THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **DeTeam Company Limited 弘海有限公司** you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

DETEAM COMPANY LIMITED
弘海有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8112)

MAJOR TRANSACTION –
FORMATION OF JOINT VENTURE COMPANIES
AND
CONTINUING CONNECTED TRANSACTIONS

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

VEDA | CAPITAL
智略資本

A letter from the Board is set out on pages 4 to 17 of this circular. A notice convening the EGM to be held at 3:00 p.m. on Monday, 6 August 2007 at Suite No. 3, 31st Floor, Sino Plaza, 255-257, Gloucester Road, Hong Kong is set out on pages 75 to 77 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion and return of a form of proxy will not preclude you from attending and voting at the EGM in person.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting.

* *For identification only*

12 July 2007

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given to emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

"associate(s)"	has the meaning ascribed to it in the GEM Listing Rules
"Board"	the board of Directors of the Company
"CCT Agreements"	the Underground Coal Supply Agreement and the Open-Pit Coal Supply Agreement
"Company"	DeTeam Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on GEM
"connected person(s)"	has the meaning ascribed to it in the GEM Listing Rules
"Continuing Connected Transactions"	the continuing connected transactions under the CCT Agreements
"Director(s)"	director(s) of the Company
"EGM"	an extraordinary general meeting to be held to consider and, if thought fit, to approve the transactions under the JV Agreements and the Continuing Connected Transactions
"First JV Agreement"	the joint venture agreement dated 1 June 2007 entered into between HTL and YYE for the establishment of the First JV Company
"First JV Company"	the equity joint venture company to be established in the PRC pursuant to the First JV Agreement, with the proposed name of 內蒙古霍林郭勒市金弘源有限公司 (Inner Mongolia Haolinguole Jinhongyuan Company Limited*)
"First JV Parties"	HTL and YYE
"GEM"	the Growth Enterprise Market operated by the Stock Exchange
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"HTL"	Harvest Team (China) Limited (富添(中國)有限公司), a company incorporated in Hong Kong with limited liability which is an indirect wholly-owned subsidiary of the Company and a party to the First JV Agreement

"Independent Board Committee"	the independent committee of the Board comprising the Company's independent non-executive Directors, Mr. Yang Xiaoping, Mr. Kwok Chi Shing and Mr. Tsang Wai Sum, which has been established to advise the Independent Shareholders in respect of the Continuing Connected Transactions
"Independent Shareholders"	shareholders of the Company other than YYE and its associates
"JV Agreements"	the First JV Agreement and the Second JV Agreement
"JV Companies"	the First JV Company and the Second JV Company
"JV Parties"	the First JV Parties and the Second JV Parties
"KRL"	Kotan Resources (China) Limited (高達資源(中國)有限公司), a company incorporated in Hong Kong with limited liability which is an indirect wholly-owned subsidiary of the Company and a party to the Second JV Agreement
"Latest Practicable Date"	11 July 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular
"Open-Pit Coal Mine"	the open-pit coal mine located in Inner Mongolia known as "Area 958", in Inner Mongolia, which has an output of approximately three million tons of coal per year, and which is owned by YYE who has obtained the relevant approval and mining license from the relevant PRC government authority to excavate coal therefrom
"Open-Pit Coal Supply Agreement"	the agreement entered into between the Second JV Company and YYE on 1 June 2007 for the purchase by the Second JV Company from YYE of coal required by the Second JV Company on an ongoing basis and the lease by the Second JV Company from YYE of a station platform for the transportation of coal on an ongoing basis
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Second JV Agreement"	the joint venture agreement dated 1 June 2007 entered into between KRL and YYE for the establishment of the Second JV Company

"Second JV Company"	the equity joint venture company to be established in the PRC pursuant to the Second JV Agreement, with the proposed name of 通遼弘源煤炭運銷有限責任公司 (Tongliao Hongyuan Coal Transportation and Sales Company Limited*)
"Second JV Parties"	KRL and YYE
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Underground Coal Mine"	the underground coal mine located below "Area 958" in Inner Mongolia, which has an estimated reserve of approximately 62.34 million tons of coal, owned by YYE which has obtained the relevant approval and mining license from the relevant PRC government authority to excavate coal therefrom
"Underground Coal Supply Agreement"	the agreement entered into between the First JV Company and YYE on 1 June 2007 for the purchase by the First JV Company from YYE of coal required by the First JV Company on an ongoing basis and the lease by the First JV Company from YYE of a station platform for the transportation of coal on an ongoing basis
"Veda Capital"	Veda Capital Limited, a corporation licensed to carry on business in type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Shareholders and the Independent Board Committee in relation to the Continuing Connected Transactions
"YYE"	內蒙古源源能源有限責任公司 (Inner Mongolia Yuan Yuan Energy Resources Company Limited*), a company established in the PRC and a party to the JV Agreements. YYE is owned entirely by third parties independent and not connected with the Company
"%"	per cent.

For the purpose of illustration in this circular, figures in Renminbi are translated into Hong Kong dollars at an exchange rate of RMB1.0000 to HK$1.0204.

DETEAM COMPANY LIMITED
弘海有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8112)

Executive Directors:
Mr. Yan Daniel X.D.
Mr. Mak Shiu Chung, Godfrey
Mr. Zhang Chao Liang
Mr. Wang Hon Chen

Independent non-executive Directors:
Mr. Yang Xiaoping
Mr. Kwok Chi Shing
Mr. Tsang Wai Sum

Registered office:
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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Suite No. 3, 31st Floor
Sino Plaza
255-257 Gloucester Road
Hong Kong

12 July 2007

To the Shareholders

Dear Sirs,

MAJOR TRANSACTION – FORMATION OF JOINT VENTURE COMPANIES AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

The Company announced on 7 June 2007 that it had, on 1 June 2007, through its indirect wholly-owned subsidiary, HTL, entered into the First JV Agreement with YYE for the establishment of the First JV Company. The First JV Company will principally be engaged in the sale and purchase, and distribution of coal to be extracted from the Underground Coal Mine in the PRC.

The First JV Company will be owned as to 56.2% by HTL and 43.8% by YYE upon its establishment. The registered capital of the First JV Company will be RMB100,000,000 (approximately HK$102,041,000) which will be contributed entirely in cash by HTL. YYE shall contribute to the First Joint Venture Company by entering into the Underground Coal Supply Agreement with the First JV Company (signed by HTL on behalf of the First JV Company) under which YYE shall supply the coal

* *For identification only*

generated from the Underground Coal Mine to the First JV Company on an exclusive basis and lease a station platform to the First JV Company for the transportation of coal from the Underground Coal Mine on an ongoing basis.

In addition, the Company announced on 7 June 2007 that it had on 1 June 2007, through its indirect wholly-owned subsidiary, KRL, entered into the Second JV Agreement with YYE for the establishment of the Second JV Company. The Second JV Company will principally be engaged in the sale and purchase, and distribution of coal to be extracted from the Open-Pit Coal Mine in the PRC.

The Second JV Company will be owned as to 51% by KRL and 49% by YYE upon its establishment. The registered capital of the Second JV Company will be RMB1,000,000 (approximately HK$1,020,000) which will be contributed as to RMB510,000 (approximately HK$520,000) by KRL and RMB490,000 (approximately HK$500,000) by YYE, in proportion to their respective equity interest in the Second JV Company. KRL and YYE will each contribute its share of registered capital in cash. It is a condition to the Second JV Agreement that YYE shall enter into the Open-Pit Coal Supply Agreement with the Second JV Company (signed by KRL on behalf of the Second JV Company) under which YYE shall supply certain agreed amount of coal to be extracted from the Open-Pit Coal Mine to the Second JV Company on a non-exclusive basis and lease a station platform to the Second JV Company for the transportation of coal from the Open-Pit Coal Mine during the contract term.

The JV Agreements collectively constitute a major transaction for the Company under the GEM Listing Rules and are subject to the approval of the Shareholders at the EGM. The formation of the First JV Company and the formation of the Second JV Company are independent and not inter-conditional upon each other. There will be no change in the board members of the Company as a result of the formation of the JV Companies.

The Underground Coal Supply Agreement and the Open-Pit Coal Supply Agreement constitute continuing connected transactions of the Company under the GEM Listing Rules. As the aggregate relevant percentage ratios for the annual caps of each of the CCT Agreements are more than 2.5%, the transactions contemplated under the CCT Agreements constitute non-exempt continuing connected transactions under Rule 20.35 of the GEM Listing Rules and will be subject to the Independent Shareholders' approval at the EGM.

Reference is made to the clarification announcement issued by the Company dated 29 June 2007 with respect to certain errors in relation to the 2007 and 2008 annual caps under the Continuing Connected Transactions as stated in the Company's announcement dated 7 June 2007. The proposed annual caps for 2007 and 2008 under the Underground Coal Supply Agreement and the Open-Pit Coal Supply Agreement have been replaced.

The purpose of this circular is, among other things, to provide further details of the JV Agreements and the CCT Agreements, to set out the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders and the recommendation of the Independent Board Committee with respect to the Continuing Connected Transactions and to give notice to convene the EGM to consider and, if thought fit, to approve the transactions under the JV Agreements, the Continuing Connected Transactions and the relevant annual caps under each of the Continuing Connected Transactions.

FORMATION OF JOINT VENTURE COMPANIES

Formal discussions for the formation of the JV Companies commenced after close of business on 25 May 2007, leading up to the signing of the JV Agreements on 1 June 2007. Details of the JV Agreements are set out below.

THE FIRST JV AGREEMENT

Date: 1 June 2007

Parties:

(1) HTL, an investment holding company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company; and

(2) YYE, a limited liability company incorporated in the PRC and is principally engaged in coal mine refinery, excavation of coal, processing of coal and sale of coal in the PRC.

Principal terms:

Purpose of the First JV Company

Pursuant to the terms and conditions of the First JV Agreement, the First JV Parties have agreed to set up the First JV Company in Inner Mongolia, PRC. The First JV Company will principally be engaged in the sale and purchase, and distribution of coal to be extracted from the Underground Coal Mine in the PRC.

Total investment amount, registered capital and capital contribution

The First JV Company will be owned as to 56.2% by HTL and 43.8% by YYE upon its establishment. Upon completion, the First JV Company will become a subsidiary of the Company and the results of the First JV Company will be consolidated into the Company's accounts upon its establishment. For the purpose of determining the contribution by HTL and YYE in the First JV Company, the resources fee of RMB77,925,000 (approximately HK$79,515,000) paid by YYE to excavate the estimated coal reserve of approximately 62.34 million tons of coal at the Underground Coal Mine was taken into account. As a result, contribution by HTL and YYE is 56.2% (100/177.925) and 43.8% (77.925/177.925), respectively.

The total investment amount of the First JV Company will be RMB250,000,000 (approximately HK$255,102,000) and its registered capital will be RMB100,000,000 (approximately HK$102,041,000) which will be contributed entirely in cash by HTL. HTL's contribution to the registered capital of the First JV Company shall be funded through the Group's internal resources.

The First JV Parties have agreed that the difference between the total investment amount and the registered capital will be financed, where required, by the First JV Company's corporate borrowings, project finance or other financing arrangements. The Group is not committed to provide any guarantee for these financing arrangements nor does it have any capital commitment in connection with the establishment of the First JV Company in addition to the obligation to contribute to the registered capital. The Company will comply with the GEM Listing Rules if it provides any guarantee for such financing arrangements.

HTL will contribute to the entire registered capital of the First JV Company in cash. Pursuant to the First JV Agreement, HTL is required to contribute to the First JV Company (i) RMB30,000,000 (approximately HK$30,612,000) within 20 days from the date of the issuance of the business licence of the First JV Company; (ii) RMB20,000,000 (approximately HK$20,408,000) on the commencement of excavation work at the Underground Coal Mine; (iii) RMB20,000,000 (approximately HK$20,408,000) upon 50% completion of excavation work at the Underground Coal Mine; and (iv) the remaining balance of RMB30,000,000 (approximately HK$30,612,000) upon completion of excavation work at the Underground Coal Mine. Together with the consideration payable by KRL under the Second JV Agreement, the consideration payable by HTL under the First JV Agreement was determined by reference to the total reserve held by YYE at the Underground Coal Mine. The First JV Company will not hold any reserve upon its establishment.

Term of the First JV Company

The First JV Company shall have a term of 30 years from the date of the issuance of its business licence. Upon approval by all directors of the First JV Company, the First JV Company may apply to the relevant governmental body to extend the business licence.

Board composition

The board of directors of the First JV Company will comprise five (5) directors. YYE shall be entitled to appoint two (2) directors and HTL shall be entitled to appoint three (3) directors. The chairman of the First JV Company will hold office for 3 years and will be nominated by HTL and YYE on a rotational basis. The first chairman of the First JV Company will be nominated by HTL.

Profit and loss sharing

Each of the First JV Parties will be entitled to share the profits or will bear the losses of the First JV Company in proportion to their respective equity interest in the First JV Company.

