chung, Godfrey | – | 1,800 | – | 12 | – | 1,812 |
| Mr. Xu Bin | – | 1,800 | – | 12 | – | 1,812 |
| Mr. Zhang Chao Liang | 5 | – | – | – | – | 5 |
| Mr. Wang Hon Chen | 192 | 135 | – | – | – | 327 |
| Mr. Kwok Chi Shing | 120 | – | – | – | – | 120 |
| Mr. Tsang Wai Sum | 120 | – | – | – | – | 120 |
| Mr. Yu Yang | 5 | – | – | – | – | 5 |
| Total for 2010 | 442 | 3,735 | – | 24 | – | 4,201 |
| Mr. Mak Shiu Chung, Godfrey | – | 1,320 | – | 12 | – | 1,332 |
| Mr. Xu Bin (Note) | – | 706 | – | 5 | – | 711 |
| Mr. Zhang Chao Liang | 5 | – | – | – | – | 5 |
| Mr. Wang Hon Chen | 192 | 96 | – | – | – | 288 |
| Mr. Kwok Chi Shing | 90 | – | – | – | – | 90 |
| Mr. Tsang Wai Sum | 90 | – | – | – | – | 90 |
| Mr. Yu Yang | 5 | – | – | – | – | 5 |
| Total for 2009 | 382 | 2,122 | – | 17 | – | 2,521 |

Note: Appointed on 10 August 2009.

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 2009 and 2010.

## 13. Directors' and employees' emoluments (Continued)

### (b) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2009: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2009: two) individuals are set out below:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Basic salaries and allowances | 853 | 821 |
| Retirement benefit schemes contributions | 57 | 57 |
| | 910 | 878 |

The emoluments of these two (2009: two) highest paid individuals are less than HK$1,000,000.

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

## 14. Dividends

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interim dividend of HK0.5 cent (2009: Nil) per share | 2,541 | – |
| Final dividend proposed of HK0.6 cent (2009: HK1.9 cents) per share | 3,659 | 9,657 |
| | 6,200 | 9,657 |

A final dividend in respect of the year 2010 of HK0.6 cent per share, totalling approximately HK$3,659,000 are proposed by the Board. The dividends are subject to approval by shareholders at the forthcoming annual general meeting ("AGM") and have not been included as liabilities in these consolidated financial statements. The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these consolidated financial statements.

## 15. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$21,037,000 (2009: HK$32,170,000) and the weighted average number of ordinary shares of 609,914,880 (2009 restated: 609,914,880) in issue during the year.

The weighted average numbers of ordinary shares for the purpose of calculating basic earnings per share have been retrospectively adjusted to reflect the bonus issue completed on 12 November 2010. Details of the bonus issue are set out in Note 28(b).

### Diluted earnings per share

No diluted earnings per share are presented as the Company did not have any dilutive ordinary shares during the years ended 31 December 2009 and 2010.

