DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES

ABN 74 142 976 065

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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FOR THE YEAR ENDED 31 DECEMBER 2012

Directors' Report

The directors of Daton Group Australia Limited present their report on the consolidated entity (Group), consisting of Daton Group Australia Limited and the entities it controlled at the end of, and during, the financial year ended 31 December 2012.

Directors

The following persons were directors of Daton Group Australia Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Names

Mr. Jun Xiao (Chairman)	Appointed 31/05/2012
Mr. Zeng Li (Chairman)	Resigned 31/05/2012
Mr. Yinan Zhang (Managing director)	
Ms. Julia Yan Zhu (Non executive director)	
Mr. Yiming Cui (Non executive director)	Appointed 01/06/2012
Ms. Zoe Yan Zhang (Non executive director)	Resigned 02/07/2012
Mr. James Naiming Li (Non executive director)	Appointed 02/07/2012

Principal Activities

The principal activities of the Group are the manufacture and sale of urea, ammonium bicarbonate, methanol and carbon dioxide used as a food additive.

The Group has invested to set up a company known as Apollo Fertiliser Queensland Pty Ltd with a production capacity of 400,000 tonnes of compound fertiliser per annum. The fertiliser factory in Australia is expected to commence operation in July 2013.

Financial Performance

The Profit after tax for the year increased from a loss of $22,774,569 in 2011 to a profit of $10,790,455 in 2012.

The increment is mainly due to $10,499,677 pre-tax gain made on disposal of 11% of the Group's interest in U & D Mining Industry Pty Ltd and a post-tax profit from discontinued operations of $1,269,654 in relation to the disposal of Urea Manufacturing business (Henan Datong and Zhengzhou Jinyitong Scientific & Technology Development Co., Limited (Jinyitong) in P. R. China.

Dividends

No final dividend was proposed for the current financial year (2011:nil).

Directors' Report (continued)

Subsequent events

The Group has entered into a non-binding indicative proposal with Krucible Minerals Ltd (ASX code: KRB) to acquire certain phosphate tenements of KRB for a total consideration of $12 million, see note 29.

As at the date of this directors' report, except for the matter discussed above, no other matter or circumstance that has arisen that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in the financial years subsequent to 31 December 2012.

Significant Changes in State of Affairs

Significant changes in the state of affairs of the group during the financial year were as follows:

Contributed equity increased by $8,500,000 (from $28,115,244 to $36,615,244) as the result of converting notes of $8,500,000 into ordinary shares on 22 November 2012, see note 20.

The Chinese operation was disposed of on 26 June 2012 with a pre-tax gain of $2,657,151, see note 8. The Group reduced its ownership interest in U & D Mining Industry (Australia) Pty Ltd with a pre-tax gain of $10,499,677, see note 16.

There have been no other significant changes in the Group's state of affairs during the financial year.

Environmental Regulation

The Directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance with its license requirements and regulations. The Directors are not aware of any breaches of these requirements and to the best of their knowledge, all activities have been undertaken in compliance with environmental regulations.

Review of Operations

Information on the operations and financial position of the Group and its business strategies and prospects for the future financial years is set out below.

At the end of 2011, the Company decided not to proceed with its compound fertiliser project in Henan, China in response to the changing and challenging industry and structural landscape in China. The Company has instead decided to deploy its resources in building a compound fertiliser plant in Queensland and to focus on the exciting opportunities in Australia. Consequently, Henan Datong Chemical Industry Co., Ltd ("Henan Daton"), the operating entity in China, was disposed for $10,800,000.

Directors' Report (continued)

Review of Operations (Continued)

The proceeds of the sale from Henan Datong was used to repay borrowings and the surplus used to undertake the Apollo Fertiliser Project in Australia. The Apollo Project is designed to have the production capacity of 400,000 tonnes per annum of premium compound fertiliser to meet the growing agricultural demands within Australia, where significant proportion of the compound fertilisers are being imported from overseas.

Apollo Fertiliser Queensland Pty Ltd was incorporated as the operating entity of the Group for the Apollo Fertiliser Project. It has since acquired two parcels of industrial land in Acacia Ridge, Brisbane. Construction of the Apollo Fertiliser Project is divided into two phases. The construction, refurbishing and production lines fit out of an existing factory facility of phase one – with a designed capacity of producing 200,000 tonnes per annum of compound fertiliser is due to be completed in the second quarter of calendar year - 2013 and trial production is expected shortly after. Phase two of the project will comprise of an office block as well as a new production facility to double the production capacity to the designed 400,000 tonnes of compound fertiliser per annum.

Apollo is in the process of the final engineering installation for the first stage of the project with the designed annual production capacity of 200,000 tonnes. Apollo invested $4,950,000 in purchasing the first property on 27 January 2012. The area of property is 1,162 ha and is located in Acacia Ridge, Queensland. Apollo has spent $4,150,000 to purchase machinery and equipment for the project and all the equipment have been delivered on site.

On 21 September 2012, Apollo Fertiliser completed the payment and settlement of approximately $2,000,000 to acquire the second property adjacent to Apollo's first property in Acacia Ridge. Subject to approval, the Company intends to use the newly acquired property to construct an office block for Apollo Fertiliser Project and future expansion plan for stage 2 of the Apollo Fertiliser Project. The new property has been leased out during the interim period.

The Company is confident that the Apollo Fertiliser Project will generate significant revenue and profits given the strong responses it has received from Australian buyers.

U & D Mining Industry Pty Ltd was incorporated on 26 August, 2011 as an investment vehicle of Daton Group in coal and sourcing of coal products and related products in Australia. On 27 April 2012, Daton signed the Equity Transfer Agreement with Australia Kunqian International Energy Co. Pty Ltd (Kunqian), a wholly owned subsidiary of China's Yima Coal Group for a disposal of 11% of share of U & D Mining Industry Pty Ltd for a cash consideration of $14,190,000, which contributes the main proportion of the profit of the group in 2012 and the profit from this transaction will be used for the Apollo Fertiliser project and investing in other opportunities. Following finalisation of the transaction, Kunqian holds 51% of shares of U&D Mining and Daton holds 49% of U&D Mining. This transaction was settled on 3 December 2012.

In October 2012, U&D entered into a scheme of arrangement with Endocoal Limited (ASX:EOC) in relation to the proposed acquisition of all Endocoal shares held by scheme shareholders for a total consideration of approximately $71,000,000. Endocoal holds 13 coal tenements in Central Queensland and has applied for 17 additional exploration tenements in the Bowen Basin as well as in the northern Galilee Basin. The scheme is now subject to firstly Chinese government approvals and then secondly Federal Court of Australia.

Directors' Report (continued)

Review of Operations (Continued)

The significant funding for the acquisition of Endocoal will be provided by China Yima Coal Group and Daton is expected to dilute its shareholding in U&D to align with its long term core business of securing long term supply of coking coal.

Outlook and Prospects for 2013 – Likely Developments and Expected Results

On 23 January 2013, Daton entered into a non-binding indicative proposal with Krucible Minerals Ltd (ASX code: KRB) to acquire certain phosphate tenements of KRB for a total consideration of $12 million. The acquisition will be subject to due diligence and finalising of definitive agreements and transactional documents. The rationale of acquiring the phosphate tenements is consistent with Daton's intention to secure supply of phosphate, a key component of compound fertiliser, to its Apollo Fertiliser Project. On completing the transaction, Daton will undertake further exploration works and feasibility studies and will seek partners to develop the phosphate tenements.

The preceding 2012 year has been a year where Daton has re-positioned its core business focus to the Australian market through the Apollo Fertiliser Project and investments through U&D in upstream coking coal opportunities.

Through Apollo Fertiliser Project, the Company is confident to generate significant revenue growth and profits in the coming years as it will emerge as a large supplier and manufacturer of compound fertiliser to meet the growing demands within Australia. Through its other strategic investments in U&D, Daton will deliver long term strategic returns through supply of coking coal as a feedstock of fertiliser manufacturing as well as returns in investments.

Director Information

Mr. Jun Xiao **Chairman (Non-Executive)**

Experience

- Mr Xiao graduated with the Bachelor of Management of Information System from Beijing Information Technology and Engineering Institute in 1992.
- He started his IT career with the Computer and Micro-Electronic Development Research Centre in the Chinese Institute of Electronics from 1992 until 1997. From 1997, he has served in several senior executive roles in the field of investment and finance with a focus on the digital technology industry in Hong Kong. Mr Xiao founded Flash Lighting Company Limited in 2006, a company incorporated in the British Virgin Islands and its investment focuses on mineral resources, equity, and venture capital. In 2009, Mr Xiao was conferred the title as the honorary professor of Graduate School of Chinese Academy of social science (CASS), the premier academic research organisation in the fields of philosophy and social science.
- He is the founder of Chinesischr Technology Exchange Foundation, a Non-government Organisation for affiliating and facilitating the high tech interchange between China and Europe.

Directors' Report (continued)

Director Information (continued)

Mr. Jun Xiao (continued) **Chairman (Non-Executive)**

Interest in Shares

49,019,354 Ordinary Shares

Directorships held in other listed entities

Mr. Xiao is not currently a Director of any other listed company.

Mr. Yinan Zhang **Managing Director (Executive)**

Experience

- Mr. Zhang invested in Henan Datong in 2007 and he has more than ten years of experience in the chemical fertiliser industry. He previously held the role of an Executive Director of Henan Datong. His contributions have built a strong corporate image and are highly reputable in the Chinese fertiliser industry.
- He is experienced in business, foreign investment, banking, finance and securities. He has founded a number of industrial companies in the PRC and Australia.
- Mr. Zhang has lived in Australia for near to ten years, during which time he gained insight into corporate operations in Australia and familiarity with the Australian business environment.

Interest in Shares

54,048,003 Ordinary Shares *

Special Responsibilities

Mr. Zhang is also a member of the Audit Committee and Remuneration and Nomination Committee.

Directorships held in other listed entities

Mr. Zhang is not currently a Director of any other listed company.

* There are 48,000 Ordinary shares directly held by Yinan Zhang's wife, Beibei Zhu and beneficial to his children.

Directors' Report (continued)

Director Information (continued)

Mr. Yiming Cui **(Non-Executive)**

Experience

- Mr. Cui has variety of work experience ranging from publishing to finance. He was previously working for Le Figaro Magazine, a well-known French publishing company. Mr. Cui also worked with in the corporate finance team of KPMG in China. He has significant experience in financial management and financial advisory.

Special Responsibilities

Mr. Cui is a member of the Audit Committee.

Directorships held in other listed entities

Mr. Cui is not currently a Director of any other listed company.

Ms. Julia Yan Zhu **(Non-Executive)**

Qualifications

- Master of Business Administration-University of Southern Queensland
- Bachelor and Master of Arts (English) from Shanghai Fudan University

Experience

- Ms Zhu has more than 19 years of experience in the Australian public and private sectors. Her experience includes facilitating two-way investment and trade between China and Australia in resources, energy, financial services and advanced manufacturing. She is particularly well-versed in the business cultures of both the PRC and Australia.
- She is now a Director of China Business for Minter Ellison Lawyers. Prior to her current role at Minter Ellison, Ms Zhu worked for the Australian Trade Commission (Austrade) and Invest Australia for total of 15 years.

Special Responsibilities

Ms Zhu is the Chair Person of the Nomination and Remuneration Committee.

Directorships held in other listed entities

Ms Zhu is not currently a Director of any other listed company.

Directors' Report (continued)

Director Information (continued)

Mr James Naiming Li **Non-Executive Director**

Qualifications

- Mr Li graduated with a Post Graduate Diploma of Applied Science from Swinburne University of Technology and a Bachelor of Science from Fudan University in China.

Experience

- Mr Li has worked in the Australian stockbroking industry for more than 16 years. Mr Li has been involved and actively worked with China companies seeking investments in the mining and agribusiness industries. He is currently a non-executive director of Shenglong International Investment Limited and Australia China Mining Corporation Limited. He is also a Director of Quest Securities (Australia) Limited based in Melbourne.
- Mr Li is also a Deputy Secretary of International Mining Works Promotions of China Mining Association and a Vice President of Australia-China Mining Association.

Special Responsibilities

Mr. Li is a member of the Remuneration and Nomination Committee and the Chair Person of the Audit Committee.

Directorships held in other listed entities

Mr Li is non-Executive Director of Ishine Internatiinal Resources Limited (ASX code: ISH).

Company Secretary Information

Ms Yi Yang **Company Secretary**

Qualifications

- Master of Business – The University of Queensland
- Master of Arts major in Chinese Translation and Interpreting – The University of Queensland

Experience

- Graduated from the University of Queensland with two masters degrees
- Ms Yang has variety of work experience ranging from Administration, Translation & Interpreting to Business Management
- She is a member of the Chartered Secretaries Australia.