Transfer of interests in the First JV Company

Each of the First JV Party may transfer its equity interest in the First JV Company to another person, subject to the right of pre-emption of the other First JV Party to purchase such equity interest on the same terms.

Conditions precedent

The First JV Agreement is conditional upon the following being fulfilled:

(a) all necessary approvals, processes, registration and/or authorizations for the implementation of the transactions contemplated under the First JV Agreement having been obtained by the First JV Parties, including in the case of HTL, having obtained the approval of the Shareholders;

(b) the approval(s) from the Ministry of Commerce of the PRC or its delegated authority in relation to the transactions contemplated under the First JV Agreement having been obtained;

(c) the approval of the Shareholders for the entering into of the Underground Coal Supply Agreement between the First JV Company and YYE; and

(d) the receipt by HTL of a verification report certified by a director of YYE in respect of the coal reserve in the Underground Coal Mine.

The First JV Agreement provides that HTL may waive such conditions. The Directors currently expect that completion of the First JV Agreement will take place within 6 months from the date of the First JV Agreement.

If any of the conditions is not fulfilled or waived in accordance with the terms of the First JV Agreement and completion of the First JV Agreement does not take place, the First JV Agreement will not be effective and the Company will not have any liability or obligation thereunder except the payment of expenses relating to the formation of the First JV Company.

THE SECOND JV AGREEMENT

Date: 1 June 2007

Parties:

(1) KRL, an investment holding company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company; and

(2) YYE, a limited liability company incorporated in the PRC and is principally engaged in coal mine refinery, excavation of coal, processing of coal and sale of coal in the PRC.

Principal terms:

Purpose of the Second JV Company

Pursuant to the terms and conditions of the Second JV Agreement, the Second JV Parties have agreed to set up the Second JV Company in Inner Mongolia, PRC. The Second JV Company will principally be engaged in the sale and purchase, and distribution of coal to be extracted from the Open-Pit Coal Mine in the PRC.

Total investment amount, registered capital and capital contribution

The Second JV Company will be owned as to 51% by KRL and 49% by YYE upon its establishment. Upon completion, the Second JV Company will become a subsidiary of the Company and the results of the Second JV Company will be consolidated into the Company's accounts upon its establishment.

The total investment amount of the Second JV Company will be RMB1,400,000 (approximately HK$1,429,000) and its registered capital will be RMB1,000,000 (approximately HK$1,020,000) which will be contributed as to RMB490,000 (approximately HK$500,000) by YYE and RMB510,000 (approximately HK$520,000) by KRL, in proportion to their respective equity interest in the Second JV Company. KRL's contribution to the registered capital of the Second JV Company shall be funded through the Group's internal resources.

The Second JV Parties have agreed that the difference between the total investment amount and the registered capital will be financed, where required, by the Second JV Company's corporate borrowings, project finance or other financing arrangements. The Group is not committed to provide any guarantee for these financing arrangements nor does it have any capital commitment in connection with the establishment of the Second JV Company in addition to the obligation to contribute its share of the registered capital. The Company will comply with the GEM Listing Rules if it provides any guarantee for such financing arrangements.

Each of the Second JV Parties will contribute its share of the registered capital in cash. Pursuant to the Second JV Agreement, each of the Second JV Parties is required to contribute 15% of its share of the registered capital to the Second JV Company within three months from the date of the issuance of the business licence of the Second JV Company and to contribute the remaining in full within the two years from that date. Together with the consideration payable by HTL under the First JV Agreement, the consideration payable by KRL under the Second JV Agreement was determined by reference to the total reserve held by YYE at the Underground Coal Mine. The Second JV Company will not hold any reserve upon its establishment.

Term of the Second JV Company

The Second JV Company shall have a term of 30 years from the date of the issuance of its business licence. Upon approval by all directors of the Second JV Company, the Second JV Company may apply to the relevant governmental body to extend the business licence.

Board composition

The board of directors of the Second JV Company will comprise three (3) directors. YYE shall be entitled to appoint one (1) director and KRL shall be entitled to appoint two (2) directors. The chairman of the Second JV Company will hold office for 3 years and will be nominated by KRL and YYE on a rotational basis. The first chairman of the Second JV Company will be nominated by KRL.

Profit and loss sharing

Each of the Second JV Parties will be entitled to share the profits or will bear the losses of the Second JV Company in proportion to their respective equity interest in the Second JV Company.

Transfer of interests in the Second JV Company

Each of the Second JV Party may transfer its equity interest in the Second JV Company to another person, subject to the right of pre-emption of the other Second JV Party to purchase such equity interest on the same terms.

Conditions precedent

The Second JV Agreement will not come into effect until the following conditions have been fulfilled:

(a) all necessary approvals, processes, registration and/or authorizations for the implementation of the transactions contemplated under the Second JV Agreement having been obtained by the Second JV Parties, including in the case of KRL, having obtained the approval of the Shareholders;

(b) the approval(s) from the Ministry of Commerce of the PRC or its delegated authority in relation to the transactions contemplated under the Second JV Agreement having been obtained;

(c) the approval of the Shareholders for the entering into of the Open-Pit Coal Supply Agreement between the Second JV Company and YYE; and

(d) the receipt by KRL of a verification report certified by a director of YYE in respect of the reserve of coal in the Open-Pit Coal Mine.

The Second JV Agreement provides that KRL may waive such conditions. The Directors currently expect that completion of the Second JV Agreement will take place within 6 months from the date of the Second JV Agreement.

If any of the conditions is not fulfilled or waived in accordance with the Second JV Agreement and completion of the Second JV Agreement does not take place, the Second JV Agreement will not be effective and the Company will not have any liability or obligation thereunder except the payment of expenses relating to the formation of the Second JV Company.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to the joint venture arrangements, YYE who has a mining license over the Underground Coal Mine and the Open-Pit Coal Mine will supply coal and lease a station platform to the First JV Company and the Second JV Company, respectively. Accordingly, on 1 June 2007, YYE entered into the Underground Coal Supply Agreement and the Open-Pit Coal Supply Agreement with the First JV Company and the Second JV Company respectively for the supply of coal and the lease of station platforms. Particulars relating to the transactions under the Underground Coal Supply Agreement and the Open-Pit Coal Supply Agreement are described below.

UNDERGROUND COAL SUPPLY AGREEMENT

Date: 1 June 2007

Parties:

(1) YYE (as the supplier); and

(2) First JV Company (as the purchaser).

Subject matter:

(i) Purchase of coal which may be required by the First JV Company and which YYE may be able to supply in circumstances which are of commercial benefit to the Group; and

(ii) Lease of a station platform located at Inner Mongolia Mine 958 on the Tong Huo railway by YYE to the First JV Company.

The proposed supply arrangement ensures that the First JV Company will have a steady source of coal for its coal trading business. The proposed lease arrangement is advantageous to the First JV Company as it ensures the First JV Company has access to a station platform which is required to store the coal of the First JV Company pending transportation via railway elsewhere.

Price:

The price for the supply of coal shall be free of charge taking into account the consideration payable by HTL under the First JV Agreement (which will be used to finance the excavation work at the Underground Coal Mine). The price for the lease of a station platform shall be RMB8 (approximately HK$8.16) per ton or at such lower market rate to be agreed by the First JV Parties.

Payment terms:

Payment for the lease of a station platform shall be payable on a monthly basis.

Term:

With effect from the date of approval by Independent Shareholders to 31 December 2009. The First JV Company has a right to extend the term by further 3 year terms until the expiry of the First JV Company's initial business license term of 30 years.

Annual caps:

The annual caps of the lease of a station platform by the First JV Company from YYE for the period commencing from the date on which the Underground Coal Supply Agreement becomes effective and ending 31 December 2007, and each of the years ending 31 December 2008 and 31 December 2009 will not exceed RMB800,000 (approximately HK$816,320), RMB5,000,000 (approximately HK$5,102,000) and RMB9,600,000 (approximately HK$9,795,840) respectively.

The proposed annual cap for 2007 has been determined by reference to (i) the estimated value of the coal that will be extracted from the Underground Coal Mine (as it is not in full operation and assuming it extracts only 25% of the prorated annual permitted amount of 1.2 million tons of coal (the "25% Level")); and (ii) the estimated amount payable for the lease of the station platform at the agreed rate based on the amount of coal to be supplied during the period.

The proposed annual cap for 2008 has been determined by reference to (i) the estimated value of the coal that will be extracted from the Underground Coal Mine (assuming that up to 30 June 2008, it achieves the 25% Level for the amount of coal extracted) and from 1 July 2008 to the end of the year, it achieves approximately 80% operation and extracts the prorated annual permitted amount of 1.2 million tons of coal); and (ii) the estimated amount payable for the lease of the station platform at the agreed rate based on the amount of coal to be supplied during the year.

The proposed annual cap for 2009 has been determined by reference to (i) the estimated value of the coal that will be extracted from the Underground Coal Mine (assuming it is in full operation and achieves its annual permitted amount of 1.2 million tons of coal); and (ii) the estimated amount payable for the lease of the station platform at the agreed rate based on the amount of coal to be supplied during the year.

OPEN-PIT COAL SUPPLY AGREEMENT

Date: 1 June 2007

Parties:

(1) YYE (as the supplier); and

(2) Second JV Company (as the purchaser).

Subject matter:

(i) Purchase of coal which may be required by the Second JV Company and which YYE may be able to supply in circumstances which are of commercial benefit to the Group. In this regard, YYE has committed that it will be able to supply the Second JV Company at least 800,000 tons of coal per year; and

(ii) Lease of a station platform located at Inner Mongolia Mine 958 on the Tong Huo railway by YYE to the Second JV Company.

The proposed supply arrangement allows the Second JV Company to have a steady source of coal for its coal trading business. The proposed lease arrangement is advantageous to the Second JV Company as it ensures the Second JV Company has access to a station platform which is required to store the coal of the Second JV Company pending transportation via railway elsewhere.

Price:

Before the operation of the Underground Coal Mine, the price for the supply of coal shall not exceed RMB85 (approximately HK$86.7) per ton or shall be at 23% lower than the market rate. After the operation of the Underground Coal Mine, the price for the supply of coal shall not exceed RMB85 (approximately HK$86.7) per ton. Should there be major fluctuation in the price of coal, the Second JV Parties have agreed to adjust the price based on the prevailing market rate but the upward or downward adjustment shall not in any event exceed RMB10 (approximately HK$10.3).

If the supply of coal under this agreement exceeds 800,000 tons, the price for the lease of a station platform will be RMB8 (approximately HK$8.16) per ton or at such lower market rate to be agreed between the Second JV Parties. If the supply of coal is below 800,000 tons, YYE will not charge the Second JV Company for the lease of a station platform.

Payment terms:

Payment for the supply of coal and the lease of a station platform shall be payable on a monthly basis.

Term:

With effect from the date of approval by Independent Shareholders to 31 December 2009 subject to options to renew by the Second JV Company until the expiry of the Second JV Company's initial business license term of 30 years.

Annual caps:

The annual caps of the purchase of coal and the lease of a station platform by the Second JV Company from YYE for the period from the date on which the Open-Pit Coal Supply Agreement is expected to become effective until 31 December 2007 and each of the years ending 31 December 2008 and 31 December 2009 will not exceed RMB30,000,000 (approximately HK$30,612,000), RMB76,000,000 (approximately HK$77,550,400) and RMB84,000,000 (approximately HK$85,713,600) respectively. The proposed caps for 2007 and 2008 have been determined by reference to (i) the estimated value of coal to be sold by YYE to the Second JV Company; and (ii) the estimated value of the station platform to be leased by YYE to the Second JV Company. In addition, the annual cap for 2008 is also determined by reference to an increment over the 2007 annual cap taking into account possible price increase of the coal of approximately RMB10. As to the annual cap for 2009, it represents an increment over the 2008 annual cap taking into account possible price increase of the coal of approximately RMB10.

REASONS FOR THE JV AGREEMENTS

The Group is principally engaged in the production and sale of plastic woven bags and the provision of transportation technology solution in the PRC.

While the Group intends to continue to focus on its current business, the Group also wishes to diversify its business into areas with relatively high growth potential. As the demand and prices of coal continue to rise in the PRC, the Board is of the view that the Group's participation as a major equity owner in the JV Companies will allow the Group to invest in, and benefit from, the relatively high growth and high yield coal industry in the PRC. Save for the cashflow effect arising from the utilization of internal funds to finance the capital contribution to the JV Companies, the Directors do not expect the formation of the JV Companies itself would have any material adverse financial impact on the assets and liabilities of the Group.

The terms of the JV Agreements have been agreed after arm's length negotiations between the respective JV Parties. The Directors (including the independent non-executive Directors) consider that the JV Agreements are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

As part of the joint venture arrangements and in order to fulfill the conditions under the JV Agreements, the Underground Coal Supply Agreement and the Open-Pit Coal Supply Agreement were entered into for the supply of coal and lease of station platform by YYE to the First JV Company and the Second JV Company respectively.

The Directors (including the independent non-executive Directors) consider the proposed terms of the Continuing Connected Transactions under the CCT Agreements are on normal commercial terms, both the proposed terms and the proposed annual caps of the Continuing Connected Transactions under the CCT Agreements are fair and reasonable and in the overall best interest of the Company and its Shareholders.

