
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Wing Hing International (Holdings) Limited (the “Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance on the whole or any part of the contents of this circular.

WING HING INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 621)



**VERY SUBSTANTIAL ACQUISITION
AND
INCREASE IN AUTHORISED SHARE CAPITAL**

A notice convening a special general meeting of the Company to be held at 14th Floor, Yau Lee Centre, 45 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 September 2008 at 11:00 a.m. is set out on pages 313 to 315 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the special general meeting if you so wish.

29 August 2008

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	7
Appendix I – Valuation report on the Coal Mines	45
Appendix II – Valuation report on the property interests of the Enlarged Group	59
Appendix III – Financial information of the Group.	65
Appendix IV – Financial information of the Target Group	134
Appendix V – Unaudited pro forma financial information of the Enlarged Group	150
Appendix VI – Technical report.	161
Appendix VII – General information.	305
Notice of SGM	313

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Purchaser as contemplated under the Sale and Purchase Agreement
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Capitalisation”	the capitalisation of the Loan by issuing 99 shares in the capital of the Target to the Vendor
“Coal Mines”	the Tiechong Coal Mine, the Xinghe Coal Mine, the Shuishan Coal Mine, the Lushan Coal Mine and the Dayan Coal Mine
“Company”	Wing Hing International (Holdings) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Sale and Purchase Agreement
“connected persons”	has the meaning ascribed to this term under the Listing Rules
“Consideration”	the consideration of HK\$210,000,000 payable by the Purchaser to the Vendor for the Acquisition and to be satisfied in the manner as described in this circular
“Consideration Shares”	10,000,000 new Shares to be allotted and issued
“Convertible Notes”	senior secured convertible notes with a principal amount of RMB250 million to be issued by the Company
“Dayan Agreement”	the agreement entered into by the PRC Subsidiary on 29 April 2008 relating to the acquisition of the Dayan New Licence
“Dayan Coal Mine”	the coal mine located in Zhijin County in the southwestern part of Guizhou Province

DEFINITIONS

“Dayan Formal Agreement”	the agreement to be entered into by the PRC Subsidiary upon the satisfaction of the conditions in the Dayan Agreement relating to the acquisition of the Dayan New Licence
“Dayan Licence”	the mining rights licence no. 5200000711044 granted by Ministry of Land and Resources PRC in relation to the Dayan Coal Mine
“Dayan New Enterprise”	the new enterprise to be established in the PRC for the holding of the Dayan New Licence
“Dayan New Licence”	the mining rights licence to be granted by Ministry of Land and Resources PRC in relation to the Dayan Coal Mine, pursuant to which the annual production capacity will increase to 450,000 tons of coal
“Deposit”	the Initial Deposit and the Second Deposit
“Directors”	the directors of the Company
“Enlarged Group”	the Group as enlarged by the Acquisition
“Fund Raising Exercise”	the fund raising exercise in the amount of not less than HK\$15,000,000, including by way of placing of Shares or other securities to investors who are parties independent and not connect with the Company and its connected persons
“Group”	the Company and its subsidiaries
“HK Subsidiary”	Pacific Land International Investments Limited, a direct wholly-owned subsidiary of the Target
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Increase in Authorised Share Capital”	the proposed increase in authorised share capital of the Company from HK\$100,000,000 divided into 100,000,000 Shares to HK\$150,000,000 divided into 150,000,000 Shares by creating an additional 50,000,000 unissued Shares
“Independent Third Party”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Initial Deposit”	the initial deposit in the amount of HK\$20,000,000 paid by the Purchaser to the Vendor on 31 July 2008

DEFINITIONS

“Issue Price”	the issue price of approximately HK\$5.00 per Consideration Share
“Latest Practicable Date”	26 August 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	all obligations, liabilities and debts owing or incurred by the Target to the Vendor on or at any time prior to the date of the Sale and Purchase Agreement whether actual, contingent or deferred and irrespective of whether the same is due and payable on the date of the Sale and Purchase Agreement which amounted to HK\$3,055,301 as at 31 March 2008
“Lushan Agreement”	the agreement entered into by the PRC Subsidiary on 28 April 2008 relating to the acquisition of the Lushan Licence
“Lushan Coal Mine”	the coal mine located in the southeastern part of the Guizhou Province and is situated proximal to Dafengdong Town and some 35 km from Kaili City
“Lushan Licence”	the mining rights licence no. 5200000730035 granted by Ministry of Land and Resources PRC in relation to the Lushan Coal Mine
“Mining Licences”	the Tiechong Licence, the Xinghe Licence, the Shuishan Licence, the Lushan Licence and the Dayan Licence
“Mining Licences Agreements”	the Tiechong Formal Agreement, the Xinghe Formal Agreement, the Shuishan Formal Agreement, the Lushan Agreement and the Dayan Formal Agreement
“PRC”	the People’s Republic of China
“PRC Subsidiary”	貴州金億達礦業有限公司 (transliterated as Guizhou Jinyida Mining Company Limited#), a wholly foreign owned enterprise established in the PRC, is an indirect wholly owned subsidiary of the Target
“Promissory Note”	the promissory note in the principal amount of HK\$20,000,000 to be executed by the Company in favour of the Vendor for the purpose of partially settling the Consideration

DEFINITIONS

“Purchaser”	Bless Luck International Limited, a wholly owned subsidiary of the Company
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 20 June 2008 as supplemented by the Supplemental Agreement entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Shares
“Sale Shares”	70 ordinary share of US\$1.00 in the issued share capital of the Target to be held by the Vendor immediate after the completion of the Capitalisation, representing 70% of the entire issued share capital of the Target
“Second Deposit”	the second deposit in the amount of HK\$40,000,000 payable by the Purchaser to the Vendor on the date of completion of the Fund Raising Exercise
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held and convened for the purpose of considering and, if thought fit, approving (i) the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares and the issue of the Promissory Note; and (ii) the Increase in Authorised Share Capital
“Share(s)”	ordinary share(s) of HK\$1.00 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shuishan Agreement”	the agreement entered into by the PRC Subsidiary on 28 April 2008 relating to the acquisition of the Shuishan New Licence
“Shuishan Coal Mine”	the coal mine located in Majiang County in the southeastern part of the Guizhou Province and is situated about 9.5 km northeast of Majiang City
“Shuishan Formal Agreement”	the agreement to be entered into by the PRC Subsidiary upon the satisfaction of the conditions in the Shuishan Agreement relating to the acquisition of the Shuishan New Licence
“Shuishan Licence”	the mining rights licence no. 5200000540312 granted by Ministry of Land and Resources PRC in relation to the Shuishan Coal Mine