Interest in Shares

164,000 Ordinary Shares

Special Responsibilities

Ms Yang has been appointed as Company Secretary of Daton Group on 9 February 2011.

Directors' Report (continued)

Meetings of Directors

During the financial year, eight meetings of directors (excluding committees of directors) were held. Attendances by each director at directors' meeting, audit and risk committee and remuneration and nominating committee meetings during the year were as follows:

	Directors' Meetings		Committee Meetings			
			Audit Committee		Remuneration & Nomination Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Zeng Li	16	7	2	1	-	-
Mr. Yinan Zhang	16	16	2	2	-	-
Mr. Jun Xiao	16	8	2	1	-	-
Ms. Julia Yan Zhu	16	16	2	2	-	-
Ms. Zoe Yan Zhang	16	8	2	1	-	-
Mr. Yiming Cui	16	8	2	1	-	-
Mr James Naiming Li	16	8	2	1	-	-

Share Options

No options over issued shares or interests in the Group or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Remuneration Report - Audited

1. Policy for determining the nature and amount of Key Management Personnel remuneration

This remuneration report is based on the principles in the Nomination and Remuneration Charter approved by the board and which has been adopted by the Nomination and Remuneration Committee.

Daton's remuneration components include share options and bonus elements. In order to maintain the high performance of the board and executives, as well as attract and retain the best team to run and manage the Group, the remuneration and bonus of the directors and senior executives is linked to both the Group's financial results and the performance of individual.

The remuneration for the executives is set according to the standard rate from industry sectors. All executives receive a market related base salary and other statutory benefits. The remuneration is based on factors such as length of service, experience and performance.

Directors' Report (continued)

Remuneration Report – Audited (continued)

1. Policy for determining the nature and amount of Key Management Personnel remuneration (continued)

The Group's profits and shareholders' value depend on the performance of executives. The objective is to attract the highest performance of its executives and reward them for performance which results in long term growth in shareholder wealth.

The share option plan is set by the Nomination and Remuneration Committee. At the discretion of the Committee, shares are issued to executives to reflect their achievements. The exercise price in respect of an option is as determined by the committee.

The remuneration for directors is designed by the remuneration committee and the directors do not receive any other retirement benefits. Key management personnel and executives receive the relevant local benefits such as different types of social insurances. Some of them choose to not receive any welfare due to sacrificing them to increase payments towards salary based on the common practice in China.

The aim of the remuneration plan is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines the amount paid to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Fees for non-executive directors are not linked to the performance of the Group. However, to align director's interests with shareholder interests, the directors and executives are encouraged to hold shares in the Group.

No remuneration consultants were used in the 2012 or 2011 financial years,

Performance based remuneration

As part of each company executives remuneration package there will be a discretionary bonus element. The bonus given to executives is based on the performance of the Group and individual. The intention of this program is to align directors and executives interests with business and shareholders' interests.

In determining the amount of each executive director and executive's bonus, the remuneration committee bases the assessment on audited figures and independent reports where appropriate.

Company performance, shareholder wealth and directors and executives remuneration

The remuneration plan is designed to increase the common interests between shareholders and directors and executives. This will be achieved by awarding discretionary bonuses to encourage the alignment of personal and shareholder interests and increase shareholder wealth and the Group's consolidated statement of financial position.

The table below shows the gross revenue and profits for the last three years for the Group. There was no bonus paid to the key management personnel in 2012 due to the profit from this transaction will be used for the Apollo Fertiliser project and investing in other opportunities. The bonus will be determined by the Nomination and Remuneration committee in future years when the new compound project starts to contribute positive cash flows and profits to the Group.

Directors' Report (continued)

Remuneration Report – Audited (continued)

1. Policy for determining the nature and amount of Key Management Personnel remuneration (continued)

The company listed in January 2011 and hence the table below only shows the results for the previous 3 years and the share price for the previous 2 year ends.

From continuing and discontinued operations	2012	2011	2010
Revenue	931,070	25,118,612	40,613,382
Gain on disposal of subsidiaries	13,156,828	-	-
Net Profit/(loss)	10,790,455	(22,774,569)	1,943,035
Dividends	-	-	-
Share price at year end (cents)	28	25	N/A
Total KMP Remuneration	248,084	351,382	148,258

2. Key Management Personnel

The following persons were key management personnel of Daton Group Australia Ltd during the financial year:

Name	Position Held	Appointment / Resignation Date
Directors		
Mr. Zeng Li	Director – Chairman	Resigned 31/05/2012
Mr. Jun Xiao	Director – Chairman	Appointed 31/05/2012
Mr. Yinan Zhang	Managing Director	
Mr. Yiming Cui	Director - Non-executive	Appointed 01/06/2012
Ms. Julia Yan Zhu	Director - Non-executive	
Ms. Zoe Yan Zhang	Director - Non-executive	Resigned 02/07/2012
Mr. James Naiming Li	Director - Non-executive	Appointed 02/07/2012
Mr. Stephen Streeter	Director - Non-executive	Resigned 12/04/2011

The following management personnel is not considered as the Group's key management personnel in 2012 since the China operation had been classified as the discontinued operation in 2011.

Mr. Baohua Fu	Chief Financial Officer
Mr. Xinwu Fan	General Manager and Technology Manager
Mr. Jun Zhu	General Manager and Technology Manager
Mr. Moqing Chen	Vice-General Manager
Mr. Hongen Chen	Assistant General Manager

Directors' Report (continued)

Remuneration Report – Audited (continued)

2. Key Management Personnel (continued)

Mr. Xuejie Li	Assistant General Manager	
Mr. Longjia Tian	Assistant General Manager	
Mr. Hecheng Su	Assistant General Manager	Resigned 15/02/2011

3. Details of Remuneration

Details of compensation by key management personnel of Daton Group Australia Ltd are set out below:

Year ended 31 December 2012

	Short term benefits			Post employment benefits	Termination benefits	Long term benefits	
	Salary & Fees $	Cash bonus $	Non cash $	Super -annuation $	$	Long Service Leave $	Total $
Directors							
Mr. Jun Xiao							
Appointed 31/05/2012	29,167	-	-	-	-	-	29,167
Mr. Zeng Li							
Resiged 31/05/2012	-	-	-	-	-	-	-
Mr. Yinan Zhang	75,000	-	-	6,750	-	-	81,750
Mr. Yiming Cui							
Appointed 01/06/2012	29,167	-	-	-	-	-	29,167
Ms Julia Yan Zhu	50,000	-	-	-	-	-	50,000
Ms. Zoe Yan Zhang (1)							
Resigned 02/07/2012	33,000	-	-	-	-	-	33,000
Mr. James Naiming Li							
Appointed 02/07/2012	25,000	-	-	-	-	-	25,000
Total	241,334	-	-	6,750	-	-	248,084

No other payments including share based payments were paid or granted to the above employees during the year.

No remuneration was dependent on meeting performance measures in the 2012 financial year.

(1) This amount includes the amount of $25,000 (excluding GST) in exchange for services rendered as a non-executive director and the amount of $8,000 (excluding GST) for accounting services.

Directors' Report (continued)

Remuneration Report – Audited (continued)

3. Details of Remuneration (continued)

Year ended 31 December 2011

	Short term benefits			Post employment benefits	Termination benefits	Long term benefits	
	Salary & Fees $	Cash bonus $	Non cash $	Super-annuation $		Long Service Leave	Total $
Directors							
Mr. Zeng Li	55,548	-	114	-	-	-	55,662
Mr. Yinan Zhang	48,518	-	-	-	-	-	48,518
Mr. Stephen Streeter	12,500(1)	-	-	-	-	-	12,500
Ms Julia Yan Zhu	50,000	-	-	-	-	-	50,000
Ms Zoe Yan Zhang	128,709(2)	-	-	-	-	-	128,709
Key management personnel							
Mr. Baohua Fu	14,975	-	-	-	-	-	14,975
Mr. Xinwu Fan	14,975	-	-	-	-	-	14,975
Mr. Jun Zhu	5,001	-	148	304	-	-	5,453
Mr. Moqing Chen	5,236	-	169	-	-	-	5,405
Mr. Hongen Chen	4,376	-	66	-	-	-	4,442
Mr. Xuejie Li	4,432	-	-	-	-	-	4,432
Mr. Longjia Tian	4,956	-	169	304	-	-	5,429
Mr. Hecheng Su	840	-	13	29	-	-	882
	350,066	-	679	637	-	-	351,382

No other payments including share based payments were paid or granted to the above employees during the year.

No remuneration was dependent on meeting performance measures in the 2012 financial year.

(1) The director fee paid to Mr. Stephen Streeter was based on the first quarter of 2011 only.

(2) This amount includes the amount of $50,000 (excluding GST) in exchange for services rendered as a non-executive director and the amount of $78,709 (excluding GST) for accounting services and tax return preparation services.

Directors’ Report (continued)

Remuneration Report – Audited (continued)

4. Cash Bonuses

No cash bonuses were paid or vested during the year ended 31 December 2012 or 31 December 2011.

5. Share Based Payment Bonuses

No share based payment bonuses were paid or vested during the year ended 31 December 2012 or 31 December 2011.

6. Options and Rights granted as remuneration

No options or rights were granted to key management personnel as compensation during the year ended 31 December 2012 or the year ended 31 December 2011.

7. Equity issued on exercise of remuneration options

No equity instruments were issued during the year ended 31 December 2012 or 31 December 2011 to key management personnel as a result of options exercised that had previously been granted as compensation.

8. Service Contracts

The Managing Director of Daton Group Australia Ltd, Mr. Yinan Zhang, has a five-year contract agreement with the Company which commences with effect from the listing date and expires on the date calculated five years from the listing date. The executive director may terminate the agreement and his employment with the Company without cause during the initial term and any additional term on the giving of 90 days written notice to the Company. There is no termination pay in the contract.

Non-executive Directors have service contracts with Daton Group Australia Ltd. Daton has to pay each director annually based on market rates as consideration for agreeing to hold the position. There is no agreement by Daton Group Australia Ltd to pay non-executive directors any pre-determined amounts in the event of their termination.

All other key management personnel have three-year service contracts which describe the components and amounts of remuneration applicable on their initial appointment, including terms with the Group. These contracts do not fix the amount of remuneration increases from year to year. Remuneration levels are generally reviewed each year by the Remuneration Committee to align with changes in performance and market salary expectations. According to the Labour Contract Law of the People's Republic of China, there are no non-standard termination clauses in any of these contracts.

End of audited remuneration report

Directors' Report (continued)

Indemnifying Officers or Auditors

Insurance premiums paid for directors

During the year Daton Group Australia Ltd paid a premium of $16,305 (2011: $16,475) in respect of a contract insuring directors and its controlled entities against a liability incurred as director and to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any of its controlled entities against a liability incurred as such an officer or auditor.

Non-audit services

During the financial year, the following fees for non-audit services were paid or payable to the auditor, BDO, or their related practices:

	2012 $ (excl GST)	2011 $ (excl GST)
Non-audit Services		
- Taxation services	22,000	-
Total	22,000	-

On the advice of the audit committee, the directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 December 2012 has been received and can be found on page 17 of the financial report.

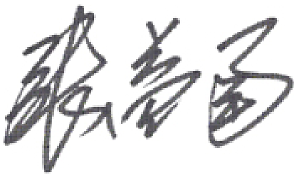
Directors' Report (continued)

Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Signed in accordance with a resolution of Directors:



Mr. Yinan Zhang

Dated this 28th day of March 2013

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Australia

DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF DATON GROUP AUSTRALIA LTD

As lead auditor of Daton Group Australia Ltd for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect Daton Group Australia Ltd and the entities it controlled during the period.