FINANCIAL EFFECTS OF THE TRANSACTIONS ON THE GROUP

The formation of the JV Companies will have minimal immediate effect on the Group's earnings, after taking into account the short-term earnings effect of the JV Companies and the foregone interest income associated with the contribution of registered capital to be financed by the Group's internal resources.

Pursuant to the First JV Agreement, HTL is required to contribute (i) RMB30,000,000 (approximately HK$30,612,000) within 20 days from the date of the issuance of the business licence of the First JV Company; (ii) RMB20,000,000 (approximately HK$20,408,000) on the commencement of excavation work at the Underground Coal Mine; (iii) RMB20,000,000 (approximately HK$20,408,000) upon 50% completion of excavation work at the Underground Coal Mine; and (iv) the remaining balance of RMB30,000,000 (approximately HK$30,612,000) upon completion of excavation work at the Underground Coal Mine. Pursuant to the Second JV Agreement, KRL is required to contribute 15% of its share of the registered capital to the Second JV Company within three months from the date of the issuance of the business licence of the Second JV Company and to contribute the remaining in full within two years from that date. It is agreed that the difference between the total investment amount and the registered capital will be financed, where required, by the JV Companies' corporate borrowings, project finance or other financing arrangements. The Group is not committed to provide any guarantee for these financing arrangements nor does it have any capital commitment in connection with the establishment of the JV Companies in addition to the obligation to contribute their share of the registered capital.

No accountants' report on the JV Companies has been prepared as the JV Companies have yet to be established. The formation of the JV Companies has no immediate impact on the net assets, net tangible assets, assets and liabilities of the Group.

LISTING RULES IMPLICATIONS

As YYE will acquire a 43.8% equity interest in the First JV Company and a 49% equity interest in the Second JV Company, which will be indirect non-wholly owned subsidiaries of the Company upon completion of the JV Agreements, YYE will become a connected person of the Company pursuant to Rule 20.11 of the GEM Listing Rules. Accordingly, the transactions under the CCT Agreements constitute continuing connected transactions of the Company under the GEM Listing Rules. As the aggregate relevant percentage ratios for the annual caps under the CCT Agreements are more than 2.5%, the transactions contemplated under the CCT Agreements constitute non-exempt continuing connected transactions of the Company under Rule 20.35 of the GEM Listing Rules. Veda Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the CCT Agreements are on normal commercial terms, in the ordinary and usual course of business fair and reasonable and in the interests of the shareholders of the Company as a whole as required under Rule 20.22(4) of the GEM Listing Rules.

EGM

The JV Agreements collectively constitute a major transaction for the Company under the GEM Listing Rules and are subject to the approval of the Shareholders at the EGM. The CCT Agreements constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules and are subject to the approval of the Independent Shareholders.

A notice of the EGM to be held at 3:00 p.m. on Monday, 6 August 2007, at Suite No. 3, 31st Floor, Sino Plaza, 255-257, Gloucester Road, Hong Kong at which ordinary resolutions will be proposed to approve, among other things, the transactions under the JV Agreements, the Continuing Connected Transactions and the relevant annual caps under each of the Continuing Connected Transactions is set out on pages 75 to 77 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

As at the Latest Practicable Date, YYE and its associates do not currently hold any Share in the Company. However, YYE and its associates (should they become Shareholders before the EGM) are required to abstain from voting in respect of the proposed resolutions with respect to the CCT Agreements. In accordance with the GEM Listing Rules, the vote to be taken at the EGM shall be conducted by poll.

POLL PROCEDURE

Articles 48 of the Articles of Association of the Company set out the procedures under which a poll may be demanded.

A resolution put to the vote at any general meeting will be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of the meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote; or

(c) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than on-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or

(d) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorized representative or by proxy/proxies and holding Shares conferring a right to attend and vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

RECOMMENDATION

Having regard to the information described above, the Directors are of the opinion that the joint ventures pursuant to the terms of the JV Agreements are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to approve the JV Agreements at the EGM.

The Independent Board Committee has been established to consider whether the terms of the CCT Agreements are fair and reasonable so far as the Independent Shareholders are concerned and Veda Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of Veda Capital containing its advice to the Independent Board committee and the Independent Shareholders is set out on pages 19 to 27 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on page 18.

The Independent Board Committee, having taken into account the opinion of Veda Capital, considers the terms of the Continuing Connected Transactions to be fair and reasonable and are in the interest of the Company and the Shareholders as a whole and accordingly, recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
DETEAM COMPANY LIMITED
Mak Shiu Chung, Godfrey
Executive Director

DETEAM COMPANY LIMITED
弘海有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8112)

12 July 2007

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 12 July 2007 issued to the Shareholders (the "Circular") of which this letter forms part. Capitalized terms used herein shall have the same meanings as defined in the Circular unless otherwise requires.

As independent non-executive Directors who are independent of the parties to the Underground Coal Supply Agreement and the Open-Pit Coal Supply Agreement (the "Transaction"), we have been appointed by the Board to advise you as to whether, in our opinion, the terms and conditions of the Transaction (including the proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

Veda Capital has been appointed by the Company as the independent financial adviser to advise us regarding the fairness and reasonableness of the terms and conditions of the Transaction. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such opinion, are set out on pages 19 to 27 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 17 of the Circular and the additional information set out in the appendices to the Circular.

Having taken into account the opinion of and the principal factors and reasons considered by Veda Capital as stated in its letter of advice, we consider that the terms and conditions of the Transaction (including the proposed annual caps) are in accordance with normal commercial terms and in the ordinary course of business of the Group (assuming the First JV Company and the Second JV Company have been formed) and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution in relation to the Transaction to be proposed at the EGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Yang Xiaoping	**Kwok Chi Shing**	**Tsang Wai Sum**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

* *For identification only*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智略資本
Veda Capital Limited
Suite 11-12, 13/F, Nam Fung Tower
173 Des Voeux Road Central, Hong Kong

12 July 2007

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the CCT Agreements, details of which are set out in the letter from the Board (the "Board Letter") contained in this circular (the "Circular") dated 12 July 2007 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

It was stated in the announcement of the Company dated 7 June 2007 that as YYE will acquire a 43.8% equity interest in the First JV Company and a 49% equity interest in the Second JV Company, which will be indirect non-wholly owned subsidiaries of the Company upon completion of the JV Agreements, YYE will become a connected person of the Company pursuant to Rule 20.11 of the GEM Listing Rules. Accordingly, the transactions under the CCT Agreements constitute continuing connected transactions of the Company under the GEM Listing Rules. As the aggregate relevant percentage ratios for the annual caps under the CCT Agreements are more than 2.5%, the transactions contemplated under the CCT Agreements constitute non-exempt continuing connected transactions of the Company under Rule 20.35 of the GEM Listing Rules. The Continuing Connected Transactions are therefore subject to the approval of the Independent Shareholders at the EGM by way of poll. As at the Latest Practicable Date, YYE and its associates did not hold any Shares. However, YYE and its associates (should they become Shareholders before the EGM) are required to abstain from voting in respect of the proposed resolutions with respect to the CCT Agreements.

The Independent Board Committee has been established to advise whether the CCT Agreements are in the interests of the Company and the Independent Shareholders as a whole. The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Yang Xiaoping, Mr. Kwok Chi Shing and Mr. Tsang Wai Sum, which is not involved in or has no interest in the CCT Agreements and thus being independent, has been established to advise the Independent Shareholders in respect of the CCT Agreements. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the CCT Agreements are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) whether the Independent Shareholders should vote in favour of the relevant resolutions to approve the CCT Agreements.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information including but not limited to the published information of the Group and have assumed that any representations made to us are true, accurate and complete. We have also relied on a considerable extent on the statements, information, opinions contained or referred to in the Circular and all information, opinions, statements and representations provided to us by the Directors and management of the Company. We have assumed that all information, statements, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which are solely responsible, are true and accurate at the time when they were made and will continue to be accurate as at the date of the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the CCT Agreements and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Background and reasons for the CCT Agreements

The Group is principally engaged in the production and sale of plastic woven bags and the provision of transportation technology solution in the PRC.

As stated in the Board Letter, while the Group intends to continue to focus on its current business, the Group wishes to diversify its business into areas with relatively high growth potential. As the demand and prices of coal continue to rise in the PRC, the Board is of the view that the Group's participation as a major equity owner in the JV Companies will allow the Group to invest in, and benefit from, the relatively high growth and high yield coal industry in the PRC. Accordingly, on 1 June 2007, HTL and KRL entered into the First JV Agreement and the Second JV Agreement respectively with YYE.

YYE is principally engaged in coal mine refinery, excavation of coal, processing of coal and sale of coal in the PRC. YYE has obtained the relevant approval and mining license from the relevant PRC government authority to excavate coal from both the Underground Coal Mine and the Open-Pit Coal Mine while none of HTL, KRL, the First JV Company and the Second JV Company has obtained such mining license. Pursuant to the arrangement under the CCT Agreements, the First JV Company and the Second JV Company will be able to sell the coal being extracted and supplied by YYE. According to the Directors, the First JV Company and the Second JV Company are able to mark up the prices of coal as supplied by YYE for sale at a higher pricing and we consider such arrangement is in the interests of the Company and the Independent Shareholders. The First JV Company and the Second JV Company will principally be engaged in the sale and purchase, and distribution of coal to be extracted from the Underground Coal Mine and Open-Pit Coal Mine in the PRC respectively.

As part of the joint venture arrangements and in order to fulfill the conditions under the JV Agreements, the CCT Agreements were entered into for the supply of coal and lease a station platform by YYE to the First JV Company and the Second JV Company respectively on 1 June 2007. As stated in the Board Letter, the proposed supply arrangement ensures that both the First JV Company and the Second JV Company will have a steady source of coal for its coal trading business. The proposed lease arrangement is advantageous to both First JV Company and Second JV Company as it ensures the First JV Company and the Second JV Company to have access to a station platform which is required to store the coal of the First JV Company and the Second JV Company pending transportation via railway elsewhere.

Principal terms and proposed annual caps

(1) Underground Coal Supply Agreement

Pursuant to the Underground Coal Supply Agreement, the First JV Company will purchase and YYE will supply coal on an exclusive basis in the circumstances which are of commercial benefit to the Group. The price for the supply of coal shall be free of charge taking into account the consideration payable by HTL under the First JV Agreement in the amount of RMB100,000,000 (approximately HK$102,041,000) and such amount will be used to finance the excavation work at the Underground Coal Mine. We concur with the view of the Directors that the provision under the Underground Coal Supply Agreement that there will be no charge for the supply of coal by YYE is in the interests of the Company and the Independent Shareholders.

Under the Underground Coal Supply Agreement, the First JV Company will also lease a station platform located at Inner Mongolia Mine 958 on the Tong Huo railway from YYE at the rate of RMB8 (approximately HK$8.16) per ton or at such lower market rate to be agreed by the First JV Parties. As advised by the Directors, such station platform is for the exclusive usage by the First JV Company and the Second JV Company but not for use by outside parties and the rate of RMB 8 per ton of coal being transported at such station platform is negotiated in arms length basis between the parties taking into account of the market lease rate of station platform at Inner Mongolia. Under the leasing arrangement of the station platform to the First JV Company, coal supplied by YYE to the First JV Company can be transported outbound for sales to generate income to the First JV Company. Given that such leasing rate can be adjusted to a lower level subject to agreement by both the First JV Company and YYE, we consider such downward leasing rate adjustment to be fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

The term of the Underground Coal Supply Agreement will be effective from the date of approval by the Independent Shareholders until 31 December 2009. The First JV Company has a right to extend the term by further 3 year terms until the expiry of the First JV Company's initial business license term of 30 years. Having considered the flexibility associated with the right of the First JV Company to extend the term of the Underground Coal Supply Agreement every 3 years until the expiry of the initial term of the business license of 30 years, we share the view of the Directors that the term of the Underground Coal Supply Agreement is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

Annual caps of the Underground Coal Supply Agreement

The following sets out the annual caps of the purchase of coal and the lease of a station platform by the First JV Company from YYE under the Underground Coal Supply Agreement for the period representing the remaining part of the year ending 31 December 2007 and the two years ending 31 December 2008 and 2009 respectively:

	For the remaining period ending 31 December	**For the years ending 31 December**	
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
	(HK$ equivalent)	*(HK$ equivalent)*	*(HK$ equivalent)*
Annual caps	800,000	5,000,000	9,600,000
	(816,320)	(5,102,000)	(9,795,840)

The proposed annual cap for the remaining period ending 31 December 2007 has been determined by reference to:

(i) the estimated value of the coal that will be extracted from the Underground Coal Mine (as it is not in full operation and assuming it extracts only 25% of the prorated annual permitted amount of 1.2 million tons of coal); and

(ii) the estimated amount payable for the lease of the station platform at the agreed rate based on the amount of coal to be supplied during the remaining period ending 31 December 2007.