DEFINITIONS

“Shuishan New Enterprise”	the new enterprise to be established in the PRC for the holding of the Shuishan New Licence
“Shuishan New Licence”	the mining rights licence to be granted by Ministry of Land and Resources PRC in relation to the Shuishan Coal Mine, pursuant to which the annual production capacity will increase to 90,000 tons of coal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 31 July 2008 entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Shares
“Target”	Union Sense Development Limited, a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by the Vendor
“Target Group”	the Target, the HK Subsidiary and the PRC Subsidiary or where the context so requires in respect of the period before the Target became the holding company of its present subsidiaries, the present subsidiaries of the Target
“Tiechong Agreement”	the agreement entered into by the PRC Subsidiary on 28 April 2008 relating to the acquisition of the Tiechong New Licence
“Tiechong Coal Mine”	the coal mine located proximal to the Xiping village within Majiang County, some 15 km south of Majiang City
“Tiechong Formal Agreement”	the agreement to be entered into by the PRC Subsidiary upon the satisfaction of the conditions in the Tiechong Agreement relating to the acquisition of the Tiechong New Licence
“Tiechong Licence”	the mining rights licence no. 5200000540313 granted by Ministry of Land and Resources PRC in relation to the Tiechong Coal Mine
“Tiechong New Enterprise”	the new enterprise to be established in the PRC for the holding of the Tiechong New Licence
“Tiechong New Licence”	the mining rights licence to be granted by Ministry of Land and Resources PRC in relation to the Tiechong Coal Mine, pursuant to which the annual production capacity will increase to 90,000 tons of coal
“Vendor”	Ms Cheung Oi Chun, an Independent Third Party

DEFINITIONS

“Xinghe Agreement”	the agreement entered into by the PRC Subsidiary on 28 April 2008 relating to the acquisition of the Xinghe New Licence
“Xinghe Coal Mine”	the coal mine located in proximal to the township of Baimang, and approximately 25 km west of Duyun City
“Xinghe Formal Agreement”	the agreement to be entered into by the PRC Subsidiary upon the satisfaction of the conditions in the Xinghe Agreement relating to the acquisition of the Xinghe New Licence
“Xinghe Licence”	the mining rights licence no. 5200000711403 granted by Ministry of Land and Resources PRC in relation to the Xinghe Coal Mine
“Xinghe New Enterprise”	the new enterprise to be established in the PRC for the holding of the Xinghe New Licence
“Xinghe New Licence”	the mining rights licence to be granted by Ministry of Land and Resources PRC in relation to the Xinghe Coal Mine, pursuant to which the annual production capacity will increase to 150,000 tons of coal
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“km”	kilometres
“RMB”	Renminbi, the lawful currency of the PRC
“sq. km”	square km
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

the English translations of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

LETTER FROM THE BOARD

WING HING INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 621)



Executive Directors:

Ng Tat Leung, George (*Chairman*)
Wong Teck Ming (*Deputy Chairman*)
Lui Siu Yee, Samuel
Leung Pui Kwan

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Independent non-executive Directors:

Wong Lit Chor, Alexis
Leung Wai Cheung
Hui Wah Tat, Anthony

Head office and principal

place of business in Hong Kong:
14th Floor
Yau Lee Centre
45 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

29 August 2008

To the Shareholders

Dear Sir or Madam

VERY SUBSTANTIAL ACQUISITION AND INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

Reference is made to the announcements of the Company dated 8 July 2008 and 4 August 2008 in which the Board announced that on 20 June 2008 (with the Supplemental Agreement dated 31 July 2008), the Purchaser, a wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendor to acquire the Sale Shares for a consideration of HK\$210,000,000.

The Acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of Shareholders at the SGM.

The purpose of this circular is to provide you with details regarding (i) the Acquisition and to seek approval from the Shareholders for the Acquisition and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares; and (ii) the Increase in Authorised Share Capital.

LETTER FROM THE BOARD

THE SALE AND PURCHASE AGREEMENT

Date: 20 June 2008 (with the Supplemental Agreement dated 31 July 2008)

Parties: (1) Purchaser : Bless Luck International Limited, a wholly owned subsidiary of the Company

(2) Vendor : Cheung Oi Chun, an Independent Third Party

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Vendor has no relationship, including prior business relationship, with the Directors and the substantial shareholders of the Company; and (ii) each of the Vendor and her associates is an Independent Third Party.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares, representing 70% of the entire issued share capital of the Target immediately prior to Completion.

Consideration

The Consideration for the sale and purchase of the Sale Shares shall be satisfied by the Purchaser in the following manner:

- (a) HK\$20,000,000 has been paid in cash by the Purchaser to the Vendor on 31 July 2008 as initial deposit;
- (b) HK\$40,000,000 shall be payable in cash by the Purchaser to the Vendor on the date of completion of the Fund Raising Exercise as second deposit;
- (c) HK\$50,000,000 shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares to the Vendor or its nominees credited as fully paid, at the Issue Price at Completion;
- (d) HK\$80,000,000 shall be payable in cash by the Purchaser to the Vendor at Completion; and
- (e) the balance of HK\$20,000,000 shall be satisfied by the Purchaser procuring the Company to issue the Promissory Note to the Vendor at Completion.

The Consideration was determined with reference to the recent merger and acquisition transactions from publicly available information involving acquisition of coal mines or companies that are principally engaged in the coal mining business in the PRC. Their transaction prices have been analysed in term of price per ton of coal resources.

The Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations after considering: (i) the estimate value of the Coal Mines of approximately RMB300,000,000 calculated based on the estimated total resources of the Coal Mines of approximately 61.19 million tons as estimated in the preliminary technical report prepared by SRK Consulting, a mining engineering consultant and an Independent Third Party, and the price per ton of coal resources which is approximately

LETTER FROM THE BOARD

RMB4.9 per ton, which was calculated with reference to the prices per ton of coal resources of RMB1.90 to RMB24.94 for the coal mine acquisition transactions in the PRC by companies listed on the Stock Exchange in the previous three years; (ii) the prospect of the coal mining industry in the PRC; and (iii) based on the estimated total coal resources of the Coal Mines of 61,190,000 tons and the aggregate production capacity of the Coal Mines of 370,000 tons of coal per year in 2007, the sale of coal from the Coal Mines will provide a stable income source for the Group. As (i) the price of coal has increased from approximately RMB430 per ton on the date of the Mining Licences Agreement to approximately RMB650 per ton on the date of the Sale and Purchase Agreement; (ii) without the Vendor, the Group will not have the connections to identify suitable mining licences to acquire; (iii) the government of Guizhou province has implemented a policy such that coal mines with a production capacity of 30,000 tons or less such as the Tiechong Coal Mine and the Shuishan Coal Mine will be shut down, which may have lowered the acquisition cost of each of the Coal Mines; and (iv) the estimate value of the Coal Mines of approximately RMB300,000,000, the Directors consider that significant premium of the Consideration over the original acquisition costs under the Mining Licences Agreement is justifiable. As such, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Acquisition to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion shall be conditional upon and subject to:

- (a) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;
- (b) all necessary consents and approvals required to be obtained on the part of the Vendor, the Purchaser and the Company in respect of the Sale and Purchase Agreement, the Lushan Agreement, the Tiechong Agreement, the Xinghe Agreement, the Shuishan Agreement, the Dayan Agreement and the transactions contemplated thereunder having been obtained;
- (c) the passing by the Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the Sale and Purchase Agreement and the transactions contemplated hereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendor or its nominees credited as fully paid to the Vendor or its nominees;
- (d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) in relation to the transactions contemplated under the Sale and Purchase Agreement;
- (e) the warranties as set out in the Sale and Purchase Agreement remaining true and accurate in all respects;
- (f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;

LETTER FROM THE BOARD

- (g) if necessary, the approval of the Bermudan Monetary Authority in respect of the issue and allotment of the Consideration Shares;
- (h) the obtaining of a technical report prepared by an independent technical personnel appointed by the Purchaser (in form and substance satisfactory to the Purchaser and the Vendor) showing the proven resources of the mines beneficially owned by the Target Group to be not less than 60 million tons;
- (i) completion of the Fund Raising Exercise by the Company;
- (j) completion of the Capitalisation; and
- (k) the approval required to be obtain for the reduction of registered capital of the PRC Subsidiary from US\$9,600,000 to US\$3,680,000.