A J Whyte
Director
BDO Audit Pty Ltd

Brisbane, 28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED 2012 $	2011 $
Revenue from continuing operation	**3**	**931,070**	395,742
Other income	**4 (a)**	**10,740,704**	-
Administration expenses		**(1,663,513)**	(987,296)
Occupancy expenses	**5**	**(70,680)**	(34,919)
Finance costs	**5**	**(146,515)**	(282,343)
Other expenses		**-**	(36,699)
Share of loss of associates accounted for using the equity method	**17**	**(12,032)**	-
Profit/(loss) before income tax expense		**9,779,034**	(945,515)
Income tax expense	**6**	**(258,233)**	-
Profit/(loss) from continuing operations		**9,520,801**	(945,515)
Profit/(loss) from discontinued operations, net of tax	**8 (c)**	**1,269,654**	(21,829,054)
Profit/(loss) for the year		**10,790,455**	(22,774,569)
Other comprehensive income			
Foreign currency translation differences		**141,890**	400,741
Reclassification of foreign currency translation differences		**1,303,220**	-
Other comprehensive income for the year, net of tax		**1,445,110**	400,741
Total comprehensive income for the year		**12,235,565**	(22,373,828)
Profit/(loss) is attributable to			
Owners of Daton Group Australia Ltd		**10,858,303**	(22,785,717)
Non-controlling Interest		**(67,848)**	11,148
		10,790,455	(22,774,569)
Total comprehensive income/(loss) for the year is attributable to			
Owners of Daton Group Australia Ltd		**12,303,413**	(22,384,976)
Non-controlling Interest		**(67,848)**	11,148
		12,235,565	(22,373,828)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED 2012	CONSOLIDATED 2011
Earnings per share for profit/(loss) for the year	**7**	**Cents**	**Cents**
Overall operations			
Basic earnings per share		**5.82**	(12.4)
Diluted earnings per share		**5.82**	(12.4)
Continuing operations			
Basic earnings per share		**5.14**	(0.5)
Diluted earnings per share		**5.14**	(0.5)
Discontinued operations			
Basic earnings per share		**0.68**	(11.9)
Diluted earnings per share		**0.68**	(11.9)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	CONSOLIDATED 2012 $	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	**11**	**14,849,606**	15,608,039
Short-term deposits with maturity over three months	**12**	**1,016,897**	5,400,000
Trade and other receivables	**13**	**54,391**	324,018
Other assets	**14**	**212,505**	2,719,379
Assets classified as held for sale	**8**	**-**	34,280,678
Total current assets		**16,133,399**	58,332,114
Non-current assets			
Property, plant and equipment	**15**	**12,975,915**	23,502
Investments in associates accounted for using the equity method	**17**	**12,352,651**	-
Total non-current assets		**25,328,566**	23,502
Total assets		**41,461,965**	58,355,616
LIABILITIES			
Current liabilities			
Trade and other payables	**18**	**8,582,640**	11,831,346
Borrowings	**19**	**-**	8,500,000
Current tax liabilities	**6**	**1,096,200**	-
Liabilities directly associated with assets held for sale	**8**	**-**	27,033,410
Total current liabilities		**9,678,840**	47,364,756
Total liabilities		**9,678,840**	47,364,756
Net assets		**31,783,125**	10,990,860
EQUITY			
Contributed equity	**20**	**36,615,244**	28,115,244
Reserves	**21**	**-**	(665,061)
(Accumulated losses)/Retained earnings		**(4,832,119)**	(16,470,471)
Capital and Reserves attributable to owners of Daton Group Australia Limited		**31,783,125**	10,979,712
Non-controlling interests	**22**	**-**	11,148
Total equity		**31,783,125**	10,990,860

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of Daton Group Australia Ltd						
	Contributed Equity	Retained Earnings/ (Accumulated losses)	Surplus Reserves	Foreign Currency Translation Reserve	Total Parent	Non-controlling Interests	Total Entity
CONSOLIDATED	$	$	$	$	$	$	$
At 1 January 2011	**28,115,244**	**6,315,246**	**780,049**	**(1,845,851)**	**33,364,688**	**-**	**33,364,688**
Total comprehensive income for the year							
(Loss)/profit for the year	-	(22,785,717)	-	-	(22,785,717)	11,148	(22,774,569)
Other comprehensive income							
Foreign currency translation differences	-	-	-	400,741	400,741	-	400,741
Total comprehensive income for the year	-	(22,785,717)	-	400,741	(22,384,976)	11,148	(22,373,828)
Transactions with owners in their capacity as owners	-	-	-	-	-	-	-
At 31 December 2011	**28,115,244**	**(16,470,471)**	**780,049**	**(1,445,110)**	**10,979,712**	**11,148**	**10,990,860**

The above Consolidated Statement of Change in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of Daton Group Australia Ltd						
	Contributed Equity	**Retained Earnings/ (Accumulated losses)**	**Surplus Reserves**	**Foreign Currency Translation Reserve**	**Total Parent**	**Non-controlling Interests**	**Total Entity**
CONSOLIDATED	**$**	**$**	**$**	**$**	**$**	**$**	**$**
At 1 January 2012	28,115,244	(16,470,471)	780,049	(1,445,110)	10,979,712	11,148	10,990,860
Total comprehensive income for the year							
Profit for the year	-	10,858,303	-	-	10,858,303	(67,848)	10,790,455
Other comprehensive income							
Foreign currency translation differences	-	-	-	141,890	141,890	-	141,890
Reclassification of foreign currency translation differences	-	-	-	1,303,220	1,303,220	-	1,303,220
Total comprehensive income for the year	-	10,858,303	-	1,445,110	12,303,413	(67,848)	12,235,565
Transactions with owners in their capacity as owners							
Transfer surplus reserves to accumulated losses as a result of disposal of subsidiary	-	780,049	(780,049)	-	-	-	-
New shares issued resulting from conversion of notes	8,500,000	-	-	-	8,500,000	-	8,500,000
Non-controlling interest in subsidiary disposed	-	-	-	-	-	56,700	56,700
Total transactions with owners in their capacity as owners	8,500,000	780,049	(780,049)	-	8,500,000	56,700	8,556,700
At 31 December 2012	**36,615,244**	**(4,832,119)**	**-**	**-**	**31,783,125**	**-**	**31,783,125**

The above Consolidated Statement of Change in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED 2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**299,908**	23,034,108
Payments to suppliers and employees		**(1,988,865)**	(17,681,487)
Interest received		**958,489**	128,564
Interest paid		**(129,247)**	(1,519,657)
Income tax paid		**-**	(805,233)
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	**26**	**(859,715)**	3,156,295
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		**(11,438,480)**	(4,118,501)
Proceeds on disposal of subsidiary, net of cash disposed	**8**	**10,783,498**	-
Proceeds on loss of control of subsidiary	**16**	**539,700**	-
Payments for exploration and evaluation assets		**(24,144,252)**	-
Decrease/(increase) in term deposits with maturity over three months		**7,435,080**	(7,477,000)
Loan to third party		**(1,000,000)**	(2,416,330)
NET CASH USED IN INVESTING ACTIVITIES		**(17,824,454)**	(14,011,831)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**26,600,000**	32,592,582
Repayment of borrowings		**(7,951,977)**	(36,538,433)
Payment for cost of issuing new shares		**-**	(169,179)
Loan from related parties		**5,315,577**	10,879,788
Repayment of loan from related parties		**(6,060,250)**	(359,394)
Proceeds from finance lease		**-**	3,369,975
Proceeds from issuing convertible notes		**-**	8,500,000
Proceeds from capital injection		**-**	6,310,000
NET CASH PROVIDED BY FINANCING ACTIVITIES		**17,903,350**	24,585,339
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(780,819)**	13,729,803
Effects of exchange rate changes on the balance of cash held in foreign currency		**311**	12,311
Cash and cash equivalents at beginning of the year		**15,630,114**	1,888,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	**11**	**14,849,606**	15,630,114

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

The consolidated financial statements of Daton Group Australia Limited for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 28 March 2013, which covers Daton Group Australia Limited as a consolidated entity consisting of Daton Group Australia Limited ("the parent company") and its subsidiaries ("the Group" or "consolidated entity") as required by the *Corporations Act 2001*.

The financial statements are presented in Australian dollars.

Daton Group Australia Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

Note 1: Summary of significant accounting policies

a) Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. Daton Group Australia Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have also been prepared on a historical cost basis, except for derivatives that have been measured at fair value. Non-current assets and disposal groups held-for-sale are measured at the lower of carrying amounts and fair value less costs to sell.

The following is a summary of the material accounting policies adopted in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

a) Basis of Preparation (continued)

Parent entity financial information

The financial information for the parent entity, Daton Group Australia Limited, included in note 28, has been prepared on the same basis as the consolidated financial statements, except as follows:

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment. Dividends received from associates and joint venture entities are recognised as revenue in the parent entity's profit or loss, rather than being deducted from the carrying amount of the investment.

Financial guarantees

Guarantees in relation to loans of subsidiaries that are provided for no compensation are accounted for as contributions and recognised as part of the cost of the investment in subsidiary.

b) Basis of Consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of Daton Group Australia Limited and its subsidiaries at 31 December each year ("the Group"). Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position respectively. Total comprehensive income is attributable to owners of Daton Group Australia Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

The acquisition method of accounting is used to account for business combinations by the consolidated entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

b) Basis of Consolidation (continued)

Associates

Associates are entities over which the Group has significant influence but not control. Associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method of accounting, the Group's share of post-acquisition profits or losses of associates is recognised in consolidated profit or loss and the Group's share of post-acquisition other comprehensive income of associates is recognised in consolidated other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates are recognised in the parent entity's profit or loss, while they reduce the carrying amount of the investment in the consolidated financial statements.

When the Group's share of post-acquisition losses in an associate exceeds its interest in the associate (including any unsecured receivables), the Group does not recognise further losses unless it has obligations to, or has made payments, on behalf of the associate.

The financial statements of the associates are used to apply the equity method. The end of the reporting period of the associates and the parent are identical and both use consistent accounting policies.

Changes in ownership interest

Transactions with non-controlling interests that increase or decrease the Group's ownership interest in a subsidiary, but which do not result in a change of control, are accounted for as transactions with equity owners of the Group. An adjustment is made between the carrying amount of the Group's controlling interest and the carrying amount of the non-controlling interests to reflect their relative values in the subsidiary. Any difference between the amount of the adjustment to the non-controlling interest and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Daton Group Australia Limited.

Where the Group loses control of a subsidiary but retains significant influence, joint control, or an available-for-sale investment, the retained interest is remeasured to fair value at the date that control is lost and the difference between fair value and the carrying amount is recognised in profit or loss. This fair value is the initial carrying amount for the retained investment in associate, jointly controlled entity or available-for-sale financial asset. If no ownership interest is retained, or if any remaining investment is classified as available-for-sale, any amounts previously recognised in other comprehensive income in respect of the entity are accounted for as if the Group had directly disposed of the related assets or liabilities and may be recognised in profit or loss. To the extent that the Group retains significant influence or joint control, balances of other comprehensive income relating to the associate or jointly controlled entity will only be reclassified from other comprehensive income to profit or loss to the extent of the reduced ownership interest so that the balance of other comprehensive represents the Group's proportionate share of other comprehensive income of the associate/jointly controlled entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

c) Going Concern

The Group incurred a net profit of $10,790,455 for the year ended 31 December 2012. This is mainly due to $10,499,677 pre-tax gain made on disposal of 11% of the Group's interest in U & D Mining Industry Pty Ltd and a profit from discontinued operations of $1,269,654 in relation to the disposal of Urea Manufacturing business (Henan Datong and Zhengzhou Jinyitong Scientific & Technology Development Co., Limited (Jinyitong)) in P. R. China. As at 31 December 2012 the Group has net cash reserves of $14,849,606 and net current assets of $6,454,559. The Group currently does not generate any revenue except interest income and incidental rental income.

The group has forecast to fund $10 million towards U & D Mining Industry Pty Ltd's acquisition of Endocoal Limited (ASX:EOC) which is forecast to occur in May 2013. The Group has also entered into a non-binding indicative proposal with Krucible Minerals Ltd (ASX code: KRB) to acquire certain phosphate tenements of KRB for a total consideration of $12 million. At 31 December 2012 the Group also has related party payables of $7,819,295 which are repayable on demand.

The Group has forecast to fund these expenditures through existing cash reserves and further raisings of capital as required. The Group is also forecasting to begin production at its Apollo Fertiliser Project located in Acacia Ridge in July 2013. The Group has forecast that this production will result in net cash inflows in the period to 31 December 2013.

The ability of the Group to continue as a going concern is principally dependent upon one or more of the following:

- continued support from shareholders, related parties and financiers;
- the ability of the group to meet its forecast revenue and cash flow figures.

Should the Group be unable to raise the capital it requires this will give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.
The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- the directors believe that they will be able to obtain continued support from shareholders, related parties and financiers as required; and
- the directors closely monitor the group's cash flow projections and working capital position and expect to meet the forecasted revenue and cash flow results. The directors believe that these are sufficient to continue to fund the Group's working capital requirements.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

c) Going Concern (continued)

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

d) Non-current Assets Classified as Held for Sale

Non-current assets classified as held for sale are those assets whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. These assets are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised. Interest expenses continues to be recognised on liabilities of a disposal group classified as held for sale.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for subsequent increases in fair value less costs to sell of an asset but not exceeding any cumulative impairment losses previously recognised.