The proposed annual cap for the year ending 31 December 2008 has been determined by reference to:

(i) the estimated value of the coal that will be extracted from the Underground Coal Mine (assuming that up to 30 June 2008, it achieves 25% of the prorated annual permitted amount of 1.2 million tons of coal and from 1 July to 31 December 2008, it achieves approximately 80% operation and extracts the prorated annual permitted amount of 1.2 million tons of coal); and

(ii) the estimated amount payable for the lease of the station platform at the agreed rate based on the amount of coal to be supplied during the year ending 31 December 2008.

The proposed annual cap for the year ending 31 December 2009 has been determined by reference to:

(i) the estimated value of the coal that will be extracted from the Underground Coal Mine (assuming it is in full operation and achieves its annual permitted amount of 1.2 million tons of coal); and

(ii) the estimated amount payable for the lease of the station platform at the agreed rate based on the amount of coal to be supplied during the year ending 31 December 2009.

To assess the fairness and reasonableness, we have considered the amount of extraction of coal from the Underground Coal Mine in the next few years. According to the management, for the remaining period ending 31 December 2007, up to 25% of the prorated annual permitted amount of 1.2 million tons of coal, i.e. up to 100,000 tons of coal (assuming operation could start in September 2007, which is based on the current best estimate of the Directors), will be extracted. For the six months ending 30 June 2008, the estimated amount of extraction of coal will be up to 25% of the prorated annual permitted amount of 1.2 million tons of coal, i.e. up to 150,000 tons whereas for the 6 months ending 31 December 2008, it is assumed that the Underground Coal Mine will achieve approximately 80% operation and extract about 480,000 tons of coal. In other words, the annual estimated extraction of coal for the year ending 31 December 2008 for the Underground Coal Mine will be up to 630,000 tons. For the year ending 31 December 2009, it is assumed that the Underground Coal Mine will achieve full operation and extract the annual permitted amount of 1.2 million tons of coal. Since the Underground Coal Mine is not yet in operation, the progress on the operation is based on the best estimate of the Directors after discussion with YYE which is principally engaged in coal mine refinery, excavation of coal, processing of coal and sale of coal in the PRC. By multiplying the rate of RMB8 (approximately HK$8.16) per ton of coal for leasing the station platform to the respective estimated annual extraction amount of the Underground Coal Mine, the products fall in line with the annual caps of the purchase of coal and the lease of a station platform by the First JV Company from YYE under the Underground Coal Supply Agreement.

In view of the above and having considered (i) the reasons for entering into the Underground Coal Supply Agreement and its basis for determining the annual caps of the purchase of coal and the lease of a station platform by the First JV Company from YYE; (ii) the leasing rate for using the station platform will be on normal commercial terms; and (iii) the estimated value of the coal that will be extracted from the Underground Coal Mine, we consider that the terms of the Underground Coal Supply Agreement and its basis for determining the annual caps are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

(2) Open-Pit Coal Supply Agreement

Under the Open-Pit Coal Supply Agreement, the Second JV Company will purchase and YYE will supply coal on a non-exclusive basis in the circumstances which are of commercial benefit to the Group. YYE has committed that it will be able to supply the Second JV Company at least 800,000 tons of coal per year. Before the operation of the Underground Coal Mine, the price for the supply of coal shall be the lower of RMB85 (approximately HK$86.7) per ton or be at 23% discount of the market rate from time to time. The Directors advise that the adjustment on the price for the supply of coal will be on an annual basis and the current market price for the same quality of coal as extracted from Open-Pit Coal Mine is around RMB130 per ton (i.e. 23% discount of the current market price equals approximately RMB100 which is higher than RMB85, so that the supply price is at RMB85, representing approximately 34.6% discount to the current market price). Given that the supply price of coal to the Second JV Company is secured at a level of at least 23% of the market price, the Second JV Company will be entitled to the benefit of the different of the supply price and selling price of at least 23%, we concur with the Directors that the supply price of coal to the Second JV Company before the operation of the Underground Coal Mine under the Open-Pit Coal Supply Agreement is in the interests of the Company and the Independent Shareholders.

After the operation of the Underground Coal Mine, the price for the supply of coal shall not exceed RMB85 (approximately HK$86.7) per ton. Should there be major fluctuation in the price of coal, the Second JV Parties have agreed to adjust the price based on the prevailing market rate but the upward or downward adjustment shall not in any event exceed RMB10 (approximately HK$10.3). The Directors advise that the adjustment on the price for the supply of coal under the Open-Pit Coal Supply Agreement will also be on an annual basis after the operation of the Underground Coal Mine. Given the current market price of same quality of coal as that in the Open-Pit Coal Mine is around RMB130 per ton, the discount of the supply price of coal of RMB85 per ton to the current market price is approximately 34.6% and if the supply price of the coal is adjusted by an increase of RMB10 per ton to RMB95 per ton, the discount is at approximately 26.9%. Given that the Second JV Company is entitled to the benefit of discounted supply price of coal for ongoing sales, we are of the view that the supply price of coal to the Second JV Company after the operation of the Underground Coal Mine under the Open-Pit Coal Supply Agreement is in the interests of the Company and the Independent Shareholders.

Under the Open-Pit Coal Supply Agreement if the annual supply of coal exceeds 800,000 tons, the Second JV Company will also lease a station platform from YYE at the rate of RMB8 (approximately HK$8.16) per ton or at such lower market rate to be agreed by the Second JV Parties. Since the leasing cost of the station platform under the Open-Pit Coal Supply Agreement is the same as that under the Underground Coal Supply Agreement and as discussed above, we consider such leasing cost is fair and reasonable. If the annual supply of coal is below 800,000 tons, YYE will not charge the Second JV Company for the lease of a station platform. Given that no leasing cost of station platform will be incurred to the Second JV Company should the supply amount of coal is less than 800,000 tons per year, we consider such arrangement is in the interests of the Company and the Independent Shareholders.

The term of the Open-Pit Coal Supply Agreement will be effective from the date of approval by the Independent Shareholders until 31 December 2009. The Second JV Company has a right to extend the term by further 3 year terms until the expiry of the Second JV Company's initial business license term of 30 years. Having considered the flexibility associated with the right of the Second JV Company to extend the term of the Open-Pit Coal Supply Agreement every 3 years until the expiry of the initial term of the business license of 30 years, we share the view of the Directors that the term of the Open-Pit Coal Supply Agreement is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

Annual caps of the Open-Pit Coal Supply Agreement

The following sets out the annual caps of the purchase of coal and the lease of a station platform by the Second JV Company from YYE under the Open-Pit Coal Supply Agreement for the period representing the remaining part of the year ending 31 December 2007 and the two years ending 31 December 2008 and 2009 respectively:

	For the remaining period ending 31 December	**For the years ending 31 December**	
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
	(HK$ equivalent)	*(HK$ equivalent)*	*(HK$ equivalent)*
Annual caps	30,000,000	76,000,000	84,000,000
	(30,612,000)	(77,550,400)	(85,713,600)

The proposed annual caps for the remaining period ending 31 December 2007 and the year ending 31 December 2008 have been determined by reference to:

(i) the estimated value of coal to be sold by YYE to the Second JV Company;

(ii) the estimated value of the station platform to be leased by YYE to the Second JV Company; and

(iii) an increment over the annual cap for the remaining period ending 31 December 2007 taking into account possible price increase of the coal of approximately RMB10 per ton for the annual cap of the year ending 31 December 2008.

For the annual cap for the year ending 31 December 2009, it represents an increment over the annual cap for the year ending 31 December 2008 taking into account possible price increases of approximately RMB10 per ton of coal.

To assess the fairness and reasonableness of the annual caps under the Open-Pit Coal Supply Agreement, we have considered the amount of extraction from the Open-Pit Coal Mine in the next few years. According to the management, for the remaining period ending 31 December 2007, it is estimated that less than 800,000 tons of coal will be supplied to the Second JV Company given 2007 is not a full performing year under the Open-Pit Coal Supply Agreement.

Currently, the Directors expect that the Open-Pit Coal Supply Agreement would be completed around July and August 2007. For the years ending 31 December 2008 and 2009, the Directors expect that the amount of coal supplied by YYE will be 800,000 tons, given the significant difference between the market price of coal per ton and the supply price per ton by YYE and that it is not likely that YYE will supply more than the minimum supply amount as agreed in the Open-Pit Coal Supply Agreement i.e. 800,000 tons. As a result, the component of the annual caps for the leasing of station platform are accounted as nil for the remaining period ending 31 December 2007 and the two years ending 31 December 2009.

The supply price of coal from YYE to the Second JV Company will be RMB85 per ton for the remaining period ending 31 December 2007. From 2008 onwards, the supply price of coal from YYE is assumed to increase annually at a rate of around RMB10 per ton i.e. the supply price of coal per ton will be RMB95 and RMB105 for the two years ending 31 December 2008 and 2009 respectively. According to 2006 China Statistical Yearbook published by the National Bureau of Statistics of China, the increase in price for the category for fuel and motion power in the PRC for the years ended 31 December 2004 and 2005 were approximately 9.7% and 15% respectively. We concur with the Directors that the annual increment of RMB10 per ton of coal supply by YYE is in line with the increase in fuel price in the PRC.

By multiplying the expected supply price of coal from YYE to the Second JV for the remaining period ending 31 December 2007 and the two years ending 31 December, 2008 and 2009 respectively by the respective amount of extraction from the Open-Pit Coal Mine for the corresponding periods, the products are in line with the annual caps of the purchase of coal and the lease of a station platform by the Second JV Company from YYE under the Open-Pit Coal Supply Agreement for the period representing the remaining part of the year ending 31 December 2007 and the two years ending 31 December 2008 and 2009 respectively.

In view of the above and having considered (i) the reasons for entering into the Open-Pit Coal Supply Agreement and its basis for determining the annual caps of the purchase of coal and the lease of a station platform by the Second JV Company from YYE; (ii) the supply rate of coal per ton to the Second JV Company is at a discount to the market price of coal per ton; (iii) the leasing rate for using the station platform will be on normal commercial terms; and (iv) the estimated increasing amount of the coal that will be extracted from the Open-Pit Coal Mine, we consider that the terms of the Open-Pit Coal Supply Agreement and its basis for determining the annual caps are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

VI. Recommendation

Taking into consideration of the above mentioned principal factors and reasons, we consider that, on balance, the terms of the CCT Agreements are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the CCT Agreements were entered into upon normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the CCT Agreements.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong	**Julisa Fong**
Managing Director	*Director*

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited financial results of the Group for the three years ended 31 December 2006, 31 December 2005 and 31 December 2004 contained in the Company's annual reports for the corresponding years.

SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2006

Consolidated Income Statement

	For the year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	69,689	7,495	33,701
Cost of sales and services	(55,900)	(7,032)	(23,223)
Gross profit	13,789	463	10,478
Other income	3,525	59	4
Income from excess of fair value over cost of acquisition of a subsidiary	4,001	–	–
Distribution costs	(1,333)	(3,319)	(2,158)
Administrative expenses	(8,472)	(5,268)	(6,194)
Impairment of interest in an associate	–	(571)	(2,748)
Other operating expenses	(751)	–	(2,221)
Profit/(loss) from operations	10,759	(8,636)	(2,839)
Finance costs	(536)	(180)	(138)
Share of losses of associates	–	(132)	(1,433)
Loss on disposals of subsidiaries	(90)	–	–
Profit/(loss) before tax	10,133	(8,948)	(4,410)
Income tax expense	–	–	–
Profit/(loss) for the year attributable to equity holders of the Company	10,133	(8,948)	(4,410)
Earnings/(loss) per share – basic	3.83 cents	(4.39) cents	(2.16) cents

Consolidated Balance Sheet

	As at 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	26,528	466	728
Prepaid land lease payments	451	–	–
Investments in associates	–	–	2,756
Available-for-sale financial assets	862	829	–
Long term investments	–	–	805
	27,841	1,295	4,289
Current assets			
Inventories	17,500	–	–
Prepaid land lease payments	115	–	–
Amounts due from customers for contract works	1,223	36	1,901
Trade receivables	2,415	4,181	5,211
Deposits, prepayments and other receivables	5,742	1,196	1,812
Pledged bank deposit	–	–	732
Cash and bank balances	7,828	1,413	4,365
	34,823	6,826	14,021
Current liabilities			
Amount due to customers for contract work	–	–	75
Trade payables	16,435	4,825	6,749
Accrued charges and other payables	11,184	5,478	2,882
Provision for warranty	653	1,255	1,240
Short term borrowings	9,500	–	–
Convertible note	–	4,000	–
Current tax liabilities	1,346	–	–
	39,118	15,558	10,946
Net current (liabilities)/assets	(4,295)	(8,732)	3,075
Total assets less current liabilities	23,546	(7,437)	7,364
Non-current liabilities			
Convertible note	–	–	4,000
Other payable	–	–	2,000
Other loan	2,375	–	–
NET ASSETS/(LIABILITIES)	21,171	(7,437)	1,364
Capital and reserves			
Share capital	29,606	20,400	20,400
Other reserves	44,654	35,385	35,238
Accumulated losses	(53,089)	(63,222)	(54,274)
TOTAL EQUITY	21,171	(7,437)	1,364

There were neither extraordinary net exceptional items existing during each of the three years ended 31 December 2006.