Conditions (a) and (d) are waivable by the Purchaser under the Sale and Purchase Agreement and conditions (b) and (e) are waivable by both the Purchaser and the Vendor under the Sale and Purchase Agreement. The Purchaser and the Vendor have no current intention to waive such conditions. If the conditions have not been satisfied (or as the case may be, waived by the Purchaser) on or before 30 September 2009, or such later date as the Vendor and the Purchaser may agree, the Vendor shall refund to the Purchaser the Deposit, without interest, the Sale and Purchase Agreement shall cease and determine, and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

It is proposed that the Company will issue the Convertible Notes to fund part of the Consideration. As set out in the announcement of the Company dated 2 April 2008, the Company entered into a non legally binding term sheet with an institutional investor in relation to the issue of the Convertible Notes with a principal amount of RMB250 million by the Company. The Company is in the progress of negotiating the terms of the Convertible Notes with the institutional investor. Further announcement in relation to the issue of the Convertible Notes will be made by the Company as and when appropriate. The Company will comply with the relevant Listing Rules when entering into of the agreement in relation to the Fund Raising Exercise, including the issue of the Convertible Bonds.

Completion

Completion shall take place at 4:00 p.m. on the date falling two Business Days after the fulfilment (or waiver) of the conditions or such later date as may be agreed between the Vendor and the Purchaser.

Completion shall take place simultaneously with the completion of the Mining Licences Agreements.

LETTER FROM THE BOARD

Upon Completion, the Target will become an indirect 70% non wholly-owned subsidiary of the Company.

There is no current intention for the Vendor to nominate any Director to the Board.

THE CONSIDERATION SHARES

The 10,000,000 Consideration Shares will be issued at the Issue Price of HK\$5.00 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares then in issue on the date of allotment and issue of the Consideration Shares.

The Issue Price represents: (i) a premium of approximately 168.82% over the closing price of HK\$1.86 per Share as quoted on the Stock Exchange on 20 June 2008, being the date of the Sale and Purchase Agreement; (ii) a premium of approximately 161.78% over the average of the closing prices of approximately HK\$1.91 per Share for the last five consecutive trading days up to and including 20 June 2008, being the date of the Sale and Purchase Agreement; (iii) a premium of approximately 68.92% over the net asset value per Share of approximately HK\$2.96 based on the audited consolidated financial statements of the Group as of 31 March 2007; and (iv) a premium of approximately 235.57% over the closing price of HK\$1.49 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to various factors including the net asset value per Share as set out above. The Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable and issue of the Consideration Shares at the Issue Price is in the interest of the Company and the Shareholders as a whole.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM and will be allotted and issued on the date of Completion.

The Consideration Shares represent approximately 14.49% of the existing issued share capital of the Company and approximately 12.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. There will not be any change in control of the Company upon the allotment and issue of the Consideration Shares.

The Vendor undertakes to and covenants with the Purchaser that she will not, within the period commencing on the date of Completion and ending on the date falling 12 months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of any of the Consideration Shares or any interests therein in respect of any of the Consideration Shares.

Application for listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

LETTER FROM THE BOARD

TERMS OF PROMISSORY NOTE

The terms of the Promissory Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK\$20,000,000

Interest

The Promissory Note carries interest at the rate of 4% per annum payable annually in arrears.

Maturity

A fixed term of five years from the date of issue of the Promissory Note.

Early repayment

The Company could, at its option, repay the Promissory Note in whole or in part in multiples of HK\$10,000,000 by giving a prior written notice to the holder of the Promissory Note, commencing on the date of the Promissory Note up to the date immediately prior to the maturity date of the Promissory Note. There will not be any premium or discount to the payment obligations under the Promissory Note for any early repayment.

Assignment

The Promissory Note may be transferred or assigned by the holder of the Promissory Note to any party other than a connected person of the Company in multiples of HK\$10,000,000.

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date and before Completion; and (ii) immediately after Completion and the allotment and issue of the Consideration Shares:

Shareholders	As at the Latest Practicable Date and before Completion		Immediately after Completion and the allotment and issue of the Consideration Shares	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Ng Tat Leung, George (<i>Note 1</i>)	4,917,369	7.13	4,917,369	6.22
Lui Siu Yee, Samuel	30,600	0.04	30,600	0.04
Wong Teck Ming (<i>Note 1</i>)	30,000	0.04	30,000	0.04
Total Success Worldwide Limited (<i>Note 1</i>)	10,772,700	15.61	10,772,700	13.64
Liu Pui Lan	11,700,000	16.96	11,700,000	14.81
The Vendor	–	–	10,000,000	12.66
Public shareholders				
Grand Legend Limited (<i>Note 2</i>)	5,750,000	8.33	5,750,000	7.28
Other public Shareholders	<u>35,799,331</u>	<u>51.89</u>	<u>35,799,331</u>	<u>45.31</u>
Total:	<u><u>69,000,000</u></u>	<u><u>100.00</u></u>	<u><u>79,000,000</u></u>	<u><u>100.00</u></u>

Notes:

1. The issued share capital of Total Success Worldwide Limited is owned as approximately 92.92% by Ng Tat Leung, George, the chairman of the Company and the managing Director, and as to approximately 7.08% by Wong Teck Ming, an executive Director.
2. The entire issued share capital of Grand Legend Limited is owned by Lo Chun Yang. Loh Siu Yin, Lulu is the spouse of Lo Chun Yang.

LETTER FROM THE BOARD

INFORMATION ON THE TARGET GROUP

The Target

The Target was incorporated in the British Virgin Islands on 6 June 2007 and is principally engaged in investment holding. As at the Latest Practicable Date, one share of US\$1.00 each in the issued share capital of the Target, representing the entire issued share capital of the Target, was held by the Vendor. Prior to Completion, the Target shall capitalise the Loan by issuing 99 shares of US\$1.00 in the capital of the Target to the Vendor.

The Target Group

The HK Subsidiary, a direct wholly-owned subsidiary of the Target, was incorporated in Hong Kong on 12 September 2007. The PRC Subsidiary, a direct wholly-owned subsidiary of the HK Subsidiary, was established in the PRC on 14 January 2008 and is principally engaged in metal refining, coal exploitation and trading. The PRC Subsidiary entered into the Lushan Agreement, the Tiechong Agreement, the Xinghe Agreement, the Shuishan Agreement and the Dayan Agreement for the acquisition of the Mining Licences. Upon completion of the Lushan Agreement, the Tiechong Agreement, the Xinghe Agreement, the Shuishan Agreement and the Dayan Agreement, the PRC Subsidiary will become the holder of the Mining Licences.