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in profit or loss.

e) Foreign Currency Translation

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 Australian dollars, which is Daton Group Australia Limited's presentation currency.

Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

e) Foreign Currency Translation (continued)

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

Translation of foreign operations

At the end of the reporting period, the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of the Group at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

f) Revenue recognition

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to buyer when goods have been delivered to the customer. Revenue excludes value added tax or other sales taxes.

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

g) Lease Income

Leases of property, plant and equipment, when the Group, as lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Lease income from operating leases is recognised in income on a straight-line basis over the lease term. The aggregate cost of incentives is recognised as a reduction in rental income over the lease term on a straight-line basis.

The respective leased assets are included in the statement of financial position based on their nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

h) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income or equity are also recognised directly in other comprehensive income or equity.

i) Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of 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.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

j) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

k) Short-term deposits with maturity over three months

Short-term deposits with maturity over three months are excluded from cash and cash equivalents and carried at amortised cost using the effective interest rate method.

l) Trade receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 60 and 90 days.

Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts overdue for a long time. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

The amount of the impairment loss is recognised in profit or loss. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

m) Financial instruments

Financial assets

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

m) Financial instruments (continued)

Classification

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at the end of each reporting period.

Financial assets of the Group are classified in one category as following:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment.

Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit or loss.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

n) Fair value

Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

Fair values for financial instruments traded in active markets are based on quoted market prices at the end of the reporting period. The quoted market price for financial assets is the current bid price and the quoted market price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

n) Fair value (continued)

The fair value of long-term debt instruments is determined using quoted market prices for similar instruments. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

o) Property, plant and equipment

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

The depreciable amounts of all fixed assets are depreciated on a straight line basis over their estimated useful lives to the economic entity commencing from the time the assets are held ready for use.

Assets are depreciated over their useful lives as follows:

Machinery & motor vehicles	8 years
Furniture, fittings and equipment	2-10 years

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

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in profit or loss in the year that the item is derecognised.

p) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 60 days to 2 years payment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

q) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

All 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 end of the reporting period.

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that it is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed when incurred.

r) Employee benefit provisions

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable.

Long Service Leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Bonus

The Group recognises an expense and a liability for bonuses when the entity is contractually obliged to make such payments or where there is past practice that has created a constructive obligation.

Retirement Benefit Obligations

The employees of Australian entities participate in those entities' defined contribution superannuation fund. Contributions are recognised as expenses as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

r) Employee benefit provisions (continued)

The permanent Chinese employees of the Group participate in employee social security plans, including pension, medical insurance, unemployment insurance, maternity insurance and work related injury insurance, organized and administered by the governmental authorities. The relevant government agencies are responsible for the pension liability to the retired employees. The Group has no other substantial commitments to employees. Contributions are made by the Group to an employee welfare funds and are charged as expenses when incurred.

s) Contributed equity

Contributions by shareholders are classified as equity. Costs directly attributable to capital raising are shown as a deduction from the equity proceeds.

t) Dividends

Provision is made for dividends declared and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

u) Taxation

Goods and services tax (GST)

Revenues, expenses of Australian entities are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

v) Earnings per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of Daton Group Australia Limited, adjusted for the after-tax effect of preference dividends on preference shares classified as equity, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year. The weighted average number of issued shares outstanding during the financial year does not include shares issued as part of the Employee Share Loan Plan that are treated as in-substance options.

Diluted earnings per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

w) Critical accounting estimates & judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability of Investment in Associates

During the year the Group lost control of U&D Mining Industry (Australia) Pty Ltd ("U&D" - refer note 16 for further details) following the disposal of an 11% interest. The Group's remaining interest as at 31 December 2012 is 49%. Following this loss of control it has been assessed that the Group retains significant influence over U&D and the investment has been accounted for as an investment in an associate using the equity accounting method.

As required under AASB127 Consolidated and Separate Financial Statements the retained investment in U&D was initially recorded at its fair value. The fair value of the retained investment was determined based on the net assets of U&D at the time of disposal.

At 31 December 2012 no impairment indicators have been identified and no further impairment testing was required to be completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

w) Critical accounting estimates & judgements (continued)

Recoverability of Investment in Associates (continued)

Should the assumptions used in determining the fair value of the retained investment in U&D prove to be different this may result in a change in the carrying value of the investment in U&D.

The directors are confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

Income taxes

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. In addition, the group has not recognised deferred tax assets in excess of the deferred tax liabilities because it is not currently probable that future taxable profit will be available against which the Group can utilise these benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

x) Accounting standards issued, not yet effective

The following new/amended accounting standards have been issued, but are not mandatory for the year ended 31 December 2012. They have not been adopted in preparing the financial statements for the year ended 31 December 2012 and may impact the Group in the period of initial application. In all cases the Group intends to apply these standards from the mandatory application date as indicated in the table below.

Standards likely to have a financial impact

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the 31 December 2015 year end. The entity has not yet made an assessment of the impact of these amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

x) Accounting standards issued, not yet effective (continued)

Standards likely to have a financial impact (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 13 (issued September 2011)	Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair values that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1 January 2013	The entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by AASB 13. However, when this standard is adopted for the first time for the year ending 31 December 2013, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 January 2013. When this standard is adopted for the first time on 1 January 2013, additional disclosures will be required about fair values.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

x) Accounting standards issued, not yet effective (continued)

Standards likely to have a financial impact (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2011-9 (issued September 2011)	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes of statements in AASB 101 as follows: 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income' 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'. OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.	Annual periods commencing on or after 1 July 2012	When this standard is first adopted for the year ending 31 December 2013, there will be no impact on amounts recognised for transactions and balances for 31 December 2012 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).
AASB 2012-9 (issued December 2012)	Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	Deletes Australian Interpretation 1039 Substantive Enactment of Major Tax Bills In Australia from the list of mandatory Australian Interpretations to be applied by entities preparing financial statements under the Corporations Act 2001 or other general purpose financial statements.	Annual reporting periods beginning on or after 1 January 2013	There will be no impact on first-time adoption of this amendment as the Group does not account for proposed changes in taxation legislation until the relevant Bill has passed through both Houses of Parliament, which is consistent with the views expressed by the Australian Accounting Standards Board in their agenda decision of December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

x) Accounting standards issued, not yet effective (continued)

Standards likely to have a disclosure impact only

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 12 (issued August 2011)	Disclosure of Interests in Other Entities	Combines existing disclosures from AASB 127 Consolidated and Separate Financial Statements, AASB 128 Investments in Associates and AASB 131 Interests in Joint Ventures. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods beginning on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.
AASB 2012-6 (issued September 2012)	AASB 2012-6 (issued September 2012)	Defers the effective date of AASB 9 to 1 January 2015. Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods beginning on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.
AASB 10	Consolidated Financial Statements	This standard replaces part of IAS 27: 'Consolidated and Separated Financial Statements' and is applicable for the annual period beginning 1 January 2013. This new standard introduces a new definition of control that determines which entities are consolidated.	Annual reporting periods beginning 1 January 2013	This new definition of control may potentially lead to the consolidation of entities that were not previously included in the Group resulting in more assets and liabilities on the books. The Group is currently assessing the impact of this standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 1: Summary of significant accounting policies (continued)

x) Accounting standards issued, not yet effective (continued)

Standards likely to have a disclosure impact only (continued)

AASB 11	Joints Arrangements	This standard replaces IAS 31: 'Interests in Joint Ventures' and is applicable for annual periods beginning on or after 1 January 2013. This new standard introduces new rules which classify joint arrangements as either a joint operation or joint venture.	Annual periods beginning on or after 1 January 2013.	Under the new standard, proportionate consolidation is not allowed and all joint ventures must be equity accounted. All joint arrangements held by the Group will need to be reassessed to determine whether the joint operation or joint venture classification is appropriate, and therefore the potential impacts of a change on the presentation of the Financial Statements. The Group is currently assessing the impact of this standard.

All other pending standards have no material application to the Group.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 2: Segment Reporting

(a) Description of segment

The Group segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision maker (the board of directors that make strategic decisions).

Operating segments have been determined on the basis of reports reviewed by the board of directors that make strategic decisions. The board of directors monitor the segment performance based on the net profit after tax of the period.

The board considers the Group have the following reportable segments:

Compound Fertiliser Apollo: Manufacturing and sale of compound fertiliser and its by-products to domestic market in Australia;

Corporate: Group treasury and head office activities

U&D Mining: Exploration of EPC 818 coal mine to secure the coal supply of the compound fertiliser project

Discontinued operation – China Urea Manufacturing: manufacturing and sale of fertiliser and its by-products to domestic customers in P. R. China. This segment was classified as held for sale upon board resolution on 12 September 2011.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 2: Segment Reporting (continued)

(b) Segment information

Segment information provided to the board of directors for the year ended 31 December 2012 and 31 December 2011 are as follows:

31 December 2012	U & D Mining	Compound Fertilizer Apollo	Corporate	Total continuing operation	Discontinued operation	Total
	$	$		$	$	$
Sales revenue	-	-	-	-	-	-
Other revenue	-	-	931,070	931,070	-	931,070
Total segment revenue from external customers	-	-	931,070	931,070	-	931,070
Depreciation	(3,363)	(3,985)	(3,508)	(10,856)	-	(10,856)
Interest revenue	361,532	5,363	340,912	707,807	-	707,807
Interest expense	-	(128,966)	(281)	(129,247)	(543,506)	(672,753)
Income tax expense	-	-	(258,233)	(258,233)	(837,967)	(1,096,200)
Share of loss of associates accounted for using the equity method	-	-	(12,032)	(12,032)	-	(12,032)
Net (loss)/profit after tax	(169,616)	(174,895)	9,865,312	9,520,801	1,269,654	10,790,455
Total segment assets	-	13,998,665	27,463,300	41,461,965	-	41,461,965
include: addition to non-current assets	218,662	12,953,137	6,771	13,178,570	-	13,178,570
include: investments in associates accounted for using the equity method	-	-	12,352,651	12,352,651	-	12,352,651
Total segment liabilities	-	372,939	9,305,901	9,678,840	-	9,678,840

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 2: Segment Reporting (continued)

(b) Segment information (continued)

31 December 2011	U & D Mining	Compound Fertilizer Apollo	Corporate	Total continuing operation	Discontinued operation	Total
	$	$		$	$	$
Sales revenue	-	-	-	-	24,493,516	24,493,516
Total segment revenue from external customers	-	-	-	-	24,493,516	24,493,516
Depreciation	-	-	(3,358)	(3,358)	(2,718,979)	(2,722,337)
Interest revenue	27,945	-	367,797	395,742	34,682	430,424
Interest expense	-	-	(241,027)	(241,027)	(1,610,466)	(1,851,493)
Income tax expense	-	-	-	-	(320,781)	(320,781)
Impairment of asset held for sale	-	-	-	-	(18,185,997)	(18,185,997)
Net profit after tax	27,870	(4,747)	(968,638)	(945,515)	(21,829,054)	(22,774,569)
Total segment assets	10,713,610	1,591,173	11,770,155	24,074,938	34,280,678	58,355,616
include: addition to non-current assets	-	-	3,633	3,633	3,717,516	3,721,149
Total segment liabilities	10,685,739	-	9,645,607	20,331,346	27,033,410	47,364,756

(c) Entity-wide disclosures

Product and services

The board considers that the Group only has one product type being sold which is fertiliser.

Geographic information

Sales revenue and non-current assets by geographical location is as follows:

	Revenues from		Non-current assets	
Geographic location	2012	2011	2012	2011
	$	$	$	$
Australia	-	-	25,328,566	23,502
China	-	24,493,516	-	27,967,542
	-	24,493,516	25,328,566	27,991,044

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 2: Segment Reporting (continued)

(c) Entity-wide disclosures (continued)

Segment revenues are allocated based on the country in which the customer is located.

Major customers

Revenues from major customers for the sale of fertiliser and its by-products are as follows:

	2012		2011	
	$	**% of total revenue**	**$**	**% of total revenue**
Largest customer	-	-	5,156,757	21%
Second largest customer	-	-	2,466,390	10%

	Note	CONSOLIDATED 2012 $	2011 $
Note 3: Revenue			
Continuing operation			
Rental income		**223,263**	-
Interest revenue – cash and cash equivalents		**707,807**	395,742
		931,070	395,742
Discontinued operation			
Sales		**-**	24,493,516
Rental income		**-**	194,672
Interest revenue		**-**	34,682
		-	24,722,870
Note 4: Other Income			
Continuing operation			
Gain on loss of control	(a)	**10,499,677**	-
Sundry income		**241,027**	-
		10,740,704	-

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

		CONSOLIDATED	
		2012	2011
	Note	$	$

Note 4: Other Income (continued)

Discontinued operation			
Gain on disposal of subsidiary	8	**2,657,151**	-
Sundry income		**-**	33,496
		2,657,151	33,496

a) Gain on reduction of ownership interest in subsidiary

The total gain of $10,499,677 is related to the disposal of 11% of its ownership in a subsidiary, U & D Mining Industry (Australia) Pty Ltd ('U & D'), during the year ended 31 December 2012. It is the net amount of a loss of $1,934,461 on the portion sold and a gain of $12,434,138 attributable to re-measuring the 49% retained interest to its fair value at the date when control is lost. Refer to Note 16 for more information.