No dividend has been paid or declared by the Company for each of the three years ended 31 December 2006.

There was no minority interest for each of the three years ended 31 December 2006.

There was no qualification in the auditors' reports for each of the three years ended 31 December 2006.

2. AUDITED FINANCIAL INFORMATION OF THE GROUP

The following financial information includes the financial statements of the Group for the financial years ended 31 December 2005 and 2006 together with notes thereto as extracted from the annual report of the Company for the year ended 31 December 2006.

Consolidated Income Statement
For the year ended 31 December 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Turnover	5	69,689	7,495
Cost of sales and services		(55,900)	(7,032)
Gross profit		13,789	463
Other income	6	3,525	59
Income from excess of fair value over cost of acquisition of a subsidiary	32(a)	4,001	–
Distribution costs		(1,333)	(3,319)
Administrative expenses		(8,472)	(5,268)
Impairment of investment in an associate		–	(571)
Other operating expenses		(751)	–
Profit/(loss) from operations		10,759	(8,636)
Finance costs	8	(536)	(180)
Share of loss of an associate		–	(132)
Loss on disposals of subsidiaries	32(b)	(90)	–
Profit/(loss) before tax		10,133	(8,948)
Income tax expense	9	–	–
Profit/(loss) for the year attributable to equity holders of the Company	10	10,133	(8,948)
Earnings/(loss) per share – basic	14	3.83 cents	(4.39) cents

Consolidated Balance sheet
As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	26,528	466
Prepaid land lease payments	16	451	–
Investments in associates	17	–	–
Available-for-sale financial assets	18	862	829
		27,841	1,295
Current assets			
Inventories	19	17,500	–
Prepaid land lease payments	16	115	–
Amounts due from customers for contract works	20	1,223	36
Trade receivables	21	2,415	4,181
Deposits, prepayments and other receivables		5,742	1,196
Cash and bank balances	22	7,828	1,413
		34,823	6,826
Current liabilities			
Trade payables	23	16,435	4,825
Accrued charges and other payables	24	11,184	5,478
Provision for warranty	25	653	1,255
Short term borrowings	26	9,500	–
Convertible note		–	4,000
Current tax liabilities		1,346	–
		39,118	15,558
Net current liabilities		(4,295)	(8,732)
Total assets less current liabilities		23,546	(7,437)
Non-current liabilities			
Other loan	27	2,375	–
NET ASSETS/(LIABILITIES)		21,171	(7,437)
Capital and reserves			
Share capital	28	29,606	20,400
Other reserves	31	44,654	35,385
Accumulated losses		(53,089)	(63,222)
TOTAL EQUITY		21,171	(7,437)

Consolidated Statement of Changes in Equity
For the year ended 31 December 2006

	Note	Share capital HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2005		20,400	35,238	(54,274)	1,364
Currency translation difference		–	147	–	147
Loss for the year		–	–	(8,948)	(8,948)
Balance at 31 December 2005		20,400	35,385	(63,222)	(7,437)
Balance at 1 January 2006		20,400	35,385	(63,222)	(7,437)
Issue of shares	28	9,206	7,356	–	16,562
Recognition of share-based payment		–	1,792	–	1,792
Currency translation differences		–	362	–	362
Share issue expenses		–	(241)	–	(241)
Profit for the year		–	–	10,133	10,133
Total recognised income and expense for the year		–	121	10,133	10,254
Balance at 31 December 2006		29,606	44,654	(53,089)	21,171

Consolidated Cash Flow Statement
For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Profit/(loss) before tax		10,133	(8,948)
Adjustments for:			
Interest income		(148)	(36)
Reversal of provision for warranty		(652)	–
Waiver of amount due to a director		(2,345)	–
Income from excess of fair value over cost of acquisition of a subsidiary		(4,001)	–
Finance costs		536	180
Depreciation and amortisation		1,443	337
Share-based payment		1,792	–
Trade receivables written off		681	–
Allowance for amount due from an associate		70	–
Impairment of investment in an associate		–	571
Share of loss of an associate		–	132
Loss on disposals of subsidiaries		90	–
Operating profit/(loss) before working capital changes		7,599	(7,764)
Decrease in amount due from an associate		–	56
Decrease in inventories		3,031	–
Decrease in pledged bank deposit		–	732
(Increase)/decrease in amounts due from customers for contract works		(1,187)	1,790
Decrease in trade receivables		3,401	1,030
(Increase)/decrease in deposits, prepayments and other receivables		(3,986)	616
Increase/(decrease) in trade payables		249	(1,924)
(Decrease)/increase in accrued charges and other payables		(16,823)	1,379
Net cash used in operations		(7,716)	(4,085)
Interest paid		(538)	(158)
Net cash used in operating activities		(8,254)	(4,243)

Consolidated Cash Flow Statement *(Continued)*
For the year ended 31 December 2006

	Note	2006 *HK$'000*	2005 *HK$'000*
Cash flows from investing activities			
Purchase of property, plant and equipment		(123)	(63)
Net cash outflow arising on acquisition of a subsidiary	32(a)	(9,288)	–
Net cash inflow arising on disposals of subsidiaries	32(b)	23	–
Interest received		148	36
Net cash used in investing activities		(9,240)	(27)
Cash flows from financing activities			
Bank loan raised		7,000	–
Other loans raised		7,025	–
Repayment of other loans		(2,150)	–
Repayment of convertible note		(4,000)	–
Net proceeds from issue of shares		16,321	–
Advance from a director		–	1,210
Net cash generated from financing activities		24,196	1,210
Net increase/(decrease) in cash and bank balances		6,702	(3,060)
Cash and bank balances at 1 January		1,413	4,365
Exchange differences		(287)	108
Cash and bank balances at 31 December		7,828	1,413

Notes to the Financial Statements

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, 31/F., Sino Plaza, 255-257 Gloucester Road, Hong Kong. The Company's shares are listed on the Growth Enterprise Market 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 provision of transportation technology solutions and manufacturing and sale of plastic woven bags and paper bags.

2. SIGNIFICANT ACCOUNTING POLICIES

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 accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of 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 management 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 3 to the financial statements.

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

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. 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 fully 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 represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies 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.

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currencies 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 using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

– 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 dates of the transactions); 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 and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

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.

(e) 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 expensed in the income statement during the period in which they are incurred.

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

Buildings	5% – 10%
Plant and machinery	16% – 33%
Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	20%
Motor vehicles	16%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

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 the income statement.

(f) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease team.

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(h) Inventories

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

(i) Transportation technology solution contracts

When the outcome of a transportation technology solution contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a transportation technology solution contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Transportation technology solution contracts in progress at the balance sheet date are recorded in the balance sheet at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Gross amount due from customers for contract work". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the balance sheet as "Gross amount due to customers for contract work". Progress billings not yet paid by the customer are included in the balance sheet under "Trade receivables". Amounts received before the related work is performed are included in the balance sheet under "Trade payables".

(j) Investments

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

Available-for-sale financial assets

Available-for-sale financial assets are investments not classified as held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement.

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

(k) Trade and other receivables

Trade and other receivables 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 the income statement.

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

(l) Cash and cash equivalents

For the purpose of the cash flow statement, 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.

(m) Financial liabilities and equity instruments

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

(n) 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 balance sheet date.

(o) 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.

(p) Revenue recognition

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

Revenues from the sales of 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.

Dividend income is recognised when the shareholders' rights to receive payment are established.

Contract revenue

When the outcome of a transportation technology solution contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract; and revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a transportation technology solution contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

(q) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity or paternity 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 the income statement represents contribution 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.

(r) Share-based payments

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

(s) 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 as reported in the income statement 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 balance sheet date.

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, and is accounted for using the balance sheet liability method. 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 and associates, 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 each balance sheet date 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 balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with 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.

(t) 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.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment.

Segment capital expenditure is the total costs incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(v) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets other than 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 the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, 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.

(w) 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.

(x) Events after the balance sheet date

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

3. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives 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 of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives 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) Revenue and profit recognition

The Group estimates the percentage of completion of the transportation technology solutions contracts by reference to the proportion that contract costs incurred for work performed to date to the estimated total costs for the contracts. When the final cost incurred by the Group is different from the amounts that were initially budgeted, such differences will impact the revenue and the profit or loss recognised in the period in which such determination is made. Budget cost of each project will be reviewed periodically and revised accordingly where significant variances are noted during the revision.

4. 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 Hong Kong dollars and Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

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

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

(c) Liquidity risk

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

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group has exposure to fair value interest rate risk as most of its borrowings bear interests at fixed rates.

(e) Fair values

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

5. TURNOVER

The Group's turnover which represents sales of bags to customers and revenue from transportation technology solution contracts are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Sales of bags	66,771	–
Revenue from transportation technology solution contracts	2,918	7,495
	69,689	7,495

6. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income	148	36
Service income	380	–
Reversal of provision for warranty	652	–
Waiver of amount due to a director	2,345	–
Sundry income	–	23
	3,525	59

7. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into two main business segments for the year ended 31 December 2006:

Bags	–	Manufacturing and sale of plastic woven bags and paper bags; and
Transportation technology solutions	–	Provision of transportation technology solutions

(b) Secondary reporting format – geographical segments

No geographical segment information is presented as the Group's revenue and assets are substantially derived from customers and operations based in the PRC and accordingly, no further analysis of the Group's geographical segments is disclosed.

Primary reporting format – business segments

	Bags	Transportation technology solutions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2006			
Revenue	66,771	2,918	69,689
Segment results	11,641	(4,271)	7,370
Other income			3,525
Income from excess of fair value over cost of acquisition of a subsidiary			4,001
Unallocated expenses			(4,137)
Profit from operations			10,759
Finance costs			(536)
Loss on disposals of subsidiaries			(90)
Profit before tax			10,133
At 31 December 2006			
Segment assets	57,320	3,423	60,743
Investments in associates			–
Unallocated assets			1,921
Total assets			62,664
Segment liabilities	30,345	7,518	37,863
Unallocated liabilities			3,630
Total liabilities			41,493
Other segment information:			
Capital expenditure	119	4	123
Unallocated amounts			–
			123
Depreciation	1,241	154	1,395
Unallocated amounts			10
			1,405

Primary reporting format – business segments *(Continued)*

	Bags	Transportation technology solutions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2005			
Revenue	–	7,495	7,495
Segment results	–	(6,120)	(6,120)
Other income			59
Unallocated expenses			(2,575)
Loss from operations			(8,636)
Share of loss of an associate	–	(132)	(132)
Finance costs			(180)
Loss before tax			(8,948)
At 31 December 2005			
Segment assets	–	7,739	7,739
Investments in associates			–
Unallocated assets			382
Total assets			8,121
Segment liabilities	–	9,087	9,087
Unallocated liabilities			6,471
Total liabilities			15,558
Other segment information:			
Capital expenditure	–	56	56
Unallocated amounts			7
			63
Depreciation	–	323	323
Unallocated amounts			14
			337
Impairment loss on goodwill recognised in income statement	–	(571)	(571)

8. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank loan	53	–
Interest on other loan wholly repayable within 5 years	480	–
Interest on convertible note wholly repayable within 5 years	3	160
Other finance costs	–	20
	536	180

9. INCOME TAX EXPENSE

(a) No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the year ended 31 December 2006 (2005: HK$Nil).

The subsidiary, Beijing Angels Communications Technology Co., Ltd ("Beijing Angels"), operating in the PRC, is subject to enterprise income tax rate of 33% 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稅法) (the "PRC Income Tax Law").

The subsidiary, Changchun Yicheng Packaging Company Limited ("Changchun Yicheng"), operating in the PRC, is subject to enterprise income tax rate of 33% on its taxable profit in accordance with 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) and is therefore entitled to a reduced tax rate of 27%. However, pursuant to a notice issued by Changchun Green District State Tax Bureau (長春綠園國家稅務局), Changchun Yicheng is exempted from enterprise income tax from 1 May 2006 to 31 December 2007, followed by a 50% reduction for the next three years.

(b) The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before tax	10,133	(8,948)
Tax at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	1,773	(1,566)
Expenses not deductive for tax purposes	165	541
Income tax exempted	(2,725)	–
Income not taxable	(26)	–
Tax losses for which no deferred income tax asset was recognised	813	1,025
Income tax expense	–	–

(c) At the balance sheet date the Group has unused tax losses of approximately HK$11,395,000 (2005: HK$8,585,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses of HK$5,101,000, HK$3,827,000 and HK$2,467,000 will expire on 31 December 2007, 31 December 2010 and 31 December 2011 respectively.