According to the unaudited consolidated management accounts of the Target Group prepared under the Hong Kong accounting standards, for period commencing from 6 June 2007 to 31 March 2008, the net loss before and after taxation was approximately HK\$18,000. The net liabilities of the Target Group were approximately HK\$18,000 as at 31 March 2008.

Capital commitment

As at the Latest Practicable Date, the PRC Subsidiary has reduced its registered capital from US\$9,600,000 to US\$3,680,000 and the HK Subsidiary has no outstanding capital commitment to the PRC Subsidiary. Upon Completion, the HK Subsidiary will become an indirect non wholly-owned subsidiary of the Company.

The Directors expect that further capital contribution by Group will be made to the PRC Subsidiary, which will be used to increase the production capacity of the Coals Mines. The Directors intend to fund the further capital contribution by part of the proceeds from the issue of the Convertible Notes, if the Company proceeds to issue the Convertible Notes.

LETTER FROM THE BOARD

Tiechong Agreement

The PRC Subsidiary entered into the Tiechong Agreement with Su Jian Feng and Shen Jun Chen on 28 April 2008 to acquire the Tiechong New Licence which will have an annual production capacity of 90,000 tons of coal and to rent the ancillary facilities for 30 years at the consideration of RMB3,600,000 and RMB10,000 respectively. The consideration for the Tiechong New Licence shall be satisfied by the PRC Subsidiary in the following manner:

- (a) RMB500,000 shall be payable on the date of signing of the Tiechong Agreement;
- (b) 15% of the consideration is payable within the next day after the Tiechong New Enterprise obtaining the business licence;
- (c) 5% of the consideration is payable within three days after the receipt of the written notice from the Tiechong New Enterprise that the Tiechong New Licence has been obtained;
- (d) 5% of the consideration is payable within seven days after obtaining all necessary approval, permit or consent in relation to the Tiechong New Licence;
- (e) 10% of the consideration is payable within seven days after the PRC Subsidiary or its nominees becoming the beneficial owner of the Tiechong New Licence and holder of the ancillary facilities; and
- (f) subject to the completion of (a) to (e) above, 65% of the consideration is payable on 1 February 2009.

The Tiechong Agreement shall be conditional upon and subject to:

- (a) the Stock Exchange and/or other relevant authorities unconditionally approve the transfer of the Tiechong New Licence; and
- (b) the Purchaser being satisfied with the results of the due diligence review to be conducted on the Tiechong Licence and other related legal documents (including but not limited to legal, financial and business), which shall commence on the third day after the establishment of the Tiechong New Enterprise and shall end on the 30th day after the establishment of the Tiechong New Enterprise.

Within five days after the satisfaction of the conditions, the parties to the Tiechong Agreement shall enter into the Tiechong Formal Agreement.

LETTER FROM THE BOARD

Pursuant to the Tiechong Agreement, within 150 working days after the signing of the Tiechong Agreement, (i) the Tiechong New Enterprise shall obtain the business licence; and (ii) the Tiechong New Enterprise shall obtain the Tiechong New Licence.

Su Jian Feng and Shen Jun Chen shall, within five days after the Tiechong New Enterprise obtaining the business licence and the Tiechong New Licence, procure the Tiechong New Enterprise and the PRC Subsidiary or its nominees to enter to the Tiechong Formal agreement and shall within 150 working days after the signing of the Tiechong Formal agreement obtain all necessary governmental approval, permit or consent for the completion of the acquisition of the Tiechong New Licence. Based on the representation of the Vendor, the parties to the Tiechong Agreement agreed in the Tiechong Agreement to enter into the Tiechong Formal Agreement for the protection of the Vendor.

It is expected that completion of the acquisition of the Tiechong New Licence shall take place on or before 4 August 2009.

As at the Latest Practicable Date, the PRC Subsidiary had paid RMB500,000 as deposit to Su Jian Feng and Shen Jun Chen which shall form part payment for the consideration under the Tiechong Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) each of Su Jian Feng and Shen Jun Chen has no relationship, including prior business relationship, with the directors and the substantial shareholders of the Company or the Vendor; and (ii) each of Su Jian Feng and Shen Jun Chen is an Independent Third Party.

Based on the representation of the Vendor, the consideration was arrived at arm's length negotiations between the Vendor, Su Jian Feng and Shen Jun Chen with reference to various factors including (i) coal mines production capacity; (ii) location of the mines; and (iii) the government of Guizhou province has implemented a policy such that coal mines with a production capacity of 30,000 tons or less such as the Tiechong Coal Mine will be shut down, which may have lowered the acquisition cost of each of the Coal Mines.

As at the Latest Practicable Date, the parties of the Tiechong Agreement are obtaining the approval from the Ministry of Land and Resources PRC for the Tiechong Agreement and the transactions contemplated thereunder.

Xinghe Agreement

The PRC Subsidiary entered into the Xinghe Agreement with Bian Zhuan Zhe and Shen Jun Chen on 28 April 2008 to acquire the Xinghe New Licence which will have an annual production capacity of 150,000 tons of coal and to rent the ancillary facilities for 30 years at the consideration of RMB9,500,000 and RMB10,000 respectively.

LETTER FROM THE BOARD

The consideration for the Xinghe New Licence shall be satisfied by the PRC Subsidiary in the following manner:

- (a) RMB500,000 shall be payable on the date of signing of the Xinghe Agreement;
- (b) 10% of the consideration is payable within two days after the Xinghe New Enterprise obtaining the business licence;
- (c) 5% of the consideration is payable within three days after the receipt of the written notice from the Xinghe New Enterprise notifying that the Xinghe New Licence has been obtained;
- (d) 5% of the consideration is payable within five days after obtaining all necessary approval, permit or consent in relation to the Xinghe New Licence;
- (e) 15% of the consideration is payable within three days after the PRC Subsidiary or its nominees becoming the beneficial owner of the Xinghe New Licence and holder of the ancillary facilities; and
- (f) subject to the completion of (a) to (e) above, 65% of the consideration is payable on 1 February 2009.

The Xinghe Agreement shall be conditional upon and subject to:

- (a) the Stock Exchange and/or other relevant authorities unconditionally approve the transfer of the Xinghe New Licence; and
- (b) the Purchaser being satisfied with the results of the due diligence review to be conducted on the Xinghe Licence and other related legal documents (including but not limited to legal, financial and business), which shall commence on the third day after the establishment of the Xinghe New Enterprise and shall end on the 30th day after the establishment of the Xinghe New Enterprise.

Within five days after the satisfaction of the conditions, the parties to the Xinghe Agreement shall enter into the Xinghe Formal Agreement.

Pursuant to the Xinghe Agreement, within 150 working days after the signing of the Xinghe Agreement, (i) the Xinghe New Enterprise shall obtain the business licence; and (ii) the Xinghe New Enterprise shall obtain the Xinghe New Licence.