Note 5: Expenses

Profit/(loss) from continuing operations before income tax includes the following specific expenses:

	2012 $	2011 $
Depreciation expense		
Machinery and vehicles	**8,528**	3,358
Furniture, fittings and equipment	**2,328**	-
	10,856	3,358
Employee benefits expense		
Wages and salaries	**451,068**	203,332
Defined contribution superannuation	**39,461**	6,277
	490,529	209,609
Finance costs		
Interest expenses	**129,247**	241,027
Bank fees	**17,268**	41,316
	146,515	282,343
Operating lease expenses – minimum lease payments	**70,680**	34,919
IPO Cost	**-**	147,857

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED 2012 $	2011 $
Note 5: Expenses (continued)			
Profit/(loss) from discontinued operations before income tax includes the following specific expenses:			
Finance costs			
Interest expenses		**543,506**	1,610,466
Bank fees		**224**	7,719
		543,730	1,618,185
Depreciation expense			
Buildings		**-**	390,246
Machinery and vehicles		**-**	2,313,995
Furniture, fittings and equipment		**-**	14,738
		-	2,718,979
Amortisation expense			
Land use rights		**-**	251,406
Employee benefits expense			
Wages and salaries		**81,942**	1,833,428
Defined contribution superannuation		**-**	319,051
Other welfare expense		**-**	170,067
		81,942	2,322,546
Bad and doubtful debts - current receivables		**-**	17,098,332
Reversals of provisions for doubtful debts		**(76,645)**	-
Impairment of property, plant and equipment		**-**	1,087,665
Operating lease expenses – minimum lease payments		**-**	42,783

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Note 6: Income Tax Expense		
Major components of income tax expense are:		
Current tax expense		
Current tax expense	**1,096,200**	-
	1,096,200	-
Deferred tax expense		
Origination and reversal of temporary differences	**-**	320,781
	-	320,781
Total income tax expense in profit or loss	**1,096,200**	320,781
Income tax expense applicable to:		
-Continuing operations	**258,233**	-
-Discontinued operations	**837,967**	320,781
	1,096,200	320,781

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 6: Income Tax Expense (continued)

	CONSOLIDATED	
	2012	2011
	$	$
Reconciliation of the effective tax rate		
Profit/ (loss) from continuing operations before income tax expense	**9,779,034**	(945,515)
Profit/ (loss) from discontinued operations before income tax expense	**2,107,621**	(21,508,273)
Accounting profit/(loss) before income tax	**11,886,655**	(22,453,788)
Tax at the Australian tax rate of 30% (2011: 30%)	**3,565,997**	(6,736,136)
Add: deemed rent income accrued according to rent contract	**-**	48,668
Non-deductible expenses:		
- entertainment	**356**	3,854
- fines and penalties	**-**	67
- other non-deductible expenses	**8,646**	10,621
-expenditure directly attributable to acquisition of non-current assets	**-**	92,381
Accrued interest income	**(15,357)**	-
Disposal of subsidiary	**40,822**	-
Deregistration of subsidiary	**(2,700,000)**	-
Loss of control of subsidiary	**269,696**	-
Deferred tax assets not brought to account for other temporary differences	**-**	4,977,063
Deferred tax assets not recognized for tax losses	**52,430**	848,849
Deferred tax assets not recognized for subsidiaries disposed	**187,949**	-
Previously unrecognised tax losses	**(341,816)**	-
Difference in overseas tax rate	**27,477**	1,075,414
Income tax expense at effective rate of 9% (2011: 0%)	**1,096,200**	320,781

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Note 6: Income Tax Expense (continued)		
Recognised deferred tax assets		
(i) Unused tax losses	-	-
(ii) Deductible temporary differences	15,357	-
	15,357	-
Recognised deferred tax liabilities		
Assessable temporary differences	15,357	-
	15,357	-
Net deferred tax recognised	**-**	**-**
Unrecognised temporary differences and tax losses		
Unused tax losses and temporary differences for which no deferred tax asset has been recognised	178,439	3,282,658
Potential tax benefit @ 30%	53,532	984,797

Included in unused tax losses for the year ended 31 December 2011 were $2,164,047 for discontinued operation in P.R.China. As the discontinued operation has been disposed of during the 2012 financial year these losses are no longer available to the Group.

In 2011 the remaining unused tax losses for $1,118,611 represented the tax losses incurred by Australian entities. There is no expiry date on the future deductibility of these unused tax losses.

In 2012 the unused tax losses of $178,439 represent the tax losses incurred by Australian entities. There is no expiry date on the future deductibility of these unused tax losses.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Note 7: Earnings per share		
(a) Basic earnings per share		
Profit/(loss) attributable to owners of Daton Group Australia Limited used to calculate basic earnings per share:		
Profit/(loss) from continuing operations	**9,588,649**	(956,000)
Profit/(loss) from discontinued operations	**1,269,654**	(21,829,054)
	10,858,303	(22,785,717)
(b) Diluted earnings per share		
Profit/(Loss) attributable to owners of Daton Group Australia Limited used to calculate diluted earnings per share:		
Profit/(loss) from continuing operations	**9,588,649**	(956,000)
Profit/(loss) from discontinued operations	**1,269,654**	(21,829,054)
	10,858,303	(22,785,717)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**186,625,739**	183,696,000
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**186,625,739**	183,696,000

Diluted earnings per share are equal to basic earnings per share as the Group has not issued any dilutive instruments.

Note 8: Assets and liabilities classified as held for sale and discontinued operation

(a) Assets classified as held for sale		
Disposal group held for sale (discontinued operation – see (c) below)		
Total assets of disposal group held for sale	**-**	34,280,678
(b) Liabilities directly associated with assets classified as held for sale		
Disposal group held for sale (discontinued operation – see (c) below)		
Total liabilities of disposal group held for sale	**-**	(27,033,410)

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 8: Assets and liabilities classified as held for sale and discontinued operation (continued)

(c) Discontinued operation

On 12 September 2011 the board of directors of Daton Group Australia Limited resolved to sell its Urea Manufacturing business (Henan Datong Chemical Co., Limited (Henan Datong) and Zhengzhou Jinyitong Scientific & Technology Development Co., Limited (Jinyitong)) in P. R. China. The Urea Manufacturing business was reported as a discontinued operation in 2011 financial year. Henan Datong and Jinyitong were disposed of effective 26 June 2012.

Financial information relating to the discontinued operations from 1 January 2012 to 26 June 2012 (date of disposal) and for 2011 financial year is set out below. Further information is set out in Note 2 - Segment Information.

	Note	For period ended 26 June 2012	For year ended 31 December 2011
		$	$
Revenue and other income	3,4	-	24,756,366
Expenses	5	(549,530)	(28,078,642)
Impairment of Receivables	(a),5	-	(17,098,332)
Impairment of Property, Plant and Equipment	(b),5	-	(1,087,665)
Loss before tax		(549,530)	(21,508,273)
Income tax expense		-	(320,781)
Net loss attributable to discontinued operations		(549,530)	(21,829,054)
Gain on disposal of operation including a cumulative exchange loss of $1,303,220 reclassified from foreign currency translation reserve to profit and loss		2,657,151	-
Income tax expense	6	(837,967)	-
Gain on disposal of discontinued operation after income tax		1,819,184	-
Profit/(loss) from discontinued operation		1,269,654	(21,829,054)

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 8: Assets and liabilities classified as held for sale and discontinued operation (continued)

Cash flow information for 1 January 2012 to 26 June 2012 and the year ended 31 December 2011:

	For period ended 26 June 2012 $	For year ended 31 December 2011 $
Net cash inflow from operating activities	**55,433**	5,061,523
Net cash inflow/(outflow) from investing activities	**4,690,661**	(5,902,278)
Net cash outflow from financing activities	**(4,751,977)**	(1,011,006)
Net decrease in cash generated by discontinued operations	**(5,883)**	(1,851,761)

Information relating to the financial position of the discontinued operations on disposal date (26 June 2012) and as at 31 December 2011 is as follows:

		As at 26 June 2012 $	As at 31 December 2011 $
Cash and cash equivalents		**16,502**	22,075
Short-term deposits with maturity over three months		**-**	4,791,345
Trade and other receivables	**(d)**	**205,394**	200,927
Inventories		**1,342,076**	1,298,789
Property, plant and equipment	**(e)**	**26,671,734**	26,029,894
Lease Prepayments	**(f)**	**416,568**	407,509
Long term Receivables		**1,564,154**	1,530,139
TOTAL ASSETS CLASSIFIED AS HELD FOR SALE		**30,216,428**	34,280,678
Trade and other payables		**6,224,813**	5,526,113
Current financial liabilities	**(g)**	**11,351,722**	15,896,207
Current tax liabilities		**51,416**	50,298
Other liabilities		**2,714,405**	2,592,338
Non-current financial liabilities	**(g)**	**3,034,443**	2,968,454
TOTAL LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD OF SALE		**23,376,799**	27,033,410
NET ASSETS		**6,839,629**	7,247,268

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
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Note 8: Assets and liabilities classified as held for sale and discontinued operation (continued)

The gain on sale of the discontinued operations has been calculated as follows:

	CONSOLIDATED
	2012
	$
Consideration received	10,800,000
Carrying amount of net assets sold	(6,839,629)
Cumulative exchange loss in foreign currency translation reserve reclassified from equity to profit and loss on disposal of subsidiary	(1,303,220)
Gain on sale before income tax	2,657,151
Income tax expense	(837,967)
Gain on sale after income tax	1,819,184

Net cash outflow on disposal of discontinued operations

	CONSOLIDATED
	2012
	$
Consideration received in cash and cash equivalents	10,800,000
Less: cash and cash equivalent balances disposed of	(16,502)
	10,783,498

(d) Impairment of receivables

	As at 31 December 2012	As at 31 December 2011
	$	$
Trade debtors	-	8,728,688
Allowance for doubtful receivables	-	(8,728,688)
	-	-
Other debtors	-	9,510,051
Allowance for doubtful receivables	-	(9,309,124)
	-	200,927

As at 31 December 2011, all trade and other receivables were reviewed for impairment on a collective basis. Allowances for individually impaired other receivables were provided in the current year and in the prior year based on an aging analysis of the amounts past due.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Note 8: Assets and liabilities classified as held for sale and discontinued operation (continued)

(d) Impairment of receivables (continued)

Management have renegotiated credit terms with customers with debt past due over 6 months. Repayment schedule was agreed however due to overall downward trend in the domestic fertilizer market in China, financial capability of the debtors to make repayment was uncertain therefore the board resolved to fully impair trade debtors balances past due over 6 months.

Included in other debtors as at 31 December 2011 were RMB58,173,797 ($8,991,313) prepayments made to suppliers for coal purchases in prior years. Since production has stopped and there were no further sales from September 2011, no coal deliveries have been made to the factory, as such prepayments were reclassified to other receivables from suppliers. Management have attempted to renegotiate repayment with suppliers, however the suppliers were not able to make these repayments due to their cash flow shortages therefore the Board resolved to fully impair the other debtors.

Fair value and credit risk

The remaining receivable balance of $200,927 (RMB1.3million) as at 31 December 2011 represents a rent income receivable. Due to the short term nature of this receivable, its carrying value is assumed to approximate its fair value.

The maximum exposure to credit risk is the fair value of receivables. Refer to note 23 for more information relating to the risk management policy of the group.

(e) Impairment of Property, Plant and Equipment

An impairment test of the property, plant and equipment in discontinued operation was performed by a qualified chartered accountant in P.R. China. The impairment of equipment was assessed to be RMB5,549,062 ($830,959) in 2011.

Management performed an impairment test for its construction-in-progress projects and determined that RMB1,714,254 ($256,706) were impaired due to factory shut-down from September 2011 onwards.