## 16. Property, plant and equipment

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Mining structures HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2009 | 77,456 | 517 | - | 24,316 | 828 | 6,273 | 61,181 | 170,571 |
| Additions | 515 | 177 | - | 13,840 | 921 | 1,137 | 158,760 | 175,350 |
| Disposals | - | - | - | - | - | (713) | - | (713) |
| Transfer | - | 33 | - | - | - | - | (33) | - |
| Exchange differences | 70 | - | - | 22 | - | 6 | 56 | 154 |
| At 31 December 2009 | 78,041 | 727 | - | 38,178 | 1,749 | 6,703 | 219,964 | 345,362 |
| At 1 January 2010 | 78,041 | 727 | - | 38,178 | 1,749 | 6,703 | 219,964 | 345,362 |
| Additions | 5,831 | - | - | 6,598 | 1,340 | 3,744 | 128,732 | 146,245 |
| Disposals | - | - | - | - | - | (2,804) | - | (2,804) |
| Transfer | 89,032 | - | 92,768 | 112,044 | 34,458 | 72 | (328,374) | - |
| Exchange differences | 5,704 | 24 | 2,541 | 4,768 | 1,047 | 295 | 3,288 | 17,667 |
| At 31 December 2010 | 178,608 | 751 | 95,309 | 161,588 | 38,594 | 8,010 | 23,610 | 506,470 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| At 1 January 2009 | 3,269 | 162 | - | 6,897 | 87 | 838 | - | 11,253 |
| Charge for the year | 3,778 | 38 | - | 2,958 | 190 | 918 | - | 7,882 |
| Disposals | - | - | - | - | - | (310) | - | (310) |
| Exchange differences | 3 | - | - | 6 | - | 1 | - | 10 |
| At 31 December 2009 | 7,050 | 200 | - | 9,861 | 277 | 1,447 | - | 18,835 |
| At 1 January 2010 | 7,050 | 200 | - | 9,861 | 277 | 1,447 | - | 18,835 |
| Charge for the year | 6,168 | 10 | 809 | 11,477 | 2,535 | 1,485 | - | 22,484 |
| Disposals | - | - | - | - | - | (1,158) | - | (1,158) |
| Exchange differences | 450 | 2 | 23 | 707 | 78 | 66 | - | 1,326 |
| At 31 December 2010 | 13,668 | 212 | 832 | 22,045 | 2,890 | 1,840 | - | 41,487 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2010 | 164,940 | 539 | 94,477 | 139,543 | 35,704 | 6,170 | 23,610 | 464,983 |
| At 31 December 2009 | 70,991 | 527 | - | 28,317 | 1,472 | 5,256 | 219,964 | 326,527 |

At 31 December 2010, the carrying amount of buildings pledged as security for the Group's drawn and undrawn borrowing facilities (Notes 26) amounted to HK$64,772,000 (2009: HK$8,835,000).

At 31 December 2010, the carrying amount of certain buildings amounted to HK$52,886,000 (2009: HK$56,377,000) 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.

## 17. Prepaid land lease payments

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| At 1 January | 2,821 | 2,878 |
| Additions | 19 | – |
| Amortisation of prepaid land lease payments | (61) | (60) |
| Exchange differences | 111 | 3 |
| At 31 December | 2,890 | 2,821 |
| Current portion | (80) | (76) |
| Non-current portion | 2,810 | 2,745 |

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

At 31 December 2010, the carrying amount of prepaid land lease payments pledged as security for the Group's borrowing facilities (Note 26) amounted to HK$2,890,000 (2009: HK$488,000).

## 18. Intangible asset

| | Mining right HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2009 | 76,365 |
| Additions | 12,202 |
| Exchange differences | 69 |
| At 31 December 2009 and 1 January 2010 | 88,636 |
| Exchange differences | 3,529 |
| At 31 December 2010 | 92,165 |
| **Accumulated amortisation** | |
| At 1 January 2009, 31 December 2009 and 1 January 2010 | – |
| Amortisation of intangible asset | 783 |
| Exchange differences | 22 |
| At 31 December 2010 | 805 |
| **Carrying amount** | |
| At 31 December 2010 | 91,360 |
| At 31 December 2009 | 88,636 |

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

The trial production of coal from the Mine has been commenced since May 2010.

## 19. Inventories

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Raw materials | 18,183 | 11,912 |
| Work in progress | 16,636 | 11,433 |
| Finished goods | 25,979 | 15,793 |
| | 60,798 | 39,138 |

## 20. Trade receivables

The general credit terms of sales of bags and barrels are 30 days and sales of coal are 60 days.

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| 0 to 90 days | 56,698 | 59,577 |
| 91 to 180 days | 1,333 | 32,673 |
| 181 to 365 days | 24,081 | 14,034 |
| | 82,112 | 106,284 |

As at 31 December 2010, approximately HK$24,081,000 (2009: HK$48,176,000) of trade receivables were pledged to a bank to secure a bank loan as set out in Note 26 to the financial statements.