Bian Zhuan Zhe and Shen Jun Chen shall, within 30 days after the Xinghe New Enterprise obtaining the business licence and the Xinghe New Licence, procure the Xinghe New Enterprise and the PRC Subsidiary or its nominees to enter to the Xinghe Formal Agreement and shall within 150 working days after the signing of the Xinghe Formal Agreement obtain all necessary governmental

LETTER FROM THE BOARD

approval, permit or consent for the completion of the acquisition of the Xinghe New Licence. Based on the representation of the Vendor, the parties to the Xinghe Agreement agreed in the Xinghe Agreement to enter into the Xinghe Formal Agreement for the protection of the Vendor.

It is expected that completion of the acquisition of the Xinghe New Licence shall take place on or before 4 August 2009.

As at the Latest Practicable Date, the PRC Subsidiary has already paid RMB500,000 as deposit to Bian Zhuan Zhe and Shen Jun Chen which shall form part payment for the consideration under the Xinghe Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) each of Bian Zhuan Zhe and Shen Jun Chen has no relationship, including prior business relationship, with the directors and the substantial shareholders of the Company or the Vendor; and (ii) each of Bian Zhuan Zhe and Shen Jun Chen is an Independent Third Party.

Based on the representation of the Vendor, the consideration was arrived at arm's length negotiations between the Vendor, Bian Zhuan Zhe and Shen Jun Chen with reference to various factors including (i) coal mines production capacity; and (ii) location of the mines.

As at the Latest Practicable Date, the parties of the Xinghe Agreement are obtaining the approval from the Ministry of Land and Resources PRC for the Xinghe Agreement and the transactions contemplated thereunder.

Shuishan Agreement

The PRC Subsidiary entered into the Shuishan Agreement with Huang Xue Yun and Shen Jun Chen on 28 April 2008 to acquire the Shuishan New Licence which will have an annual production capacity of 90,000 tons of coal and to rent the ancillary facilities for 30 years at the consideration of RMB3,600,000 and RMB10,000 respectively. The consideration for the Shuishan New Licence shall be satisfied by the PRC Subsidiary in the following manner:

- (a) RMB500,000 shall be payable on the date of signing of the Shuishan Agreement;
- (b) 15% of the consideration is payable within the next day after the Shuishan New Enterprise obtaining the business licence;
- (c) 5% of the consideration is payable within three days after the receipt of the written notice from the Shuishan New Enterprise notifying that the Shuishan New Licence has been obtained;
- (d) 5% of the consideration is payable within seven days after obtaining all necessary approval, permit or consent in relation to the Shuishan New Licence;

LETTER FROM THE BOARD

- (e) 10% of the consideration is payable on the day the PRC Subsidiary or its nominees becoming the beneficial owner of the Shuishan New Licence and holder of the ancillary facilities; and
- (f) subject to the completion of (a) to (e) above, 65% of the consideration is payable on 1 February 2009.

The Shuishan Agreement shall be conditional upon and subject to:

- (a) the Stock Exchange and/or other relevant authorities unconditionally approve the transfer of the Shuishan New Licence; and
- (b) the Purchaser being satisfied with the results of the due diligence review to be conducted on the Shuishan Licence and other related legal documents (including but not limited to legal, financial and business), which shall commence on the third day after the establishment of the Shuishan New Enterprise and shall end on the 30th day after the establishment of the Shuishan New Enterprise.

Within five days after the satisfaction of the conditions, the parties to the Shuishan Agreement shall enter into the Shuishan Formal Agreement.

Pursuant to the Shuishan Agreement, within 150 working days after the signing of the Shuishan Agreement, (i) the Shuishan New Enterprise shall obtain the business licence; and (ii) the Shuishan New Enterprise shall obtain the Shuishan New Licence.

Huang Xue Yun and Shen Jun Chen shall, within 30 days after the Shuishan New Enterprise obtaining the business licence and the Shuishan New Licence, procure the Shuishan New Enterprise and the PRC Subsidiary or its nominees to enter to the Shuishan Formal Agreement and shall within 150 working days after the signing of the Shuishan Formal Agreement obtain all necessary governmental approval, permit or consent for the completion of the acquisition of the Shuishan New Licence. Based on the representation of the Vendor, the parties to the Shuishan Agreement agreed in the Shuishan Agreement to enter into the Shuishan Formal Agreement for the protection of the Vendor.

It is expected that completion of the acquisition of the Shuishan New Licence shall take place on or before 4 August 2009.

As at the Latest Practicable Date, the PRC Subsidiary has already paid RMB500,000 as deposit to Huang Xue Yun and Shen Jun Chen which shall form part payment for the consideration under the Shuishan Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) each of Huang Xue Yun and Shen Jun Chen has no relationship, including prior business relationship, with the directors and the substantial shareholders of the Company or the Vendor; and (ii) each of Huang Xue Yun and Shen Jun Chen is an Independent Third Party.

LETTER FROM THE BOARD

Based on the representation of the Vendor, the consideration was arrived at arm's length negotiations between the Vendor, Huang Xue Yun and Shen Jun Chen with reference to various factors including (i) coal mines production capacity; (ii) location of the mines; and (iii) the government of Guizhou province has implemented a policy such that coal mines with a production capacity of 30,000 tons or less such as the Shuishan Coal Mine will be shut down, which may have lowered the acquisition cost of each of the Coal Mines.

As at the Latest Practicable Date, the parties of the Shuishan Agreement are obtaining the approval from the Ministry of Land and Resources PRC for the Shuishan Agreement and the transactions contemplated thereunder.

Lushan Agreement

The PRC Subsidiary entered into the Lushan Agreement with 凱里市爐山鎮煤礦 (Kaili City Lushan Town Coal Mine#) on 28 April 2008 to acquire the Lushan Licence which has an annual production capacity of 90,000 tons of coal and to rent the ancillary facilities for 30 years at the consideration of RMB5,500,000 and RMB10,000 respectively.

The consideration for the Lushan Licence shall be satisfied by the PRC Subsidiary in the following manner:

- (a) RMB500,000 shall be payable within three days after the list of assets relating to the Lushan Licence is being prepared;
- (b) 20% of the consideration is payable within three days after the PRC Subsidiary or its nominees becoming the beneficial owner of the Lushan Licence and holder of the ancillary facilities;
- (c) 15% of the consideration is payable within 10 days upon the normal operation of the Lushan Coal Mine under the Lushan Licence; and
- (d) subject to the completion of (a) to (c) above, 65% of the consideration is payable on 1 February 2009.

The consideration for the renting of the ancillary facilities shall be satisfied by the PRC Subsidiary within two days after the Lushan Licence is beneficially owned by the PRC Subsidiary.

凱里市爐山鎮煤礦 (Kaili City Lushan Town Coal Mine#) shall within 150 days after the signing of the Lushan Agreement obtain the relevant approval from Guizhou Ministry of Land and Resources for (i) the Lushan Agreement; and (ii) the transfer the Lushan Licence to the PRC Subsidiary.

It is expected that completion of the acquisition of the Lushan Licence shall take place on or before 4 August 2009.

LETTER FROM THE BOARD

As at the date hereof, the PRC Subsidiary has already paid RMB500,000 as deposit to 凱里市爐山鎮煤礦 (Kaili City Lushan Town Coal Mine#) which shall form part payment for the consideration under the Lushan Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) 凱里市爐山鎮煤礦 (Kaili City Lushan Town Coal Mine#) has no relationship, including prior business relationship, with the directors and the substantial shareholders of the Company or the Vendor; and (ii) 凱里市爐山鎮煤礦 (Kaili City Lushan Town Coal Mine#) is an Independent Third Party.