(f) Leased properties

As at 31 December 2011 a building with a net book value of $4,545,306 was under an operating lease contract to a third party. The lease contract was signed on 5 April 2010 and will expire 4 October 2015. The rental income under the contract in 2011 is RMB1,300,000 ($194,672). The rental income, after the reduction of the cost of incentive, has been recognized on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 8: Assets and liabilities classified as held for sale and discontinued operation (continued)

(g) Financial Liabilities

	As at 31 December 2012 $	As at 31 December 2011 $
Current Secured		
Bank loans	-	4,945,904
Credit co-operatives loans	-	1,027,821
Notes Payable	-	7,882,535
Sale and lease back	-	2,039,947
	-	15,896,207
Non-Current Secured		
Sale and lease back	-	2,968,454
	-	18,864,661

Bank loans and credit co-operatives loans

Bank loans and credit co-operatives loans are due for settlement within 12 months. The final instalments were due in November 2011. Bank loans and credit co-operatives loans bear interest at fixed rates. The weighted average interest rate was 10.07% as at 31 December 2011.

Notes payable

Notes payable represents two bank acceptance notes issued to suppliers by the group. Notes payable were non-interest bearing and issued with a term of 6 months.

Sales and lease back

On 2 June 2011 the discontinued operation entered into a sales and lease back contract with Xin Jiang Great Wall Lease Co., Limited ("the lessor"). Property, plant and equipment of RMB43,086,835 ($6,659,480) were sold and leased back to obtain a loan of RMB40,000,000 ($6,182,380). The loan bears a floating interest rate of 7.9% and will fall due in June 2014. The loan will be repaid in 12 installments. A processing fee of RMB1,800,000 ($278,207) was deducted from the cash proceeds directly at the commencement of the loan. A guarantee deposit of RMB6,400,000 ($989,181) was paid to the lessor and will be used to net off against the 11th and 12th installments in 2014.

The Board Chaiman and Jiaozuo Hexing Chemical Co., Limited provided a joint guarantee for this transaction. As a result RMB3,500,000 ($540,958) was paid to Jiaozuo Hexing Chemical Co., Limited as a guarantee deposit in 2011. This deposit will be repaid in 2014 when the main contract expires.

Note 8: Assets and liabilities classified as held for sale and discontinued operation (continued)

(g) Financial Liabilities (continued)

Assets pledged as security

The carrying amounts of assets pledged as security for current interest-bearing liabilities are:

	As at 31 December 2012 $	As at 31 December 2011 $
Current		
Term deposits with maturity over three months	-	4,791,345
Non-current		
Property	-	8,500,757
Plant and equipment	-	10,873,474
	-	19,374,231

Note 9: Auditor's Remuneration

During the year the following fees were paid or payable for services provided by BDO:

	CONSOLIDATED	
	2012 $	2011 $
Audit services		
BDO Audit Pty Ltd		
Audit and review of financial statements	**83,439**	-
BDO Audit (NSW – VIC) Pty Ltd		
Audit and review of financial statements	**-**	199,046
Audit services provided for 2010 financial year	**-**	46,035
	-	245,081
Taxation services		
BDO (QLD) Pty Ltd		
Tax services	**22,000**	-
	22,000	-
Total remuneration of BDO	**145,939**	245,081

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
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	CONSOLIDATED	
	2012	**2011**
	$	**$**

Note 10: Dividends

No dividend for the full year ended 31 December 2012 has been declared or paid to shareholders by the Group (2011: nil). The balance of the franking account is $1,096,200 (2011: $nil).

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The amount shown above includes franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Note 11: Cash and Cash Equivalents

	2012	2011
Cash on hand	**922**	2,818
Cash at bank	**1,248,684**	7,605,221
Cash equivalent	**13,600,000**	8,000,000
Cash and cash equivalents	**14,849,606**	15,608,039

Cash on hand is non-interest bearing. Cash at bank bears a floating interest rate from 0% to 4.35% (2011: 0%-4.5%). Cash equivalent represents two months term deposits with the Commonwealth Bank of Australia and bears fixed interest rates from4.5% to 4.6%.

Concentration of risk by banks

	2012	2011
Commonwealth Bank – S&P Rating of A-1+ (2011:AA)	**13,871,030**	2,269,155
ANZ Bank – S&P Rating of A-1+ (2011: AA-)	**761,514**	3,324,155
Bank of China – S&P Rating of A-1 (2011: A-)	**216,140**	10,011,911
	14,848,684	15,605,221

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	2012	**2011**
	$	**$**

Note 11: Cash and Cash Equivalents (continued)

Reconciliation for the consolidated statement of cash flows

Cash and cash equivalents at end of year representing		
Continuing operations	**14,849,606**	15,608,039
Discontinued operations (note 8)	**-**	22,075
	14,849,606	15,630,114

Note 12: Short-term Deposits with Maturity Over Three Months

Short-term deposits with maturity over three months	**1,016,897**	5,400,000

As at 31 December 2011, the short-term deposit with maturity over three months of $5,000,000 was pledged for a bank guarantee provided from Daton Group Australia Limited to the subsidiary in P. R. China. This guarantee deposit bears a fixed interest rate of 5.25% and has matured and was refunded in January 2012. The remaining short-term deposits are pledged to obtain corporate credit cards of Daton Group Australia Limited and bear interest rates from 5.6% to 5.8%.

As to 31 December 2012, the short-term deposit with maturity over three months of $616,897 represents a terms deposit with a fixed interest rate at 3%. The remaining Short-term deposits of $400,000 are pledged to obtain corporate credit cards of Daton Group Australia Limited and bear fixed interest rates from 4.26% to 4.30%.

Concentration of risk by banks

Commonwealth Bank – S&P Rating of A -1+ (2011:AA)	**816,897**	200,000
ANZ Bank – S&P Rating of A-1+ (2011: AA-)	**200,000**	200,000
Bank of China – S&P Rating of A-1 (2011: A-)	**-**	5,000,000
	1,016,897	5,400,000

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	2012	**2011**
	$	**$**

Note 13: Trade and other receivables

Current		
Other receivables (a)	**54,391**	324,018
Total trade and other receivables	**54,391**	324,018

(a) Other receivables

Other receivable balance mainly represents $53,306 interest receivables from banks in Australia for continuing operations (2011: $301,860).

All other receivables are neither past due nor impaired. It is expected that these amounts will be received when due.

Note 14: Other Assets

Current		
Prepayment to suppliers	**-**	2,719,379
Other assets	**212,505**	-
	212,505	2,719,379

As at 31 December 2011 prepayments to suppliers mainly comprised the following items:

(i) Prepayments of $247,500 made by Apollo Fertiliser Queensland Pty Ltd ("Apollo") for acquisition of plant and land in Queensland;

(ii) Prepayments of $1,185,000 made by Apollo to Zhengzhou Luoyang Glass Import and Export Co., Ltd for acquisition of compound fertiliser production equipment (Refer to Note 28(b) for related party disclosure);

(iii) Prepayments of $1,262,500 made by U&D Mining Industry (Australia) Pty Ltd for acquisition of EPC 818 coal mine.

All prepayments to suppliers were settled during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 15: Property, Plant and Equipment

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Land		
At cost	**5,121,293**	**-**
Machinery and vehicles		
At cost	**108,227**	23,227
Accumulated depreciation	**(10,188)**	(3,358)
	98,039	19,869
Furniture, fittings and equipment		
At cost	**17,159**	3,633
Accumulated depreciation	**(665)**	-
	16,494	3,633
Capital works in progress at cost	**7,740,089**	-
Total property, plant and equipment		
At cost	**12,986,768**	26,860
Accumulated depreciation	**(10,853)**	(3,358)
	12,975,915	23,502

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
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Note 15: Property, Plant and Equipment (continued)

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year is as follows:

Consolidated	Land	Buildings	Machinery and vehicles	Furniture, fittings and equipment	Capital works in progress	Total
	$	$	$	$	$	$
1 January 2011	-	9,050,678	17,126,568	47,415	414,059	26,638,720
Additions	-	-	609,948	7,270	1,645,727	2,262,945
Transfers	-	-	1,019,790	-	(1,019,790)	-
Depreciation expense	-	(390,246)	(2,317,353)	(14,738)	-	(2,722,337)
Assets classified as held for sale	-	(8,716,949)	(16,511,040)	(36,611)	(1,042,581)	(26,307,181)
Effect of movement in foreign exchange	-	56,517	91,956	297	2,585	151,355
31 December 2011	**-**	**-**	**19,869**	**3,633**	**-**	**23,502**
Additions	**5,121,293**	**-**	**265,880**	**51,308**	**7,740,089**	**13,178,570**
Depreciation expense	**-**	**-**	**(8,528)**	**(2,328)**	**-**	**(10,856)**
Assets derecognised due to loss of control of subsidiary	**-**	**-**	**(179,182)**	**(36,119)**	**-**	**(215,301)**
31 December 2012	**5,121,293**	**-**	**98,039**	**16,494**	**7,740,089**	**12,975,915**

As at 31 December 2011 all property, plant and equipment in discontinued operation in China were reclassified to Assets Held for Sale upon board resolution to dispose the China Urea Manufacturing business.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 16: Subsidiaries

Significant investments in subsidiaries

Name of entity		*Country of incorporation*	*Equity holding*	
			2012	*2011*
			%	*%*
Australia Golden Star International Pty Ltd	(i)	Australia	**-**	100
Apollo Fertiliser Queensland Pty Ltd		Australia	**100**	100
U & D Mining Industry (Australia) Pty Ltd	(iii)	Australia	**49**	60
Zhengzhou Jinyitong Scientific & Technology Development Co., Limited	(ii)	PR China	**-**	100
Henan Datong Chemical Co., Limited	(ii)	PR China	**-**	100

(i) Australia Golden Star International Pty Ltd was deregistered on 15 December 2012. No gain or loss arises from the deregistration on the consolidation level.

(ii) The Group disposed of 100% of its ownership interest in China operation during the year ended 31 December 2012. Refer to Note 8 for details.

(iii) Disposal of 11% ownership interest in U & D Mining Industry (Australia) Pty Ltd

The Group disposed of 11% of its ownership interest in U & D Mining Industry (Australia) Pty Ltd (U & D) during the year ended 31 December 2012. The Group has determined that it no longer has control over U & D and accordingly U & D is not considered to be a subsidiary and becomes an associate at 3 December 2012. Refer to Note 4 (a) and Note 17 for more information.

The gain on sale of 11% of the Group ownership interest in U & D and loss of control has been calculated as follows:

	CONSOLIDATED
	2012
	$
Fair value of cash consideration received	14,190,000
Fair value of retained investment	12,364,683
	26,554,683
Add: Carrying value of former subsidiary's net deficiency	141,745
Less: Carrying value of the non-controlling interest	(56,698)
Less: Carrying value of receivable from subsidiary	(16,140,053)
Gain on interest sold and retained investment before income tax	10,499,677
Income tax expense	(3,419,599)
Gain on interest sold and retained investment after income tax	**7,080,078**

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 16: Subsidiaries (continued)

(iii) Disposal of 11% ownership interest in U & D Mining Industry (Australia) Pty Ltd (continued)

Net cash flow on disposal of U & D

	CONSOLIDATED 2012 $
Consideration received in cash and cash equivalents	14,190,000
Less: cash and cash equivalent balances disposed of	(13,650,300)
	539,700

The carrying amounts of assets and liabilities as at the date of sale (03 December 2012) were:

	03 December 2012 $
Cash and cash equivalents	13,650,350
Short-term deposits with maturity over three months	1,700,000
Trade and other receivables	7,823,136
Property, plant and equipment	215,299
Exploration & evaluation assets	25,406,752
Total assets	**48,795,487**
Trade and other creditors	161,440
Borrowings	48,775,792
Total liabilities	**48,937,232**
Net assets/ (deficiency)	**(141,745)**

Note 17: Investments in associates

a) Movements in carrying amounts

	Note	CONSOLIDATED 2012 $	2011 $
Carrying amount at the beginning of the financial year		-	-
Additions	16(iii)	**12,364,683**	-
Share of loss after income tax		**(12,032)**	-
Carrying amount at the end of the financial year		**12,352,651**	-

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
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Note 17: Investments in associates (continued)

b) Summarised financial information of associates

2012	Equity holding	Assets	Liability	Revenue	Loss
	%	$	$	$	$
U & D Mining Industry (Australia) Pty Ltd (i)	49%	43,635,897	18,426,405	-	(24,555)

(i) Refer to Note 16 (iii) for more information.

There are no contingent liabilities or contingent assets as at 31 December 2012.

	CONSOLIDATED	
	2012	2011
	$	$
Note 18: Trade and Other Payables		
Current		
Other payables and accruals	**763,345**	597,927
Related party payables	**7,819,295**	11,233,419
	8,582,640	11,831,346
Note 19: Borrowings		
Current Secured		
Convertible notes	**-**	8,500,000

Convertible notes

In 2011 the parent company issued $8,500,000 convertible notes to Flash Lighting Company Limited ("Flash Lighting"), the non-controlling interest of U&D Mining Industry (Australia) Pty Ltd as at 31 December 2011.