As of 31 December 2010, trade receivables of approximately HK$28,055,000 (2009: HK$36,548,000) 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:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Up to 90 days | 26,722 | 20,521 |
| 91 to 180 days | 1,333 | 13,961 |
| 181 to 365 days | – | 2,066 |
| | 28,055 | 36,548 |

Subsequent to 31 December 2010, the Group received cash settlement amount of approximately HK$23.3 million (2009: HK$26.9 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").

## 21. Deposits, prepayments and other receivables

At 31 December 2010, approximately HK$24,169,000 (2009: HK$Nil) of other receivables were pledged to a bank to secure a bank loan as set out in Note 26 to the financial statements.

At 31 December 2009, included in deposits, prepayments and other receivables was a loan to a supplier of approximately HK$11,364,000. The aforesaid loan was unsecured with interest at 6% per annum and was fully repaid during the reporting period.

## 22. Pledged and restricted bank deposits

The Group's pledged bank deposit of approximately HK$7,007,000 (2009: HK$7,000,000) represented deposit pledged to a bank to secure a banking facility granted to the Group as set out in Note 26 to the financial statements. The aforesaid deposit is in HK$ and at fixed interest rate of 0.07% (2009: 0.01%) per annum and therefore are subject to fair value interest rate risk.

The Group's pledged bank deposits of approximately HK$31,627,000 (2009: HK$Nil) represented deposits pledged to a bank to secure a borrowing facility granted to the Group as set out in Note 26 to the financial statements. The aforesaid deposits are in RMB and at fixed interest rates of 1.71% to 1.91% per annum and therefore are subject to fair value interest rate risk.

The Group's restricted bank deposit of approximately HK$4,747,000 (2009: HK$4,549,000) is the deposit kept for the coal mining business, which is required by related coal mining regulation in the PRC. The aforesaid deposit is in RMB and at market interest rate.

## 23. Bank and cash balances

At 31 December 2010, the Group's bank and cash balances denominated in RMB and kept in the PRC amounted to approximately HK$57,185,000 (2009: HK$50,791,000). 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.

## 24. Trade payables

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| 0 to 90 days | 3,454 | 4,636 |
| 91 to 180 days | 16 | 341 |
| 181 to 270 days | – | – |
| 271 to 365 days | – | – |
| Over 365 days | 5 | 4 |
| | 3,475 | 4,981 |

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

## 25. Advances from a non-controlling shareholder

The advances from a non-controlling shareholder included a loan of approximately HK$35,448,000. The aforesaid loan is unsecured, interest bearing at 10.68% per annum and repayable on 20 August 2011. The remaining balance is unsecured, interest-free and repayable on demand.

The carrying amount is wholly denominated in RMB.

## 26. Borrowings

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

| | Note | 2010 HK$'000 | 2009 HK$'000 (Restated) |
|---|---|---|---|
| **Current liabilities** | | | |
| Bank overdrafts | (a) | 2,866 | – |
| Portion of bank loans due for repayment within one year | (a) | 81,596 | 44,781 |
| Portion of bank loan due for repayment after one year which contain a repayment on demand clause | (a) | 3,800 | 7,810 |
| | | 88,262 | 52,591 |
| **Non-current liabilities** | | | |
| Other loan | (b) | 12,095 | – |
| Loan from a related company | (c) | 11,941 | – |
| | | 24,036 | – |
| | | 112,298 | 52,591 |

## 26. Borrowings (Continued)

Notes:

(a) At 31 December 2010, the interest-bearing bank loans and overdrafts were due for repayment as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Bank overdrafts repayable on demand | 2,866 | – |
| Portion of bank loans due for repayment within one year | 81,596 | 44,781 |
| | 84,462 | 44,781 |
| Portion of bank loan due for repayment after one year (Note): | | |
| After one year but within two years | 3,800 | 4,010 |
| After two years but within five years | – | 3,800 |
| | 3,800 | 7,810 |
| | 88,262 | 52,591 |

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreement and ignore the effect of any repayment on demand clause.