Based on the representation of the Vendor, the consideration was arrived at arm's length negotiations between the Vendor and 凱里市爐山鎮煤礦 (Kaili City Lushan Town Coal Mine#) with reference to various factors including (i) coal mines production capacity; and (ii) location of the mines, which may have lowered the acquisition cost of each of the Coal Mines.

As at the Latest Practicable Date, the parties of the Lushan Agreement are obtaining the approval from the Ministry of Land and Resources PRC for the Lushan Agreement and the transactions contemplated thereunder.

Dayan Agreement

The PRC Subsidiary entered into the Dayan Agreement with Shen Jun Chen on 29 April 2008 to acquire the Dayan New Licence which will have an annual production capacity of 450,000 tons of coal and to rent the ancillary facilities for 30 years at the consideration of RMB11,000,000 and RMB10,000 respectively. The consideration for the Dayan New Licence shall be satisfied by the PRC Subsidiary in the following manner:

- (a) RMB500,000 shall be payable on the date of signing of the Dayan Agreement;
- (b) 10% of the consideration is payable within the next day after the Dayan New Enterprise obtaining the business licence;
- (c) 5% of the consideration is payable within three days after the receipt of the written notice from the Dayan New Enterprise notifying that the Dayan New Licence has been obtained;
- (d) 5% of the consideration is payable within three days after obtaining all necessary approval, permit or consent in relation to the Dayan New Licence;
- (e) 10% of the consideration is payable within three days after the PRC Subsidiary or its nominees becoming the beneficial owner of the Dayan New Licence and holder of the ancillary facilities;

LETTER FROM THE BOARD

- (f) 5% of the consideration is payable within 60 days upon the normal operation of the Dayan Coal Mine under the Dayan New Licence; and
- (g) subject to the completion of (a) to (e) above, 65% of the consideration is payable on 1 February 2009.

The Dayan Agreement shall be conditional upon and subject to:

- (a) the Stock Exchange and/or other relevant authorities unconditionally approve the transfer of the Dayan New Licence; and
- (b) the Purchaser being satisfied with the results of the due diligence review to be conducted on the Dayan Mining Licence and other related legal documents (including but not limited to legal, financial and business), which shall commence on the third day after the establishment of the Dayan New Enterprise and shall end on the 30th day after the establishment of the Dayan New Enterprise.

Within ten days after the satisfaction of the conditions, the parties to the Dayan Agreement shall enter into the Dayan Formal Agreement.

Pursuant to the Dayan Agreement, within 150 working days after the signing of the Dayan Agreement, (i) the Dayan New Enterprise shall obtain the business licence; and (ii) the Dayan New Enterprise shall obtain the Dayan New Licence.

Shen Jun Chen shall, within five days after the Dayan New Enterprise obtaining the business licence and the Dayan New Licence, procure the Dayan New Enterprise and the PRC Subsidiary or its nominees to enter to the Dayan Formal Agreement and shall within 150 working days after the signing of the Dayan Formal Agreement obtain all necessary governmental approval, permit or consent for the completion of the acquisition of the Dayan New Licence. Based on the representation of the Vendor, the parties to the Dayan Agreement agreed in the Dayan Agreement to enter into the Dayan Formal Agreement for the protection of the Vendor.

It is expected that completion of the acquisition of the Dayan New Licence shall take place on or before 4 August 2009.

As at the Latest Practicable Date, the PRC Subsidiary (as defined herein) has already paid RMB500,000 as deposit to Shen Jun Chen which shall form part payment for the consideration under the Dayan Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) Shen Jun Chen has no relationship, including prior business relationship, with the directors and the substantial shareholders of the Company or the Vendor; and (ii) Shen Jun Chen is an Independent Third Party.

LETTER FROM THE BOARD

Based on the representation of the Vendor, the consideration was arrived at arm's length negotiations between the Vendor and Shen Jun Chen with reference to various factors including (i) coal mines production capacity; and (ii) location of the mines.

As at the Latest Practicable Date, the parties of the Dayan Agreement are obtaining the approval from the Ministry of Land and Resources PRC for the Dayan Agreement and the transactions contemplated thereunder.

INFORMATION ON THE MINING LICENCES

Tiechong Licence

Holder of licence: 麻江縣賢昌鄉鐵沖煤礦

Date of issue: 14 December 2005

Valid period: December 2005 to December 2010

Type of mine: Coal

Mining method: Underground mining

Production capacity: 30,000 tons

Mining area: 1.4 sq. km.

The Tiechong Licence is in the process of being renewed. The Tiechong New Licence will have a production capacity of 90,000 tons per annum and valid period of not less than ten years from the date of issue of the Tiechong New Licence.

Xinghe Licence

Holder of licence: 貴州都勻市興和礦業有限公司

Date of issue: 30 August 2007

Valid period: August 2007 to August 2008

Type of mine: Coal

Mining method: Underground mining

Production capacity: 90,000 tons

Mining area: 8.5818 sq. km.

LETTER FROM THE BOARD

The Xinghe Licence is in the process of being renewed. The Xinghe New Licence will have a production capacity of 150,000 tons per annum and valid period of not less than ten years from the date of issue of the Xinghe New Licence.

Shuishan Licence

Holder of licence: 麻江縣碧波鄉水山煤礦

Date of issue: 14 December 2005

Valid period: December 2005 to December 2010

Type of mine: Coal

Mining method: Underground mining

Production capacity: 30,000 tons

Mining area: 1.28 sq. km.

The Shuishan Licence is in the process of being renewed. The Shuishan New Licence will have a production capacity of 150,000 tons per annum and valid period of not less than ten years from the date of issue of the Shuishan New Licence.

Lushan Licence

Holder of licence: 凱里市爐山鎮煤礦(Yang Lin Yong)

Date of issue: 15 February 2007

Valid period: February 2007 to December 2016

Type of mine: Coal

Mining method: Underground mining

Production capacity: 90,000 tons

Mining area: 3.931 sq. km.

LETTER FROM THE BOARD

Dayan Licence

Holder of licence: 織金縣大雁煤礦(He Yong Mo)

Date of issue: 24 May 2007

Valid period: May 2007 to May 2008

Type of mine: Coal

Mining method: Underground mining

Production capacity: 90,000 tons

Mining area: 1.7630 sq. km.

The Dayan Licence is in the process of being renewed. The Dayan New Licence will have a valid period of not less than ten years from the date of issue of the Dayan New Licence.

Policy implemented by the People's Government of Guizhou

The People's Government of Guizhou issued an approval on 29 December 2006 that the coal mines with an annual production capacity of less than 30,000 tons of coal in Majiang, Danzhai, Tianzhu, Kaili and Congjiang of Guizhou, the PRC, had to be shut down by 31 December 2007. Coal mines with the condition to increase the production capacity shall proceed to conduct the necessary procedures according to the policies of the relevant governmental authorities of the PRC and Guizhou. According to such policy, the Tiechong Coal Mine and the Shuishan Coal Mine will need to be shut down unless they increase their production capacity to over 30,000 tons. Applications have been made by the Tiechong Coal Mine and the Shuishan Coal Mine to the relevant governmental authorities for such increases in the production capacities.