The notes converted into 27,419,355 ordinary shares of the parent company on 22 November 2012 at a conversion price of $0.31 per share. The conversion price was determined by average share closing price on ASX within 30 business trading days immediately before the conversion date. After conversion, there is a 6-months escrow period on the converted shares.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
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Note 20: Contributed Equity

	CONSOLIDATED			
	2012		2011	
	Shares	$	Shares	$
a) Share capital				
Ordinary shares fully paid	**211,115,355**	**36,615,244**	183,696,000	28,115,244

b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	Issue price	$
1 January 2011	Opening Balance		61,232,000		28,115,244
26 May 11	Share split	(i)	122,464,000		-
31 December 11	Balance		183,696,000		28,115,244
22 November 12	New shares issued resulting from conversion of notes	(ii)	27,419,355	$0.31	8,500,000
31 December 12	Closing balance		211,115,355		36,615,244

(i) On 17 May 2011, the Group announced a share split on 3 for 1 basis according to the resolution at the Annual General Meeting.

(ii) New share issued was a result of the conversion of notes on 22 November 2012, details of which are shown in note 19.

Ordinary shares

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

c) Capital risk management

The Group considers its capital to comprise the equity, as shown in the statement of financial position, plus borrowings net of cash and cash deposits. The Group is not subject to externally imposed capital requirements.

Note 20: Contributed Equity (continued)

c) Capital risk management (continued)

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its owners through capital growth. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

It is the Group's policy to maintain a gearing level of 30% - 50% under normal operation conditions. The net debt and total equity are shown as below:

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Net Debt	**-**	-
Total equity	**31,783,125**	10,990,860

As at 31 December 2011 the Group was in a net cash position since the China operation was classified as the discontinued operation. The net cash position reflects the position of Australian entities only. During the financial year 2012, the Group made gain on the disposal of its ownership interest in subsidiaries and still remained in a net cash position. The funds will be used for the Apollo Fertiliser project and investing in other opportunities.

There have been no significant changes to the Group's capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.

Note 21: Reserves

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Surplus reserve (a)	-	780,049
Foreign currency translation reserve (b)	-	(1,445,110)
	-	(665,061)

(a) Surplus reserve

Surplus reserves as at 31 December 2011 represented a statutory surplus reserve of the Chinese subsidiaries of $780,049. The balance was transferred to accumulated loss upon the disposal of the China operation.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 21: Reserves (continued)

(b) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of the subsidiary operated in China to the presentation currency. Amounts were reclassified to profit or loss when the investment was disposed of in 2012.

Note 22: Non-controlling Interests

Non-controlling interests in:

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Share capital (a)	-	-
Accumulated losses	-	11,148
	-	11,148

(a) The contributed equity of U & D Mining Industry (Australia) Pty Ltd is $1. The non-controlling interests contributed 40% of the contributed equity.

(b) U & D became an associate post the disposal of an 11% ownership interest by the parent company. The balance of non-controlling interest in U & D was reduced to nil.

Note 23: Financial Risk Management

(a) General objectives, policies and processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 23: Financial Risk Management (continued)

Activities undertaken by the Group may expose the Group to market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to its finance team, for designing and operating processes that ensure the effective implementation of the objectives and policies of the Group. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The Board receives monthly reports from the Group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

Following the board resolution to dispose the China operation, all assets and liabilities of China operation as at 31 December 2011 were reclassified to Assets Held for Sale and Liabilities Directly Associated with Assets Held for Sale. Therefore the 2011 and the 2012 financials below do not include above mentioned assets and liabilities.

As at 31 December 2012, the Group held the following financial instruments:

		CONSOLIDATED	
	Note	**2012**	**2011**
		$	**$**
Current			
Cash and cash equivalent	11	**14,849,606**	15,608,039
Short-term deposits with maturity over 3 months	12	**1,016,897**	5,400,000
Trade and other receivables	13	**54,391**	324,018
Cash, loans and receivables		**15,920,894**	21,332,057
Current			
Trade and other payables	18	**8,582,640**	11,831,346
Borrowings	19	**-**	8,500,000
Financial liabilities measured at amortised cost		**8,582,640**	20,331,346

The fair value of these current financial instruments is assumed to approximate their carrying value.

Note 23: Financial Risk Management (continued)

(b) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

To mitigate the credit risk associated with cash and cash equivalents and term deposits with maturity over three months, cash and term deposits are only deposited with reputable financial institutions. Management considers the credit risk in respect of cash and bank deposits with financial institutions is relatively minimal as each counter party either bears a high credit rating or are major Australia banks. Management believes the Australia banks are able to maintain a relative stable credit level in the event of a crisis.

The maximum exposure of the Group to credit risk at the end of the reporting period is as below:

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Cash and cash equivalents	**14,849,606**	15,608,039
Short-term deposits with maturity over 3 months	**1,016,897**	5,400,000
Trade and other receivables	**54,391**	324,018
Total	**15,920,894**	21,332,057

The maximum exposure to credit risk at the end of the reporting period in relation to each class of financial asset is the carrying amount of those assets, which is net of impairment losses. Refer to the summary of financial instruments table above for the total carrying amount of financial assets.

Refer to Note 11 and 12 for concentration of credit risks for cash and cash equivalent and short-term deposits with maturity over three months.

(c) Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments.

Prudent liquidity risk management implies maintaining sufficient cash and ensuring the availability of funding through an adequate amount of committed credit facilities. Flexibility in funding is maintained by keeping committed credit lines available.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
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Note 23: Financial Risk Management (continued)

(c) Liquidity Risk (continued)

Financing arrangements

As at 31 December 2011 Daton Group Australia Limited pledged $5,000,000 to the Bank of China in Australia to obtain a $5,000,000 bank guarantee provided on behalf of the China subsidiary. No other financial arrangements are in place for the continuing operation.

No financial arrangement is in place as at 31 December 2012.

Maturity Analysis

The table below summarises the maturity profile of the Group's financial liabilities based on contractual commitments.

	Note	Carrying Amount	Contractual Cash flows	< 6 months	6- 12 months
		$	$	$	$
31 December 2012					
Non-derivatives					
Non-interest bearing	18	**8,582,640**	**8,582,640**	**8,582,640**	**-**
		8,582,640	**8,582,640**	**8,582,640**	**-**
31 December 2011					
Non-derivatives					
Non-interest bearing	18	11,831,346	11,831,346	11,831,346	-
Interest bearing borrowings	19	8,500,000	9,137,500	-	9,137,500
		20,331,346	20,968,846	11,831,346	9,137,500

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(d) Market risk

(i) Interest rate risk

Interest risk arises from the use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk).

The Group's exposure to cash flow interest relates primarily to cash at bank of the Group which bears floating rates. The Group does not have significant exposure to fair value interest rate risk as all the Group's borrowings are not designated as financial liabilities at fair value through profit and loss.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 23: Financial Risk Management (continued)

(d) Market risk (continued)

***(i) Interest rate risk* (continued)**

It is the Group's policy to eliminate interest rate risk over the cash flows on its short-term debt finance through the use of fixed rate instruments for 12 months. The Group monitors its interest rate exposure continuously. The Group also considers, on a continuous basis, alternative financing opportunities and renewal of existing positions.

The Group's exposure to interest rate risk and the effective weighted average interest rate, by maturity periods, is set out in the tables below:

	Weighted average interest rate	Floating rates	Fixed rates < 1 year	Non-interest bearing	Total
		$	$	$	$
31 December 2012					
Financial Assets					
Cash and cash equivalent	4.44%	1,248,684	13,600,000	922	14,849,606
Short-term deposits with maturity over 3 months	3.50%	-	1,016,897	-	1,016,897
Trade and other receivables		-	-	54,391	54,391
Financial Liabilities					
Trade and other payables		-	-	(8,582,640)	(8,582,640)
		1,248,684	14,616,897	(8,527,327)	7,338,254
31 December 2011					
Financial Assets					
Cash and cash equivalent	4.58%	7,605,221	8,000,000	2,818	15,608,039
Short-term deposits with maturity over 3 months	5.28%	-	5,400,000	-	5,400,000
Trade and other receivables	-	-	-	324,018	324,018
Financial Liabilities					
Trade and other payables	-	-	-	(11,831,346)	(11,831,346)
Convertible notes	7.50%	-	(8,500,000)	-	(8,500,000)
		7,605,221	4,900,000	(11,504,510)	1,000,711

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 23: Financial Risk Management (continued)

(d) Market risk (continued)

(i) Interest rate risk **(continued)**

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate financial assets and financial liabilities).

	CONSOLIDATED			
	2012		2011	
	+0.04% (4 basis points)	-0.04% (4 basis points)	+0.04% (4 basis points)	-0.04% (4 basis points)
	$	$	$	$
Cash at bank	499	(499)	3,042	(3,042)
Tax charge at 30% （2011: 30%）	(150)	150	(913)	913
After tax increase / (decrease)	349	(349)	2,129	(2,129)

Significant assumptions used in interest rate exposure sensitivity analysis:

(i) Reasonable possible movements in interest rates were determined based on the current levels of debt, relationships with financial institutions and economic forecaster's expectations

(ii) The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

Note 24: Key Management Personnel Disclosures

	CONSOLIDATED	
	2012	2011
	$	$
(a) Compensation		
Short-term employee benefits	**241,334**	350,066
Post-employment benefits	**6,750**	637
	248,084	351,382

Further information regarding the identity of key management personnel and their compensation can be found in Audited Remuneration Report.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 24: Key Management Personnel Disclosures (continued)

b) Equity instruments

Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

Name	Balance at 1 January 2012	Received on conversion of notes	Share split	Other changes	Balance at 31 December 2012
Zeng Li	25,919,997	-	-	(25,919,997)(iv)	-
Yinan Zhang	36,768,003	-	-	17,280,000(iii)	54,048,003
Zoe Yan Zhang	72,000	-	-	(72,000)(iv)	-
Jun Xiao(v)	-	27,419,355	-	21,599,999(v)	49,019,354
Total	**62,760,000**	**27,419,355**	**-**	13,428,224	**103,607,357**

Name	Balance at 1 January 2011	Granted as compensation	Share split (i)	Other changes (ii)	Balance at 31 December 2011
Zeng Li	8,639,999	-	17,279,998	-	25,919,997
Yinan Zhang	12,364,001	-	24,728,002	(324,000)	36,768,003
Zoe Yan Zhang	24,000	-	48,000	-	72,000
Total	**21,028,000**	**-**	42,056,000	(324,000)	62,760,000

No other key management personnel held the Group's equity instruments.

(i) Daton Group Australia Limited announced on 1 June 2011 a 3 for 1 share split. The directors' shareholdings increased as a result of the share split.

(ii) As at 31 December 2010, Mr Yinan Zhang owned 50% of the shares of Australia Golden Shell International Pty Ltd ("Golden Shell") and was indirectly entitled to 300,000 number of ordinary shares of the Group. On 25 June 2011 Mr Yinan Zhang disposed all his shares in Golden Shell and this transaction is reflected as a deduction of 300,000 shares in above table.

(iii) During the year ended 31 December 2012 Mr Yinan Zhang increased his shareholding in two companies that hold shares in Daton Group Australia Ltd increasing his shareholding in Daton Group Australia Ltd by 17,280,000 shares.

(iv) Mr Zeng Li resigned as a director on 31 May 2012. Zoe Yan Zhang resigned as a director on 2 July 2012.

(v) Mr Jun Xiao is a director of Flash Lighting Company Limited (Flash Lighting), and holds the shares received in 2012 through Flash Lighting. 27,419,355 shares were issued to Flash Lighting as a result of notes conversion. Refer to note 20 (b) and note 24 for more information.

Mr Jun Xiao holds a 50% interest in a company that entitles him to 21,599,999 shares in Daton Group Australia Ltd.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	2012	**2011**
	$	**$**

Note 24: Key Management Personnel Disclosures (continued)

Option holdings

Daton Group Australia Limited has no outstanding options on issue.

c) Aggregate loans from KMP to the Group

	2012 $	2011 $
Balance at beginning of the year	**(1,718,388)**	(1,428,066)
Loans from KMP to the Group	**(4,051,002)**	(1,473,550)
Repayment	**2,950,095**	1,185,597
Effect of movement in foreign exchange	**-**	(2,369)
Balance at end of year	**(2,819,295)**	(1,718,388)
Representing:		
-Continuing operations	**(2,819,295)**	(1,713,952)
-Discontinued operations	**-**	(4,436)
	(2,819,295)	(1,718,388)

d) Aggregate advances from the Group to KMP

	2012 $	2011 $
Balance at beginning of the year	582	7,887
Loans to KMP	-	181,899
Repayment	-	(189,271)
Loans transferred out due to lose control of subsidiaries	(582)	
Effect of movement in foreign exchange	-	67
Balance at end of year	-	582

As at 31 December 2011 the advance was unsecured and interest free to one KMP from the discontinued operation, which was for the purpose of corporate operating expenses.

e) Other transactions with key management personnel

Guarantee provided by the Chairman

In 2011 the former Chairman, Li, Zeng, provided a personal guarantee to the China subsidiary for RMB40,000,000 ($6,182,380) in respect of notes payables issued by the China CITIC Bank for RMB51,000,000 ($7,882,535).