10. PROFIT/(LOSS) FOR THE YEAR

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

	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration	438	320
Depreciation of property, plant and equipment	1,405	337
Operating lease rentals in respect of land and buildings	878	1,068
Allowance for amount due from an associate (included in other operating expenses)	70	–
Trade receivables written off (included in other operating expenses)	681	–
Reversal of provision for warranty	(652)	(21)

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	3,524	3,167
Termination benefits	–	62
Employee share option benefits (equity-settled)	1,792	–
Social security costs	450	13
Pension costs	126	116
	5,892	3,358

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of each Director were as follows:

Name of Director	Fees	Salaries	Inducement fees	Employee's contribution to pension scheme	Compensation for loss of office as director	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yan, Daniel X.D.	–	60	–	–	–	60
Mr. Lau, Andrew Kim (i)	–	48	–	–	–	48
Mr. Mak Shiu Chung, Godfrey (ii)	112	–	–	–	–	112
Mr. Zhang Chao Liang (iv)	2	–	–	–	–	2
Mr. Yang Xiaoping	–	–	–	–	–	–
Mr. Zhao Ming (i)	–	–	–	–	–	–
Ms. Wu Xin (iii)	–	–	–	–	–	–
Mr. Kwok Chi Shing (ii)	51	–	–	–	–	51
Mr. Tang Wai Sum (iv)	2	–	–	–	–	2
Total for 2006	167	108	–	–	–	275

Name of Director	Fees	Salaries	Inducement fees	Employee's contribution to pension scheme	Compensation for loss of office as director	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yan, Daniel X.D.	–	63	–	–	–	63
Mr. Lau, Andrew Kim	–	63	–	–	–	63
Mr. Zhu Quan (v)	–	81	–	–	–	81
Ms. Shek Ying, Christine (v)	–	3	–	–	–	3
Mr. Yang Xiaoping	–	–	–	–	–	–
Mr. Zhao Ming	–	–	–	–	–	–
Ms. Wu Xin	–	–	–	–	–	–
Total for 2005	–	210	–	–	–	210

Notes:

(i) Resigned on 19 October 2006.

(ii) Appointed on 27 January 2006.

(iii) Resigned on 6 April 2006.

(iv) Appointed on 26 July 2006.

(v) Resigned on 17 November 2005.

During the year 2006, Mr. Yan, Daniel X.D. and Mr. Lau, Andrew Kim waived emoluments of HK$395,000 (2005: HK$392,000) and HK$350,000 (2005: HK$392,000) respectively. Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included one (2005: one (Note (ii)) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2005: four) individuals are set out below:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	826	901
Contributions to pensions schemes	23	27
	849	928

(i) The emoluments of these four (2005: four) highest paid individuals are less than HK$1,000,000.

(ii) Mr. Zhu Quan was resigned as Director on 17 November 2005. Included in the five highest paid individuals above for the year ended in December 2005 was director's emolument of HK$81,000 paid to Mr. Zhu Quan, which was included in Note 12(a) above.

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

13. DIVIDEND

The Directors do not recommend the payment of a dividend for the year (2005: HK$Nil).

14. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings (2005: loss) per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$10,133,000 (2005: loss attributable to equity holder of the Company of approximately HK$8,948,000) and the weighted average number of ordinary shares of 264,520,000 (2005: 204,000,000) in issue during the year.

Diluted earnings/(loss) per share

A diluted earnings per share for the year ended 31 December 2006 has not been shown as there were no potential dilutive ordinary shares in existence during the year.

A diluted loss per share for the year ended 31 December 2005 has not been disclosed as the convertible note outstanding during 2005 had an anti-dilutive effect on the basic loss per share for 2005.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2005	–	–	164	1,244	1,589	2,997
Additions	–	–	–	63	–	63
Disposals	–	–	–	(22)	–	(22)
Exchange differences	–	–	4	33	46	83
At 31 December 2005 and at 1 January 2006	–	–	168	1,318	1,635	3,121
Acquisition of a subsidiary	12,180	13,980	–	–	553	26,713
Additions	–	119	–	4	–	123
Disposal of a subsidiary	–	–	–	(110)	–	(110)
Exchange differences	304	350	7	113	12	786
At 31 December 2006	12,484	14,449	175	1,325	2,200	30,633
Accumulated depreciation and impairment						
At 1 January 2005	–	–	64	774	1,431	2,269
Charge for the year	–	–	33	146	158	337
Disposals	–	–	–	(22)	–	(22)
Exchange differences	–	–	2	23	46	71
At 31 December 2005 and at 1 January 2006	–	–	99	921	1,635	2,655
Charge for the year	234	948	35	129	59	1,405
Disposal of a subsidiary	–	–	–	(57)	–	(57)
Exchange differences	–	–	3	38	61	102
At 31 December 2006	234	948	137	1,031	1,755	4,105
Carrying amount						
At 31 December 2006	12,250	13,501	38	294	445	26,528
At 31 December 2005	–	–	69	397	–	466

At 31 December 2006 the carrying amount of plant and machinery pledged as securities for the Group's bank loan amounted to HK$13,501,000 (2005: HK$Nil).

16. PREPAID LAND LEASE PAYMENTS

	2006	2005
	HK$'000	*HK$'000*
At 1 January	–	–
Acquisition of a subsidiary	589	–
Amortisation of prepaid land lease payments	(38)	–
Exchange differences	15	–
At 31 December	566	–
Current portion	(115)	–
Non-current portion	451	–

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

17. INVESTMENTS IN ASSOCIATES

	2006	2005
	HK$'000	*HK$'000*
Share of net liabilities	(4,740)	(4,701)
Goodwill on acquisition of an associate	–	532
Loan receivable *(Note (b))*	7,488	7,488
	2,748	3,319
Less: Impairment losses	(2,748)	(3,319)
	–	–

(a) Details of the Group's associates, all of which are unlisted, were as follows:

Company	Particulars of issued shares held	Place of incorporation and operation	Principal activities	Assets	Liabilities	Revenue	Loss	Interest held Directly	Interest held Indirectly
				HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		
2006									
CTIA VSAT Network Limited ("CTIA")	5,000,000 ordinary shares of HK$1.0 each	Hong Kong	Investment holding	12,550	25,935	10,808	1,897	40%	–
2005									
CTIA VSAT Network Limited ("CTIA")	5,000,000 ordinary shares of HK$1.0 each	Hong Kong	Investment holding	17,260	27,904	9,101	1,837	40%	–
Smart-Mover ITS Technology Co. Limited	Registered capital of RMB2,000,000	The PRC	Provision of traffic information service solution in Beijing	206	94	–	377	–	35%

(b) Loan receivable from an associate is unsecured, interest free and due for repayment on demand.

(c) The Group has not recognised loss for the year amounting to HK$759,000 (2005: HK$$735,000) for CTIA. The accumulated losses not recognised up to 31 December 2006 were HK$1,494,000 (2005: HK$735,000).

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006
	HK$'000
Beginning of the year	829
Exchange difference	33
End of the year	862

Available-for-sale financial assets include the following:

	2006	**2005**
	HK$'000	*HK$'000*
Club membership	362	348
Unlisted investments	500	481
	862	829

19. INVENTORIES

	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	5,463	–
Work in progress	3,811	–
Finished goods	8,226	–
	17,500	–

20. LONG-TERM TRANSPORTATION TECHNOLOGY SOLUTION CONTRACTS IN PROGRESS

	2006	**2005**
	HK$'000	*HK$'000*
Costs incurred to date plus recognised profits to date	2,387	209
Less: progress billings	(1,164)	(173)
	1,223	36
Included in current assets under the following caption:		
Amounts due from customers for contract works	1,223	36

At 31 December 2006, retention monies held by customers for contract works included in trade receivables under Note 21 amounted to HK$Nil (2005: HK$1,611,000).

21. TRADE RECEIVABLES

The credit terms granted to customers of transportation technology solution vary and are generally at the results of negotiations between the individual customers and the Group. Customers are generally required to pay at various intervals over the life of the projects. The general credit terms of sales of bags are 30 days.

The ageing analysis of trade receivables is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Current to 90 days	1,984	2,132
91 to 180 days	77	–
181 to 270 days	–	–
271 to 360 days	957	1,413
Over 360 days	1,697	2,936
	4,715	6,481
Less: Allowance for doubtful debts	(2,300)	(2,300)
	2,415	4,181

22. CASH AND BANK BALANCES

At 31 December 2006, the Group's cash and bank balances denominated in Renminbi ("RMB") and kept in the PRC amounted to RMB6,083,000 (2005: RMB1,318,000) and the 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.

23. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Current to 90 days	12,062	3,391
91 to 180 days	7	–
181 to 270 days	220	–
271 to 360 days	86	22
Over 360 days	4,060	1,412
	16,435	4,825

24. ACCRUED CHARGES AND OTHER PAYABLES

	2006	**2005**
	HK$'000	*HK$'000*
Accrued charges and other payables	10,965	4,268
Receipt in advance	219	–
Advance from a director	–	1,210
	11,184	5,478

25. PROVISION FOR WARRANTY

	HK$'000
At 1 January 2006	1,255
Reversal of provision	(652)
Exchange differences	50
At 31 December 2006	653

	2006	2005
	HK$'000	HK$'000
Analysis of provision for warranty		
Current	653	1,255

The Group gives 12-month warranties on certain contracts and undertakes to repair or replace items that fail to perform satisfactorily.

26. SHORT TERM BORROWINGS

	2006	2005
	HK$'000	HK$'000
Bank loan	7,000	–
Other loan	2,500	–
	9,500	–

The carrying amounts of the Group's short term borrowings for 2006 are denominated in the following currencies:

	Hong Kong dollars	RMB
Bank loan	–	7,000
Other loan	2,500	–
	2,500	7,000

The effective interest rates were as follows:

	2006	2005
Bank loan	6.72%	–
Other loan	12%	–

The bank loan and other loan are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The bank loan is secured by the Group's plant and machinery (Note 15) and corporate guarantee issued by a customer, and repayable on 25 October 2007.

The other loan is unsecured and repayable on 5 January 2007. Subsequent to the balance sheet date, the loan agreement has been renewed. (Note 35(a))

27. OTHER LOAN

The other loan is unsecured, interest free and repayable on or before 31 March 2008. Subsequent to the balance sheet date, the other loan became loan from a director who was appointed as director of the Company. The other loan has been fully repaid in March 2007.

The directors considered the carrying amount of other loan approximate its fair value.

28. SHARE CAPITAL

	Authorised	
	Ordinary shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 31 December 2005 and 2006	1,200,000,000	120,000

		Issued and fully paid	
		Ordinary shares of HK$0.10 each	
	Note	*No. of shares*	*HK$'000*
At 1 January and 31 December 2005		204,000,000	20,400
Issue of shares on placement	(a)	89,760,000	8,976
Issue of shares on share option scheme	(b)	2,300,000	230
		92,060,000	9,206
At 31 December 2006		296,060,000	29,606

(a) On 27 February 2006, the Company entered into a placing and underwriting agreement with a third party in respect of the placement of 40,800,000 ordinary shares of HK$0.1 each at a price of HK$0.1 per share. The placement was completed on 23 March 2006. The share issue expenses of approximately HK$216,000 was charged to the Company's share premium account.

On 4 May 2006, the Company conditionally agreed to issue 48,960,000 new shares of HK$0.1 each by placement under general mandate at a price of HK$0.223 per share. The placement was completed on 1 June 2006 and the premium on the issue of shares, amounting to approximately HK$6,022,000, net of share issue expenses of HK$25,000, was credited to the Company's share premium account.

(b) On 21 December 2006, 2,300,000 share options were exercised at a price of HK$0.68 each and the premium on the issue of shares, amounting to approximately HK$1,334,000 was credited to the Company's share premium account.

29. SHARE OPTIONS

Equity-settled share option scheme

The Company adopted a share option scheme (the "Old Scheme") on 16 August 2001 which was terminated pursuant to a resolution passed at the annual general meeting ("AGM") held on 25 April 2003. The Company's new share option scheme (the "New Scheme") was adopted at AGM on the same date. A summary of the principal terms of the New Scheme is set out in the circular of the Company dated 31 March 2003.

Under the New Scheme, the Directors may, at their discretion, offer options to Participants (as defined in the circular of the Company dated 31 March 2003) to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

Details of the specific categories of options are as follows:

At 31 December 2006, the following options to subscribe for shares were outstanding under the Company's share option scheme:

	Exercise price per share *HK$*	Number of outstanding options	Expiry date
Old Scheme:			
Director	1.28	1,500,000	9 August 2011
Other employees	1.28	5,088,000	9 August 2011
New Scheme:			
Other employees	0.68	26,700,000	22 November 2016
		33,288,000	

	Number of share options 2006	2005
Beginning of the year	6,888,000	7,288,000
Granted	29,000,000	–
Exercised	(2,300,000)	–
Lapsed	(300,000)	(400,000)
End of the year	33,288,000	6,888,000

There were no option forfeited or cancelled in 2005 and 2006.

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.89. The options outstanding at the end of the year have a weighted average remaining contractual life of 8.85 years (2005: 5.61 years) and the exercise prices range from HK$0.68 to HK$1.28 (2005: HK$1.28). In 2006, options were granted on 21 November. The estimated fair values of the options on that date are HK$21,904,000.