As Completion will take place simultaneously with the completion of the Mining Licences Agreements, upon when each of the Tiechong Coal Mine and the Shuishan Coal Mine will have a production capacity of 90,000 tons, the risk of the Group acquiring the Tiechong Coal Mine and the Shuishan Coal Mine which would be shut down due to the above mentioned policy is minimal.

LETTER FROM THE BOARD

INFORMATION ON THE COAL MINES

Tiechong Coal Mine

The Tiechong Coal Mine is located proximal to the Xiping village within Maijiang County, some 15 km south of Majiang City. The Tiechong Coal Mine was constructed in 2005, and commenced production of coal in 2007. The Guixhou Land and Resources Bureau initially issued a coal production licence of 30,000 tons per annum in December 2005. The owners of has applied for a production licence of 90,000 tons per annum in order to increase production.

Based on the preliminary technical report prepared by SRK Consulting, a mining engineering consultant and an Independent Third Party, the estimate coal resource of the Tiechong Coal Mine is approximately 5.96 million tons. Out of the total coal resource, approximately 0.1 million tons can be converted into estimated reserve category of which about 40,000 tons remain non-depleted. Further exploration is required to convert the remaining resources into reserve.

The estimations of the coal resource by SRK Consultant have been conducted on certain observation points – channel samples collected from old underground workings and/or from the mines' development faces. Sample collections have been conducted in accordance with Chinese standards and sample coordinates have been determined by GPS on the surface and by underground technique in old and development faces. Channel samples have been collected from 10 x 5 cm groove cut across the seam, the sample lengths have depended on the seam thickness. Samples were also used for specific gravity tests.

The coal resource estimation approach is set out in details in the independent technical report prepared by SRK Consulting, the text of which is set out in Appendix V to this circular.

Xinghe Coal Mine

The Xinghe Coal Mine is located proximal to the township of Baimang and approximately 25 km west of Duyun City. Xinghe Coal Mine is a new mine which incorporates Lashan (to the north), Zhongshan (central) and Zhengxin (to the south). The current production capacity is 90,000 tons per year. A planned production ramp-up, is aiming at increasing the output to 150,000 tons per year. The mine was constructed in 2002, with upgrades conducted in 2005 and recommencement of production in 2007.

Based on the preliminary technical report prepared by SRK Consulting, the estimate coal resource of the Tiechong Coal Mine is approximately 9.23 million tons. Out of the total coal resource, approximately 1.14 million tons can be converted into estimated reserve category of which about 0.68 million tons remain non-depleted. Further exploration is required to convert the remaining resources into reserve.

LETTER FROM THE BOARD

The estimations of the coal resource by SRK Consultant have been conducted on certain observation points – channel samples collected from old underground workings and/or from the mines' development faces. Sample collections have been conducted in accordance with Chinese standards and sample coordinates have been determined by GPS on the surface and by underground technique in old and development faces. Channel samples have been collected from 10 x 5 cm groove cut across the seam, the sample lengths have depended on the seam thickness. Samples were also used for specific gravity tests.

The coal resource estimation approach is set out in details in the independent technical report to be prepared by SRK Consulting, text of which is set out in Appendix V to this circular.

Shuishan Coal Mine

The Shuishan Coal Mine is located in Majiang County in the southeastern part of the Guizhou Province. The mine is situated about 9.5 km northeast of Majiang City. Construction of the Shuishan Coal Mine commenced in March 2003. The Guizhou Land and Resources Bureau initially issued a 1.28 sq. km mining licence with a total coal production permit of 30,000 tons per year in December 2005. Technical overhauls were carried out from June 2007, and the mine is still in the early phase of development. The current mine owners recently applied for a new mining license with an annual production permit of 90,000 tons in order to ramp-up production.

Based on the preliminary technical report prepared by SRK Consulting, the estimate coal resource of the Shuishan Coal Mine is approximately 8.47 million tons. Further exploration is required to convert the resources into reserve.

The estimations of the coal resource by SRK Consultant have been conducted on certain observation points – channel samples collected from old underground workings and/or from the mines' development faces. Sample collections have been conducted in accordance with Chinese standards and sample coordinates have been determined by GPS on the surface and by underground technique in old and development faces. Channel samples have been collected from 10 x 5 cm groove cut across the seam, the sample lengths have depended on the seam thickness. Samples were also used for specific gravity tests.

The coal resource estimation approach is set out in details in the independent technical report to be prepared by SRK Consulting, text of which is set out in Appendix V to this circular.

Lushan Coal Mine

The Lushan Coal Mine is located in the southeastern part of the Guizhou Province. The Lushan Coal Mine is situated proximal to Dafengdong Town, and some 35 km from Kaili City. Construction of the Lushan Coal Mine commenced in March 2003. The Guizhou Land and Resources Bureau initially issued a 3.93 sq. km mining license with a total coal production permit of 90,000 tons per year in December 2005. Technical overhauls were carried out from August 2006.

LETTER FROM THE BOARD

Based on the preliminary technical report prepared by SRK Consulting, the estimate coal resource of the Lushan Coal Mine is approximately 6.62 million tons. Out of the total coal resource, approximately 3.01 million tons can be converted into estimated reserve category of which about 2.82 million tons remain non-depleted. Further exploration is required to convert the remaining resources into reserve.

The estimations of the coal resource by SRK Consultant have been conducted on certain observation points – channel samples collected from old underground workings and/or from the mines' development faces. Sample collections have been conducted in accordance with Chinese standards and sample coordinates have been determined by GPS on the surface and by underground technique in old and development faces. Channel samples have been collected from 10 x 5 cm groove cut across the seam, the sample lengths have depended on the seam thickness. Samples were also used for specific gravity tests.

The coal resource estimation approach is set out in details in the independent technical report to be prepared by SRK Consulting, text of which is set out in Appendix V to this circular.

Dayan Coal Mine

The Dayan Coal Mine occupies an area of 1.76 sq. km in Zhijin County in the southwestern part of Guizhou Province. The Dayan Coal Mine is a newly-built coal mine which combines three small-scale mines: the Dazhai, Linshan and Dayan Coal Mines. The new mine focuses on the development and utilisation of coal in order to become a modern, high-yield and safe coal mine with the designed productive capacity of 450,000 tons per annum. The Dayan Coal Mine was founded in February 2007.

Based on the preliminary technical report prepared by SRK Consulting, the estimate coal resource of the Dayan Coal Mine is approximately 30.92 million tons. Out of the total coal resource, approximately 19.22 million tons can be converted into estimated reserve category of which about 18.98 million tons remain non-depleted.

The estimations of the coal resource by SRK Consultant have been conducted based on findings of detailed exploratory drilling conducted by 115th Brigade in 2007.

The coal resource estimation approach is set out in details in the independent technical report to be prepared by SRK Consulting, text of which is set out in Appendix V to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE TARGET GROUP

According to the audited financial information of the Target Group for the period from 6 June 2007 (being the date of incorporation) to 31 March 2008, there was no revenue and the net loss attributable to the equity holders was approximately HK\$18,009.