Li, Zeng also provided another joint guarantee together with Jiaozuo Hexing Chemical Co., Limited in respect of the sales and lease back transaction between the China subsidiary and Great Wall Lease Co., Ltd. The joint guarantee amount is RMB44,619,134 ($6,896,311).

No guarantee is provided by the former and the current Chairman in 2012.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 24: Key Management Personnel Disclosures (continued)

Accounting and tax services

A director, Mrs Zoe Zhang, provided accounting and tax services to the parent entity and Australian Golden Star International Pty Ltd, one of the Australian subsidiaries. There was no service agreement entered with those entities and the fees are charged based on the time spent on providing the services. As at 31 December 2011, amount of $78,709 (excluding GST) service fee was incurred and paid during 2011 financial year.

As at 31 December 2012, amount of $8,000 (excluding GST) services fee was incurred and paid during 2012 financial year.

Note 25: Related Party Transactions

(a) Subsidiaries and associate

Interests in subsidiaries and associate are disclosed in note 16.

(b) Transactions with related parties other than key management personnel

Purchases of goods from related parties

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Balance at beginning of the year	**1,185,000**	-
Prepayments made to other related parties	**-**	1,185,000
Goods received from related parties	**(1,185,000)**	-
Balance at end of year	**-**	1,185,000

On 15 November 2011, Apollo Fertiliser Queensland Pty Ltd entered into an equipment acquisition agreement for its compound fertilizer project with a related party, Zhengzhou Luoyang Glass Import and Export Company Limited (“Luoyang Glass”). As at 31 December 2011, $1,185,000 was paid to Luoyang Glass as a deposit. The equipment was received during the year ended 31 December 2012.

Acquisition of property, plant and equipment from other related parties

During the year Apollo Fertiliser Queensland Pty Ltd acquired $3,555,000 (2011: $nil) of property, plant and equipment from Luoyang Glass. This includes the $1,185,000 in relation to the prepayment noted above. The remaining $2,370,000 was paid, and the property plant and equipment received, during the 2012 year.

During the year the Group also acquired $125,100 (2011: $nil) of property, plant and equipment from another related party. There is no outstanding payment as at 31 December 2012 in relation to the purchases.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 25: Related Party Transactions (continued)

(c) Loans from other related parties

	Note	CONSOLIDATED 2012 $	2011 $
Balance at beginning of the year		**(9,519,466)**	-
Loans advanced		**(3,064,645)**	(10,469,467)
Repayments made to other related parties		**3,114,645**	950,000
Loan transferred out	**(i)**	**9,235,739**	-
Balance at end of year		**233,727**	(9,519,467)

(i) Loans transferred out

	CONSOLIDATED 2012 $	2011 $
Loans transferred out due to lose control of subsidiaries*	**9,235,739**	**-**
	9,235,739	**-**

*****This amount is due to a related party, Flash Lighting Company Limited, by U&D Mining Industry (Australia) Pty Ltd. Following the loss control of U&D Mining Industry (Australia) Pty Ltd, U&D Mining Industry (Australia) Pty Ltd is accounted for as an Associate. Therefore, it is transferred out from the disclosure of loan from other related parties.

All loans from other related parties are interest free, unsecured and are payable on demand. All loans from other related parties are with continuing operation in Australia.

(d) Loans from associates - U&D Mining Industry (Australia) Pty Ltd

	CONSOLIDATED 2012 $	2011 $
Balance at beginning of the year	**-**	-
Loans transferred in due to lose of control of subsidiaries*	**(5,000,000)**	-
Balance at end of year	**(5,000,000)**	-

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 25: Related Party Transactions (continued)

(d) Loans from associates - U&D Mining Industry (Australia) Pty Ltd (continued)

*On loss of control of U&D Mining Industry (Australia) Pty Ltd there was a $5,000,000 loan between Daton Group Australia Ltd and U&D Mining Industry (Australia) Pty Ltd. Following the loss of control U&D Mining Industry (Australia) Pty Ltd is accounted for as an Associate and the loan has been disclosed above.

All loans from associates are interest free, unsecured and are payable on demand. All loans from associates are with continuing operation in Australia.

Note 26: Cash Flow Information

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Reconciliation of the profit after tax to the net cash flows from operations:		
Profit/(loss) for the year	**10,790,455**	(22,774,569)
Depreciation of non-current assets	**10,856**	2,722,337
Amortisation of prepayments (land use rights)	**-**	251,406
Impairment of property, plant and equipment	**-**	1,087,665
Impairment of trade and other receivables	**-**	17,098,332
Derecognition of deferred tax assets	**-**	320,781
Gain on disposal of subsidiaries	**(13,156,828)**	-
Share of loss of associates accounted for using the equity method	**12,032**	-
Changes in Operating Assets and Liabilities:		
Decrease/(Increase) in trade and other receivables	**248,565**	(4,128,115)
Decrease in inventory	**-**	3,250,689
(Increase)/decrease in other assets	**(242,886)**	5,627,505
Increase in trade and other payables	**319,369**	1,272,101
Increase/(decrease) in other liabilities	**62,522**	(766,604)
Increase/(decrease) in income tax liabilities	**1,096,200**	(805,233)
Net cash flow (used in)/provided by operating activities	**(859,715)**	3,156,295

Non-cash financing

In 2011 the parent company issued $8,500,000 convertible notes to Flash Lighting Company Limited ("Flash Lighting"), the non-controlling interest of U&D Mining Industry (Australia) Pty Ltd as at 31 December 2011.

The notes converted into 27,419,355 ordinary shares of the parent company on 22 November 2012 at a conversion price of $0.31 per share.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Note 27: Commitments and Contingencies			
Capital commitments			
Continuing Operation			
Property, plant and equipment		**395,000**	7,467,500
Discontinued Operation			
Property, plant and equipment		**-**	2,294,590
Non-cancellable operating leases			
Continuing Operation			
As lessee			
Payable within one year		**21,050**	16,560
Later than 1 year but not later than 5 years		**-**	-
		21,050	16,560
As lessor			
Receivable within one year		**198,000**	-
Later than 1 year but not later than 5 years		**148,500**	-
		346,500	-

The continued operation of the Group leases various premises under non-cancellable operating leases expiring between 1 and 3 years. All leases have annual CPI escalation clauses. The above amounts do not include amounts for any renewal options on leases. Lease terms usually run for 1 and 3 years with a 1 and 3 year renewal option.

Discontinued Operation			
Payable within one year		**-**	30,912
Later than 1 year but not later than 5 years		**-**	154,560
Later than 5 years		**-**	1,092,221
		-	1,277,693

The discontinued operation in China entered into a non-cancellable operating lease agreement in November 2002 for a set of land use rights together with the factory building on the land. The contract will expire in November 2052. The rent is RMB200,000 ($30,912) per year and there are no CPI escalation clauses attached to this lease agreement. The lease does not include commitments for any renewal options on leases.

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 28: Parent entity financial information

The following information relates to the parent entity Daton Group Australia Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1.

	Parent	
	2012	**2011**
	$	**$**
Current asset	**15,081,437**	13,044,653
Non-current assets	**13,832,135**	7,706,941
Total assets	**28,913,572**	20,751,594
Current liabilities	**8,488,075**	9,208,258
Total liabilities	**8,488,075**	9,208,258
Contributed equity	**36,615,244**	28,115,244
Retained earnings	**(16,189,747)**	(16,571,908)
Total equity	**20,425,497**	11,543,336
Profit/(loss) for the year	**382,161**	(16,187,104)
Total comprehensive income/(loss) for the year	**382,161**	(16,187,104)

Guarantees in relation to subsidiaries

Daton Group Australia Limited does not provide any guarantee to its subsidiaries as at 31 December 2012.

Contingent liabilities

Daton Group Australia Limited does not have any contingent liabilities in 2012 (2011: Nil).

Capital Commitments

Daton Group Australia Limited does not have any contractual commitments to acquire property, plant & equipment in 2012 (2011: Nil).

NOTES TO THE CONSOLIDATED FINANICAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Note 29: Subsequent Events

Acquisition of Tenements

On 23rd January 2013, the Group has entered into a non-binding indicative proposal with Krucible Minerals Ltd (ASX code: KRB) to acquire certain phosphate tenements of KRB for a total consideration of $12 million. The acquisition will be subject to due diligence and finalizing of definitive agreements and transactional documents. The rationale of acquiring the phosphate tenements is consistent with the Group's intention to secure supply of phosphate, a key component of compound fertilizer, to its Apollo Fertiliser Project. On completing the transaction, the Group will undertake further exploration works and feasibility studies and will seek partners to develop the phosphate tenements. This transaction has not been recorded in these financial statements.

Note 30: Company Details

(a) Registered Office and Principal Place of Business for continuing operation

Suite 21, Level One, 7 Clunies Ross Court BTP eight Mile Plains QLD 4113

(b) Principal Place of Business for discontinued operation

Eastern side of Middle Yuntai Road, Xiuwu County, Jiaozuo City, Henan Province, PRC

Note 31: Changes of results from 4E

On 28th February 2013, the Group announced to the market its preliminary financial results for the financial year ended 31 December 2012 for a profit of $9,954,391. The audited profit after income tax of the Group of relevant period was $10,790,455, $836,064 more than the preliminary financial results. The changes represented 8% of the final financial results and were mainly caused by following adjustments:

- Decrease in post-tax gain on loss control of subsidies by $2,325,302; and
- Decrease in income tax expense by $3,161,366 due to recognition of a capital loss arising from deregistration of Australia Golden Star International Pty Ltd and the utilization of the tax losses.

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date.

2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

4. The remuneration disclosures included in pages 9 to 14 of the directors' report (as part of audited Remuneration Report), for the year ended 31 December 2012, comply with section 300A of the *Corporations Act 2001.*

5. The directors have been given the declarations by the chief executive officer of and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Yinan Zhang
Managing Director

Zhengzhou, P. R. China

Date: 28th March 2013

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INDEPENDENT AUDITOR'S REPORT

To the members of Daton Group Australia Ltd

Report on the Financial Report

We have audited the accompanying financial report of Daton Group Australia Ltd, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Daton Group Australia Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Daton Group Australia Ltd is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1(c) in the financial report, which indicates that the consolidated entity is expecting to begin production at its Apollo Fertiliser Project in July 2013 and that it has forecast funding required for asset acquisitions of $22,000,000. The ability of the consolidated entity to continue as a going concern is dependent on it raising further capital as and when required. If the consolidated entity is unable to raise capital when required, there exists a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 14 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Daton Group Australia Ltd for the year ended 31 December 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

BDO

A J Whyte

Director

Brisbane, 28 March 2013

Corporate Information

Directors	Mr. Jun Xiao (Chairman) Mr. Yinan Zhang (Executive Director) Ms. Julia Yan Zhu (Non-Executive Director) Mr. Yiming Cui (Non-Executive Director) Mr. James Naiming Li (Non-Executive Director)
Company Secretary	Ms Yi Yang
Registered Office	Suite 21, Level 1, 7 Clunies Ross Court, BTP Eight Mile Plains, Brisbane QLD 4113
Mailing Address	PO Box 4554 Eight Mile Plains, QLD 4113
Principal Places of Business in Australia	Suite 21, Level 1, 7 Clunies Ross Court, BTP Eight Mile Plains, Brisbane QLD 4113
Bankers	Bank of China Limited, Brisbane Branch Level 7, 307 Queen St, Brisbane, QLD 4000 Commonwealth Bank of Australia, Sunnybank Branch Shop 70, Sunnybank Plaza, Cnr Mains & Mccullogh Rds, Sunnybank, QLD 4109 ANZ, Queen Street Branch, Level 1, 324 Queen Street, Brisbane, QLD 4000
Share Register	Computershare Investor Services Limited 117 Victoria St, West End Brisbane QLD 4101
Auditors	BDO Audit Pty Ltd Level 18, 300 Queen St Brisbane QLD 4000
Internet Address	www.datongroup.com.au (English Website)