(b) Other loan is unsecured, interest bearing at 8% per annum and repayable on 31 December 2012.

(c) Loan from a related company is unsecured, interest bearing at 6% per annum and repayable on 31 March 2012. The Company is related to the extent that Mr. Zhang Chao Liang, executive director of the Company, has control over the related company.

## 26. Borrowings (Continued)

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| RMB | 88,622 | 40,909 |
| HK$ | 23,676 | 11,682 |
| | 112,298 | 52,591 |

| | 2010 | 2009 |
|---|---|---|
| The average interest rate of total borrowings per annum at 31 December | 5.26% | 4.56% |

The bank loans of approximately HK$38,591,000 (2009: HK$40,909,000), other loan and loan from a related company are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining balance of the bank loans is arranged at floating rate, thus exposing the Group to cash flow 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:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Bank overdrafts | 2,866 | – |
| Bank loans | 85,361 | 52,412 |
| Other loan | 12,516 | – |
| Loan from a related company | 11,951 | – |
| | 112,694 | 52,412 |

At 31 December 2010, the bank overdrafts of approximately HK$2,866,000 (2009: HK$Nil) is secured by the pledged bank deposit (Note 22) and the corporate guarantee issued by a subsidiary.

At 31 December 2010, a bank loan of approximately HK$38,591,000 (2009: HK$40,909,000) is secured by the trade receivables (Note 20) and other receivables (Note 21). The bank loans of approximately HK$38,995,000 (2009: HK$Nil) is secured by the pledge of the Group's land and buildings (Notes 16 and 17), pledged bank deposits (Note 22) and the corporate guarantees issued by the Company and a subsidiary. The remaining balance is secured by the guarantees issued by the Company and the Government of Hong Kong Special Administrative Region.

At 31 December 2010, the Group had available HK$69,524,000 (2009: HK$47,909,000) of undrawn borrowing facilities.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 27. Deferred tax

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

| | Decelerated tax depreciation HK$'000 | Future deductible expenses HK$'000 | Undistributed earnings of the PRC subsidiaries HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2009 | – | – | (2,863) | (2,863) |
| Charge to profit or loss for the year (Note 10) | – | – | (2,452) | (2,452) |
| At 31 December 2009 and 1 January 2010 | – | – | (5,315) | (5,315) |
| Credit/(charge) to profit or loss for the year (Note 10) | 3,283 | 6,610 | (2,205) | 7,688 |
| Exchange difference | 90 | 180 | – | 270 |
| At 31 December 2010 | 3,373 | 6,790 | (7,520) | 2,643 |

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Deferred tax liabilities | (7,520) | (5,315) |
| Deferred tax assets | 10,163 | – |
| | 2,643 | (5,315) |

## 28. Share capital

| | Authorised Ordinary shares of HK$0.10 each | |
|---|---|---|
| | No. of shares | HK$'000 |
| At 31 December 2009 and 2010 | 1,200,000,000 | 120,000 |

| | Note | Issued and fully paid Ordinary shares of HK$0.10 each | |
|---|---|---|---|
| | | No. of shares | HK$'000 |
| At 1 January 2009 | | 423,552,000 | 42,355 |
| Issue of bonus shares | (a) | 84,710,400 | 8,471 |
| At 31 December 2009 and 1 January 2010 | | 508,262,400 | 50,826 |
| Issue of bonus shares | (b) | 101,652,480 | 10,165 |
| At 31 December 2010 | | 609,914,880 | 60,991 |

Notes:

(a) On 12 June 2009, 84,710,400 new ordinary shares of HK$0.10 each were allotted and issued as bonus shares on the basis of one bonus share for every five shares held by the shareholders. The bonus share rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(b) On 12 November 2010, 101,652,480 new ordinary shares of HK$0.10 each were allotted and issued as bonus shares on the basis of one bonus share for every five shares held by the shareholders. The bonus share 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. As at 31 December 2010, 65.40% (2009: 65.45%) of the shares were in public hands.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 29. 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.