Subsequent to the balance sheet date, 5,088,000 share options under the Old Scheme were cancelled and 6,000,000 and 20,700,000 share options under the New Scheme were cancelled and lapsed respectively.

The fair values of the equity-settled share option were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006
Weighted average share price	HK$0.31
Weighted average exercise price	HK$0.68
Expected volatility	114.64%
Expected life	10 years
Risk free rate	4.57%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

30. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Investments in subsidiaries	11,199	–
Investments in associates	–	–
Other current assets	1,609	15
Due to a subsidiary	(81)	(81)
Convertible note	–	(4,000)
Other liabilities	(3,402)	(832)
NET ASSETS/(LIABILITIES)	9,325	(4,898)
Share capital	29,606	20,400
Reserves	(20,281)	(25,298)
TOTAL EQUITY	9,325	(4,898)

31. OTHER RESERVES

	Note	Share premium	Share-based payment reserve	Capital reserve	Foreign currency translation reserve	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005		37,010	–	(1,628)	(144)	35,238
Currency translation differences		–	–	–	147	147
At 31 December 2005		37,010	–	(1,628)	3	35,385
At 1 January 2006		37,010	–	(1,628)	3	35,385
Issue of shares	28	7,356	–	–	–	7,356
Share issue expenses	28	(241)	–	–	–	(241)
Grant of share options		–	1,792	–	–	1,792
Share-based payment		1,792	(1,792)	–	–	–
Currency translation differences		–	–	–	362	362
At 31 December 2006		45,917	–	(1,628)	365	44,654

Nature and purpose of reserves

(i) Share premium account

Under the Companies Law (Revised) 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) Share-based payment reserve

The fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in Note 2(r) to the financial statements.

(iii) 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.

(iv) 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 2(d)(iii) to the financial statements.

32. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT

(a) Acquisition of a subsidiary

On 1 September 2006, the Group acquired 100% of the issued share capital of Changchun Yicheng for a total purchase consideration (including direct costs relating to the acquisition) of HK$11,260,000. Changchun Yicheng was engaged in manufacturing and sale of plastic woven bags, paper bags in the PRC during the year.

The fair value of the identifiable assets and liabilities of Changchun Yicheng acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	26,713
Prepaid land lease payments	589
Inventories	20,531
Trade receivables	2,316
Deposits, prepayments and other receivables	714
Cash and bank balances	1,972
Trade payables	(11,361)
Accrued charges and other payables	(24,900)
Current tax liabilities	(1,313)
	15,261
Excess of fair value over cost of acquisition of a subsidiary	(4,001)
Satisfied by:	
Cash	11,260
Net cash outflow arising on acquisition:	
Total purchase consideration paid	11,260
Cash and cash equivalents acquired	(1,972)
	9,288

The excess of fair value over cost of acquisition of Changchun Yicheng is attributable to a bargain purchase.

Changchun Yicheng contributed approximately HK$66,771,000 to the Group's turnover and approximately HK$11,595,000 to the Group's profit before tax, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total Group turnover for the year would have been HK$142,471,000, and profit for the year would have been HK$19,458,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is intended to be a projection of future results.

(b) Disposals of subsidiaries

During the year, the Group disposed of its subsidiaries, Proville Consultancy Inc., Angels Logistics Systems (Guangzhou) Company Limited and Angels Navimaster Co. Limited.

Net assets at the date of disposals were as follows:

	HK$'000
Property, plant and equipment	53
Prepayments, deposits and other receivables	84
Cash and bank balances	2
Accrued charges and other payables	(24)
Net assets disposed of	115
Loss on disposals of subsidiaries	(90)
Total consideration – satisfied by cash	25
Net cash inflow arising on disposals:	
Cash consideration received	25
Cash and cash equivalents disposed of	(2)
	23

33. OPERATING LEASE COMMITMENTS

At 31 December 2006, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2006 *HK$'000*	**2005** *HK$'000*
Not later than one year	801	606
Later than one year but not later than five years	349	65
	1,150	671

34. RELATED PARTY TRANSACTIONS

Apart from the transactions and balances detailed elsewhere in these financial statements, the Group had no other material transactions with related parties during the year.

35. EVENTS AFTER THE BALANCE SHEET DATE

(a) Subsequent to the balance sheet date, the Company repaid the short term other loan of HK$1,000,000. The remaining balance of HK$1,500,000 was renewed at same interest rate and repayable on 5 January 2008.

(b) Subsequent to the balance sheet date, 5,088,000 shares options under the Old Scheme were cancelled and 6,000,000 and 20,700,000 share options under the New Scheme were cancelled and lapsed respectively.

36. PRINCIPAL SUBSIDIARIES

Name	Place of incorporation/ registration and operation	Paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Beijing Angels	The PRC	RMB10,000,000	100%	Provision of transportation technology solutions
Changchun Yicheng	The PRC	RMB10,000,000	100%	Manufacturing and sale of plastic woven bags and paper bags

3. INDEBTEDNESS

As at the close of business on 31 May 2007, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Group had an aggregate outstanding borrowing of approximately HK$9.5 million comprising secured bank loan of approximately HK$7.1 million, unsecured other loan of approximately HK$2.1 million and the amount due to a Director of approximately HK$0.3 million. The secured bank loan bears an interest at 6.732% per annum, secured by the Group's plant and equipment and corporate guarantee issued by a customer, and repayable on 25 October 2007. The unsecured other loan bears an interest at 12% per annum and repayable on 5 January 2008 and the amount due to a Director is unsecured, interest free with no fixed repayment term.

Save as aforesaid, and apart from intra-group liabilities and normal accounts payables in the ordinary course of business, as at 31 May 2007, the Group had no other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The Directors of the Company are satisfied that after due and careful enquiry, taking into account the existing banking facilities available and the existing cash and bank balances, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

5. MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2006

Financial Review

For the year ended 31 December 2006, the Group's turnover was approximately HK$69.7 million, representing a significant increase of 830% as compared with HK$7.5 million in last year. The increase was mainly due to revenue generated from Yicheng which was acquired in 2006. For the year 2006, the Group generated an operating profit of approximately HK$10.8 million compared with an operating loss of approximately HK$8.6 million for the year ended 31 December 2005, representing an increase in profit by approximately HK$19.4 million. In the operating profit, there was a share-based payment expense of approximately HK$1.8 million charged to income statement in accordance with the newly implemented HKFRS2 issued by the Hong Kong Institute of Certified Public Accountants, which came into effect and was adopted by the Group for the first time in 2006. The operating profit of HK$12.6 million was recorded if the accounting treatment was not taken up in the book of the Group.

Consequently, the profit attributable to shareholders increased from loss of approximately HK$8.9 million in 2005 to profit of approximately HK$10.1 million in 2006. Distribution costs for 2006 was approximately HK$1,333,000 in 2006 (2005: approximately HK$3,319,000). Administrative expenses increased to approximately HK$8,472,000 in 2006 (2005: approximately HK$5,268,000). The reason for increasing is that the Group acquired 100% of the equity interests in Yicheng in August 2006.

In January 2006, the Group entered into a loan agreement which provided for unsecured loan of HK$4,500,000 at an interest rate of 12% per annum, the Group used the loan to repay 4% HK$4,000,000 convertible note issued by the company in favour of VC Finance Limited.

In order to strengthen the cash flow of the Group, the Group had successfully placed 40,800,000 new shares in March 2006. Those shares represented approximately 20% of the issued share capital of the Company and approximately 16.7% of the enlarged issued share capital of the Company at the time of placing. The net proceed of placing was used by the Group for general capital purpose.

In May 2006, the Group entered into a placing agreement with a placee. Pursuant to the placing agreement, the Group issued 48,960,000 new shares to a placee at a price of HK$0.223 per share. The net proceed of placing was used for acquiring Yicheng.

In order to improve the financial performance and position of the Group and to maximise the returns to the Group and Shareholder as a whole, the Group completed the acquisition of 100% of the equity interests in Yicheng in August 2006.

In November 2006, Yicheng entered into a short term bank loan agreement which provided for a secured loan of RMB7,000,000 at an interest rate of 6.72% per annum. Yicheng used the loan for general working purpose.

In January 2007, the Group extended the unsecured other loan in the amount of HK$1,983,452 (including accrued interest) from the borrower for one year in the same term and condition.

With the successful result of Yicheng, the Group will continue to seek its growth potential and at the same time will continue to be vigilant in controlling operating costs and maintain operational efficiency in the provision of transportation technology area.

Capital structure, liquidity and financial resources

In March 2006, the Group had successfully placed 40,800,000 new shares; those shares represented 20% of the issued capital of the Company and approximately 16.7% of the enlarged issue share capital of the Company at the time of the placing. The net proceed was retained by the Group for general working capital purpose.

In June 2006, the Group has successfully placed 48,960,000 new shares; those shares represented 20% of the issued share capital of the Company and approximately 16.7% of the enlarged issued share capital of the Company at the time of the placing. The net proceed was retained by the Group for acquisition of Yicheng.

As at 31 December 2006, the Group had cash and cash equivalents amounting to approximately HK$7.8 million. Additionally, the Group's gearing ratio was 0.112 which is based on the division of long-term debts by shareholders' funds. The Group's liquidity ratio is 0.89.

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 2006, the Group did not have any material contingent liabilities.

Employee information

As at 31 December 2006, the Group employed a total of 453 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

On 1 September 2006, the Group completed the acquisition of Yicheng.

Save as disclosed above, the Group had no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2006.

For the three months ended 31 March 2007

Financial and Business Review

The Group recorded a turnover of approximately HK$37,505,000 for the three months ended 31 March 2007, representing an increase of approximately 81 times as compared with the corresponding period in 2006. A net profit of approximately HK$4,935,000 was recorded for the three months ended 31 March 2007 as compared with a net loss of approximately HK$1,898,000 for the three months ended 31 March 2006. The increase reflected the fact that there was a solid contribution from the packaging business during the period and the turnover for the three months ended 31 March 2007 was mainly contributed by sales from the plastic woven bags business and toll collection in Yunnan province.

In January 2007, the Group repaid the short term loan of HK$1,000,000. The remaining balance of HK$1,500,000 plus accrued interest totalling HK$1,983,452 was renewed at same interest rate and repayable on 5 January 2008.

With the successful result of Changchun Yicheng, the Group will continue to seek its growth potential horizontally and by investing in the production and sales of large plastic woven bags.

Capital structure and Material acquisition

During the three months ended 31 March 2007, there were no changes in the Company's authorized share capital and the carrying amount of plant and machinery amounted to HK$13,501,000 which was pledged as securities for the Group's bank loan of RMB7,000,000.

The Group has no material acquisition or disposal of subsidiaries and affiliated companies during the three months ended 31 March 2007.

Prospects

Due to the boost in orders for plastic woven bags, it is the intention of the Company to increase the production capacity of the Company to produce large plastic woven bags in order to satisfy the demand from the existing and potential new customers. The Company has paid a deposit for an adjacent plot of land to its existing factory which will be used for expansion purposes. The Board expects that the bag business will continue to contribute a solid result to the Group and at the same time, the Group will continue to seek out investment opportunities with the aim to bring satisfactory rewards to the Shareholders.

The Group wishes to diversify its business into areas with relatively high potential. As the price of coal continue to rise in the PRC, the Board is of the view that the Group's participation as a major equity owner in the JV Companies will allow the Group to invest in and benefit from, the relatively high growth and high yield coal industry in the PRC. Although the Group does not currently have the expertise in the coal business, YYE, the other joint venture party, possesses substantial experience in the coal business including coal mine refinery, excavation of coal, processing of coal and sale of coal in the PRC. In addition, the Group plans to engage sufficient professionals with extensive expertise and knowledge in the coal business upon establishment of the JV Companies.

6. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group was made up.

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.

B. DISCLOSURE OF INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares and in respect of equity derivatives, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have 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 Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Interests in Shares and equity derivatives

	Number of Shares Long position/(Short position)					
Name of Directors	**Personal interests** *(Note 3)*	**Family interests**	**Corporate interests**	**Number of underlying Shares held Under equity derivatives**	**Total Interests**	**Approximate percentage of the Company's issued share capital**
Mr. Mak Shiu Chung, Godfrey	–	–	56,900,000 (L) *(Note 1)*	–	56,900,000	16.10%
Mr. Yan, Daniel X. D.	1,500,000 (L)	–	20,000,000 (L) *(Note 2)*	–	21,500,000	6.09%

Notes:

1. These shares are beneficially owned by Lucky Team International Limited ("Lucky Team"), a company incorporated in the British Virgin Islands with limited liability. By virtue of his 100% shareholding in Lucky Team, Mr. Mak Shiu Chung, Godfrey is deemed or taken to be interested in the 56,900,000 shares of the Company owned by Lucky Team.

2. These shares are beneficially owned by Sebastian International Holdings Limited ("Sebastian"), a company incorporated in the British Virgin Islands. By virtue of his 100% shareholding in Sebastian, Mr. Yan, Daniel X.D. is deemed or taken to be interested in the 20,000,000 shares of the Company owned by Sebastian.