There is no share options granted since the date of adoption.

## 30. Financial position of the Company

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interests in subsidiaries | 261,389 | 250,391 |
| Other current assets | 7,199 | 14,080 |
| Other liabilities | (9,976) | (608) |
| Borrowings | (15,865) | – |
| NET ASSETS | 242,747 | 263,863 |
| Share capital | 60,991 | 50,826 |
| Reserves | 181,756 | 213,037 |
| TOTAL EQUITY | 242,747 | 263,863 |

## 31. Other reserves

| | Note | Share premium HK$'000 | Capital reserve HK$'000 | Foreign currency translation reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | | 307,239 | (1,628) | 16,060 | 321,671 |
| Issue of bonus shares | 28(a) | (8,471) | – | – | (8,471) |
| **Other comprehensive income:** | | | | | |
| Exchange differences on translating foreign operations | | – | – | 235 | 235 |
| At 31 December 2009 | | 298,768 | (1,628) | 16,295 | 313,435 |
| At 1 January 2010 | | 298,768 | (1,628) | 16,295 | 313,435 |
| Issue of bonus shares | 28(b) | (10,165) | – | – | (10,165) |
| **Other comprehensive income:** | | | | | |
| Exchange differences on translating foreign operations | | – | – | 17,349 | 17,349 |
| At 31 December 2010 | | 288,603 | (1,628) | 33,644 | 320,619 |

### 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) Foreign currency translation reserve*

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 32. Notes to the consolidated statement of cash flows

**Major non-cash transaction**

During the year, certain motor vehicles with carrying amount of approximately HK$1,045,000 (2009: HK$Nil) was disposed to constructors of the Mine as partial settlement for other payables of approximately HK$1,680,000.

## 33. Capital commitments

At 31 December 2010, the Group had capital commitments as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Mining structures (Note) | | |
| Contracted but not provided for | 18,951 | 36,311 |

Note: Certain construction contracts of mining structures are at cost plus basis and the capital commitments of the aforesaid contracts cannot be reliably measured. At 31 December 2010, the directors estimated the Group's total capital commitments other than disclosed above was HK$Nil (2009: approximately HK$18.8 million) based on the budget for construction of the mining structures.

## 34. Lease commitments

At 31 December 2010, the total future minimum lease payments in respect of its office under non-cancellable operating leases is HK$Nil (2009: payable within one year of approximately HK$659,000).

## 35. 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:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Consideration received from disposal of a motor vehicle to a director | – | 403 |
| Loan interest paid to a related company | 201 | – |

## 36. Events after the reporting period

On 25 March 2011, the directors recommended a bonus issue of shares to the owners of the Company on the basis of one bonus share for every five shares of the Company being held. The bonus issue of shares are subject to approval by the shareholders at the forthcoming AGM to be held on Wednesday, 3 August 2011. The bonus shares will rank pari passu in all respect with the ordinary shares of the Company and the Company will not allot any fractions of bonus shares.

## 37. Principal subsidiaries

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

| Name | Place of registration and operation | Paid up capital | Percentage of ownership interest/ voting power/ profit sharing | Principal activities |
|---|---|---|---|---|
| Changchun Yicheng | The PRC | RMB60,000,000 | 100% | Manufacturing and sale of plastic woven bags, paper bags and plastic barrels |
| Inner Mongolia Jinyuanli | The PRC | USD44,068,498 | 56.2% | Coal mining* |
| Jilin De Feng | The PRC | RMB20,000,000 | 51% | Coal trading |

* The trial production of coal from the Mine has been commenced in May 2010 (Note 18).

## 38. Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2011.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of DeTeam Company Limited (the "Company") will be held at Suite No. 3, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Hong Kong on Wednesday, 3 August 2011 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the reports of the directors and auditors for the year ended 31 December 2010;

2. To approve the final dividend;

3. To re-elect the retiring directors and to fix the remuneration of directors;

4. To re-appoint auditors and authorise the board of directors to fix their remuneration; and

5. By way of special business, to consider and, if thought fit, pass with or without modifications the following resolution as an ordinary resolution of the Company:

   "**THAT**, conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the shares of the Company to be allotted and issued by the Company pursuant to this resolution:

   (a) the sum of not less than HK$12,198,298, being part of the Company's share premium account, be capitalized and accordingly such sum be applied in paying up in full at par of not less than 121,982,976 shares of HK$0.10 each in the capital of the Company, such shares to be allotted and issued and distributed (subject to paragraph (c) below) credited as fully paid among the persons (the "allottees") whose names appear on the register of members of the Company at the close of business on Monday, 26 September 2011 and whose addresses as shown in such register are in Hong Kong or whose addresses as shown in such register are outside Hong Kong if the Directors, based on legal opinions, do not consider it necessary or expedient to exclude any such shareholders of the Company on account either of the legal restrictions under the laws of the place of its registered address or the requirements of the relevant regulatory body or stock exchange in that place, on the basis of one share for every five existing shares of the Company held (fractional entitlements to be disregarded) and share certificates to such allottees in respect thereof be issued as soon as practicable thereafter;

   (b) such shares of the Company when issued, shall, subject to the Memorandum of Association and Articles of Association of the Company, rank pari passu in all other respects with the existing issued shares in the capital of the Company but shall not rank for the recommended final dividend or any bonus issue in respect of the financial year ended 31 December 2010;

   (c) no fractional shares shall be allotted and distributed and the fractional entitlements shall be aggregated and disposed of or otherwise dealt with for the benefit of the Company; and

   (d) the Directors be authorized to do all acts and things as the Directors in their absolute discretion may deem necessary or expedient in relation to such bonus issue of shares in the capital of the Company."

6. By way of special business, to consider and if thought fit, pass with or without modifications, the following resolutions as an ordinary resolution:

   A. "**THAT**:

      (a) Subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot or issue shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or issued or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (iv) the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any other applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the directors of the Company under this Resolution.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of shares as at that date (subject to such exclusion or other."

B. "**THAT**:

(a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company on Main Board of The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

# NOTICE OF ANNUAL GENERAL MEETING

(c) for the purpose of this Resolution, "Relevant Period" shall have the same meaning as assigned to it under Ordinary Resolution 6A of this notice."

C. "**THAT**: conditional upon Resolutions 6A and 6B above being passed, the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in Resolution 6B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Resolution 6A, provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution."

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

Hong Kong, 31 March 2011

*Notes:*

1. A member holding two or more shares who is entitled to attend and a vote of the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which is signed or a notarially certified copy of such power or authority must be deposited with the Company's principal office at Suite No. 3, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Hong Kong. not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. A form of proxy for the meeting will be enclosed with the annual report.

4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For the purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

5. In relation to proposed Resolution 6A, 6B and 6C above, approval is being sought from the members for the grant to the directors of the Company of a general mandate to authorize the issue and repurchase of shares pursuant to the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The explanatory statement required by Listing Rules in connection with the repurchase mandate is contained in a circular of the Company dated 31 March 2011 which will be dispatched to members together with the annual report.

6. Mr. Mak Shiu Chung, Godfrey, Mr. Wang Hon Chen and Mr. Yu Yang will retire at the Annual General Meeting and all of the above directors, being eligible, will offer themselves for re-election. Brief biographical details of the above directors are set out in Appendix II to the circular of the Company dated 31 March 2011.

As at the date hereof, the board of directors of the Company comprises:

*Executive Directors:*
Mr. Mak Shiu Chung, Godfrey
Mr. Xu Bin
Mr. Zhang Chao Liang
Mr. Wang Hon Chen

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