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

(2) Interests in share options

Details of the share options granted under the Company's share option schemes as at the Latest Practicable Date were as follows:

Name of Directors and employees	Date of grant	Number of underlying Shares in respect of which share options outstanding were as at the Latest Practicable Date	Exercise price
			HK$
Mr. Yan, Daniel X.D.	28 March 2002	1,500,000	1.28
		1,500,000	

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, or in respect of equity derivatives, underlying Shares in 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 were taken or deemed to have 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 Rules 5.46 and 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

C. SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

Other than interests disclosed in the paragraphs headed "Interests in Shares and equity derivatives" and "Interests in share options" above, as at the Latest Practicable Date, so far as known to any Director or chief executive of the Company, the following persons/entities (other than Directors or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

(1) Substantial Shareholders:

Name of shareholders	Capacity and nature of interest	Number of shares held	Approximate percentage of shareholding
Lucky Team	Beneficial Owner	56,900,000 (L) *(Note 1)*	16.10%
Li Gui Yan	Beneficial Owner	35,100,000 (L) *(Note 2)*	9.90%
Xu Bin	Beneficial Owner	48,960,000 (L) *(Note 2)*	13.90%
Sebastian	Beneficial Owner	20,000,000 (L) *(Note 3)*	5.70%
Ms. Lau Ying Ying, Angela	Interest of Spouse	21,500,000 (L) *(Note 4)*	6.09%

Notes:

1. Lucky Team is a company incorporated in the British Virgin Island with limited liability, which is 100% owned by Mr. Mak Shiu Chung, Godfrey who becomes an executive Director on 27 January 2006.

2. To the best knowledge of the Directors, the party is 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. Sebastian is a company incorporated in the British Virgin Islands with limited liability, and wholly owned by Mr. Yan, Daniel X.D., the Chairman and an executive Director of the Company.

4. Ms. Lau Ying Ying, Angela is deemed to be interested in these shares by virtue of the fact that she is the spouse of Mr. Yan, Daniel X.D., the Chairman and an executive Director of the Company.

5. The letter "L" denotes a long position in the shares.

(2) Long positions of persons who are required to disclose their interests:

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons/entities (other than Directors or chief executive of the Company) were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or in any option in respect of such capital:

Name of Shareholder	Nature of interests	Number of Shares held *(Note 1)*	Approximate percentage of shareholding *(%)*
Lucky Team	Beneficial owner	56,900,000 (L)	16.10
Mr. Mak *(Note 2)*	Interest of controlled corporation	56,900,000 (L)	16.10
Xu Bin *(Notes 3)*	Beneficial owner	48,960,000 (L)	13.90

Notes:

1. The letter "L" denotes a long position in the Shares.
2. These Shares are beneficially owned by Lucky Team, a company wholly-owned by Mr. Mak.
3. To the best knowledge of the Directors, save for being a substantial Shareholder, Xu Bin is a third party independent of the Company and its connected persons (as defined in the GEM Listing Rules) and their respective associates.

D. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, management shareholders or their respective associates had an interest in any business which competes or may compete or had any other conflict of interest with the business of the Group pursuant to the GEM Listing Rules.

E. INTEREST IN CONTRACTS

As at the Latest Practicable Date, none of the Directors had any material interest in any contract or arrangement which is significant in relation to the business of the Group.

F. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which has been acquired or disposed of by or leased to any member of the Group since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

G. SERVICE CONTRACTS

Mr. Yan, Daniel X.D., the executive Director, has entered into a service contract with the Company for a term of three years commencing from 7 April 2000. The service contract shall continue thereafter until terminated by either party giving the other not less than 90 days' notice after the expiration of the said initial fixed term.

Mr. Mak Shiu Chung, Godfrey has not entered into any service contract with the Company since the date of his appointment as an executive Director of the Company. He has signed a director's appointment confirmation with no fixed term of appointment as an executive Director.

Save as disclosed, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (excluding contracts expiring or determinable by the relevant employer within one year without payment of compensation other than statutory compensation).

H. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

I. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Group in the two years immediately preceding the date of this circular and are or may be material:

(i) the First JV Agreement;

(ii) the Second JV Agreement;

(iii) the Underground Coal Supply Agreement;

(iv) the Open-Pit Coal Supply Agreement;

(v) the acquisition agreement entered into between Changchun Dacheng Xin Zi Yuan Group Co., Ltd. (長春大成新資源集團有限公司), Li Jingzhong (李景中) and Wang Hongchen (王洪臣) as vendors and East Harvest International Limited as purchaser dated 25 April 2006 in respect of the acquisition of 100% equity interest in Changchun Yicheng Packaging Company Limited (長春益成包裝有限公司) at HK$10.0 million;

(vi) the loan agreement entered into between the Group and Pacific Foundation Assets Management Limited in January 2006 for an unsecured loan of HK$4,500,000 at an interest rate of 12% per annum. The Group used the loan proceeds to repay the amount outstanding under a convertible note (the "Note") in January 2006;

(vii) the placing agreement entered into between the Group and Pacific Foundation Securities Limited in February 2006 for the placement of 40,800,000 new Shares, representing approximately 20% of the issued share capital of the Company at the time of the new issue and approximately 16.7% of the enlarged issued share capital of the Company. The net proceeds were retained by the Group for general working capital purposes;

(viii) the placing agreement entered into between the Group and Xu Bin in May 2006 for the placement of 48,960,000 new Shares, representing approximately 20% of the issued share capital of the Company at the time of the new issue and approximately 16.7% of the enlarged issued share capital of the Company. The net proceeds will be used by the Group to finance the acquisition of Changchun Yicheng;

(ix) the placing agreement entered into between Lucky Team International Limited, the Company and DBS Asia Capital Limited dated 15 May 2007 in respect of the placing of 56,900,000 Shares representing approximately 19.2% of the issued share capital of the Company at the time of the new issue and approximately 16.1% of the enlarged issued share capital of the Company; and

(x) the subscription agreement entered into between Lucky Team International Limited and the Company dated 15 May 2007 in respect of the subscription of 56,900,000 Shares at HK$1.50 per Share.

J. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualifications of the expert (the "Expert") who have given its letters for the inclusion in this circular:

Name	Qualifications	Nature of opinion or advice	Date of opinion
Veda Capital	A licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) regulated activity (as defined under the SFO)	Letter to the Independent Board Committee and the Independent Shareholders	12 July 2007

The Expert has given and has not withdrawn its written consents to the issue of this circular with the inclusion of its letter and references to its names in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Expert did not have any shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

K. GENERAL

(a) The company secretary and the qualified accountant of the Company is Mr. Wong Choi Chak. Mr. Wong is an associated member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(b) The compliance officer of the Company is Mr. Yan, Daniel X.D.

(c) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the head office and the principal place of business of the Company in Hong Kong is at Suite No.3, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Hong Kong.

(d) The branch share registrar and the transfer office of the Company in Hong Kong is Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The Company established an audit committee with written terms of reference which deal with its authority and duties on 11 January 2001. The committee's primary duties are to review the Company's annual report, interim report and quarterly reports, the Group's financial control, internal control and risk management systems and to provide advice and comments thereon to the Board of Directors. The committee comprises the three Independent Non-executive Directors, namely Mr. Yang Xiaoping, Mr. Kwok Chi Shing and Tsang Wai Sum.

(f) The English text of this document shall prevail over the Chinese text in the case of inconsistency.

L. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at Suite No. 3, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Hong Kong up to and including 6 August 2007:

(i) the memorandum and articles of association of the Company;

(ii) the contracts referred to under the paragraph headed "Material Contracts" in this appendix;

(iii) the audited consolidated accounts of the Group for each of the two years ended 31 December 2006;

(iv) the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders as set out on pages 19 to 27 of the circular;

(v) the written consent from Veda Capital as referred to under the paragraph headed "Qualification and Consent of Expert" in this appendix; and

(vi) the letter from the Independent Board Committee to the Independent Shareholders as set out on page 18 of this circular.

DETEAM COMPANY LIMITED
弘海有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8112)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of DeTeam Company Limited 弘海有限公司 (the "Company") will be held at 3:00 p.m. on Monday, 6 August 2007, at Suite No. 3, 31st Floor, Sino Plaza, 255-257, Gloucester Road, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT:**

(a) the joint venture agreement dated 1 June 2007 (the "**First JV Agreement**") entered into between Harvest Team (China) Limited (富添(中國)有限公司) ("**HTL**"), an indirect wholly-owned subsidiary of the Company and 內蒙古源源能源有限責任公司 (Inner Mongolia Yuan Yuan Energy Resources Company Limited) ("**YYE**") (a copy of which is tabled at the meeting and marked "A" and initialed by the chairman of the meeting for identification purpose) pursuant to which the HTL has agreed to establish a joint venture to be named 內蒙古霍林郭勒市金弘源有限公司 (Inner Mongolia Haolinguole Jinhongyuan Company Limited) (the "**First JV Company**") and further particulars of which are set out in the circular of the Company dated 12 July 2007 (the "**Circular**", a copy of which is tabled at the meeting and marked "B" and initialed by the chairman of the meeting for identification purpose) and the transactions contemplated under the First JV Agreement and the implementation thereof be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all such acts and things deemed by him to be incidental to, ancillary to, or in connection with the matters contemplated in the First JV Agreement."

2. "**THAT:**

(a) the joint venture agreement dated 1 June 2007 (the "**Second JV Agreement**") entered into between Kotan Resources (China) Limited (高達資源(中國)有限公司) ("**KRL**"), an indirect wholly-owned subsidiary of the Company and YYE (a copy of which is tabled at the meeting and marked "C" and initialed by the chairman of the meeting for identification purpose) pursuant to which the KRL has agreed to establish a joint venture to be named 通遼弘源煤炭運銷有限責任公司 (Tongliao Hongyuan Coal Transportation and Sales Company Limited) (the "**Second JV Company**") and further particulars of which are set out in the Circular and the transactions contemplated under the Second JV Agreement and the implementation thereof be and are hereby approved, ratified and confirmed; and

* *For identification only*

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all such acts and things deemed by him to be incidental to, ancillary to, or in connection with the matters contemplated in the Second JV Agreement."

3. "**THAT:**

(a) contingent on the passing of resolution 1 above, the agreement (the "**Underground Coal Supply Agreement**") dated 1 June 2007 entered into between YYE and the First JV Company (a copy of which is marked "D" is tabled at the meeting and initialed by the chairman of the meeting for identification purpose) in relation to (i) the purchase of coal which may be required by the First JV Company and which YYE may be able to supply in circumstances which are of commercial benefit to the Group; and (ii) the lease of a station platform located at Inner Mongolia Mine 958 on the Tong Huo railway by YYE to the First JV Company and the terms of the transactions contemplated under the Underground Coal Supply Agreement and the implementation thereof be and are hereby approved, ratified and confirmed;

(b) the proposed caps in relation to the transactions under the Underground Coal Supply Agreement for the period commencing from the date on which the Underground Coal Supply Agreement becomes effective until 31 December 2007 and each of the years ending 31 December 2008 and 31 December 2009 will not exceed RMB800,000, RMB5,000,000 and RMB9,600,000 respectively be and are hereby approved; and

(c) any director of the Company be and is hereby authorized for and on behalf of the Company to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the Underground Coal Supply Agreement."

4. "**THAT:**

(a) contingent on the passing of resolution 2 above, the agreement (the "**Open-Pit Coal Supply Agreement**") dated 1 June 2007 entered into between YYE and the Second JV Company (a copy of which is marked "E" is tabled at the meeting and initialed by the chairman of the meeting for identification purpose) in relation to (i) the purchase of coal which may be required by the Second JV Company and which YYE may be able to supply in circumstances which are of commercial benefit to the Group; and (ii) the lease of a station platform located at Inner Mongolia Mine 958 on the Tong Huo railway by YYE to the Second JV Company and the terms of the transactions contemplated under the Open-Pit Coal Supply Agreement and the implementation thereof be and are hereby approved, ratified and confirmed;

(b) the proposed caps in relation to the transactions under the Open-Pit Coal Supply Agreement for the period from the date on which the Open-Pit Coal Supply Agreement becomes effective until 31 December 2007 and each of the years ending 31 December 2008 and 31 December 2009 will not exceed RMB30,000,000, RMB76,000,000 and RMB84,000,000 respectively be and are hereby approved; and

(c) any director of the Company be and is hereby authorized for and on behalf of the Company to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the Open-Pit Coal Supply Agreement."

By Order of the Board
DeTeam Company Limited
Mr. Mak Shiu Chung, Godfrey
Executive Director

Hong Kong, 12 July 2007

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who holds two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company.

2. A form of proxy for use at the above meeting is enclosed herewith.

3. If two or more persons are joint holders of a share, 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 this purpose, seniority shall be determined by the order in which the names stand in the principal or branch register of members of the Company in respect of joint holding.

As at the date of this notice, the Board comprises:

Executive Directors
Mr. Yan, Daniel X.D.
Mr. Mak Shiu Chung, Godfrey
Mr. Zhang Chao Liang
Mr. Wang Hon Chen

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