LETTER FROM THE BOARD

Liquidity and financial resources

As at 31 March 2008, the net liabilities of the Target Group was approximately HK\$18,001, the principal asset of the Target Group was bank balances of approximately HK\$3,037,300 and the principal liability of the Target Group was Amounts due to the Vendor of approximately HK\$3,055,301. The Target Group expresses its gearing ratio as a percentage of bank borrowing over total equity. As at 31 March 2008, the Target Group did not have bank borrowing. The liquidity ratio of the Target Group as at 31 March 2008, represented by a ratio of current assets over current liabilities, was, 0.99: 1, reflecting the deficit of financial resources. As at 31 March 2008, the shareholders' funds of the Target Group amounted to approximately HK\$(18,001). Current assets were approximately HK\$3,037,300, mainly comprising bank balances and cash. Current liabilities were approximately HK\$3,055,301, mainly comprising the amount due to the Vendor.

Employees

As at 31 March 2008, the Target Group had two employees. The total remuneration to employees, including that to the director, for the period ended 31 March 2008 amounted to nil. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee.

Exposure to fluctuation in exchange rates

During the year ended 31 March 2008, the Target Group experienced immaterial exchange rate fluctuations as most of the Target Group's monetary assets and liabilities were denominated in Hong Kong Dollars.

Material acquisitions and disposals of subsidiaries and associated companies

There were no material acquisition and disposal of subsidiaries and associated companies of the Target during the year.

Significant investment or capital assets

As at 31 March 2008, the Target Group did not have any significant investment.

Future plans for material investments or capital assets

As at 31 March 2008, the capital commitment of the PRC Subsidiary was US\$9,800,000. The PRC Subsidiary was originally established on 14 January 2008 with a registered capital of US\$9,800,000. In July 2008, the registered capital of the PRC Subsidiary was reduced from US\$9,800,000 to US\$3,680,000.

LETTER FROM THE BOARD

Contingent liabilities

As at 31 March 2008, the Target Group did not have any material contingent liabilities.

Indebtedness

Save as disclosed under the section headed "Indebtedness" as set out in Appendix III "Financial Information of the Group" or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Target Group did not have any outstanding borrowings, bank overdrafts, loans or other similar indebtedness under acceptances (other than normal trade bill) or acceptance credits, debentures or other loan capital, mortgages, charges, hire purchase or finance lease commitments, guarantees, capital commitments or other contingent liabilities at the close of business on 31 March 2008.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Target Group since 31 March 2008.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

For the year ended 31 March 2006

During the year ended 31 March 2006, the Group recorded a loss attributable to equity holders of the Company of approximately HK\$22,336,000 or loss of HK64.1 cents per share basic, compared with a profit attributable to equity holders of the Company for the year ended 31 March 2005 of approximately HK\$14,176,000 (restated) or earnings of HK49.3 cents per share basic.

Despite the difficult market conditions, the Group has recorded a turnover of approximately HK\$494 million for the year ended 31 March 2006 which represents a 14% increase compared with the turnover recorded in the corresponding period of year ended 31 March 2005. During the year ended 31 March 2006, the recorded loss is mainly attributed to the poor performance of the subsidiary undertaking electrical and mechanical works. As a result, the Group has scaled down the related business which cannot contribute profits to the Group.

(i) Construction and building

The Group has secured several contracts during the financial year ended 31 March 2006, which include the construction of the third golf course at Kau Sai Chau, two contracts for an internationally reputed theme park at Lantau and the construction of 5 km of fencing for a proposed palace in Doha. Together with contracts previously secured, the total value of current contracts on hand amounted to about HK\$622 million. Some of these new contracts are secured through joint-venture with China Harbour Engineering Co. Ltd., a prominent PRC contractor operating globally.

LETTER FROM THE BOARD

As regards major completed projects, the Group has satisfactorily completed the luxurious residential development at Gough Hill Path, the composite building at Queen's Road West, school improvement project for Kei San Secondary School, the proposed Godown extension at Hung Hom and the substructure works at No. 111 King Lam Street and at No. 23 Kent Road. Under joint venture with China Harbour Engineering Co. Ltd., the Group has accomplished the ambulance depot at Kwai Chung.

(ii) Wastewater treatment

With the view of counter-balancing the cyclical construction incomes and leveraging on our construction expertise, the Group, through a jointly-controlled entity has undertaken a 130,000m³/day wastewater treatment TOT/BOT (Transfer-Operate-Transfer/Build-Operate-Transfer) contract in Zhuhai, China with one of the world's leading water operators. One of the sewage treatment plants have been commissioned and it is expected that the TOT/BOT contract will provide long-term steady incomes to the Group. The Group will capitalise on this valuable experience and expertise gained by seeking other water projects in China should appropriate opportunities arise.

(iii) Property development

During the year ended 31 March 2006, the Group, through an associated company, has participated in a property development project at No. 111 King Lam Street, Kowloon for an office building development. Construction of the superstructure has been progressing smoothly with completion to be expected in early 2007.

During the year ended 31 March 2006, the Group, through two associated companies, has further participated in two property development projects, one at Kowloon Bay for an industrial building development and one at San Po Kong for a shopping complex development. Both development projects are now undergoing planning stage.

For the year ended 31 March 2007

During the year ended 31 March 2007 under review, the Group has recorded a turnover of HK\$480 million which represents a slight decrease of 2.8% compared with the turnover recorded in the corresponding period of last year. The Group recorded a net profit from ordinary activities attributable to shareholders of approximately HK\$9.5 million compared with a net loss from ordinary activities attributable to shareholders of approximately HK\$22.3 million for the corresponding period of last year.

LETTER FROM THE BOARD

(i) *Construction and building*

The Group has secured several contracts during the last financial year, which include the additional columbarium at Diamond Hill for Architectural Services Department, a refurbishment contract for Silvercord at Canton Road, the alteration and addition works contract for the Existing Giant Panda House at Ocean Park and a foundation works contract at Tai Yip Street, Kwun Tong. Together with contracts previously secured, the total value of current contracts on hand amounted to about HK\$553 million.

As regards major completed projects, the Group has satisfactorily completed the office development at King Lam Street, the Yew Chung Secondary School at Kowloon Tong, the temporary entrance and Skyfair works and the alteration and addition works for the Existing Giant Panda House at Ocean Park.

(ii) *Wastewater treatment*

With the view of counter-balancing the cyclical construction incomes and leveraging on our construction expertise, the Group, through a jointly-controlled entity has undertaken a 130,000m³/day wastewater treatment TOT/BOT (Transfer-Operate-Transfer/Build-Operate-Transfer) contract in Zhuhai, China with one of the world's leading water operators. The second sewage treatment plant has also been commissioned and it is expected that the TOT/BOT contract will provide long-term steady incomes to the Group. The Group will capitalise on this valuable experience and expertise gained by seeking other similar projects in China should appropriate opportunities arise.

(iii) *Property development*

During the year and 31 March 2007, the Group, through an associated company, continues to participate in the property development project at No. 111 King Lam Street, Kowloon for an office building development. Construction works have been completed and Occupation Permit was obtained in early 2007. Application for the issuance of Certificate of Compliance from the Government is being processed. It is expected that this property development will generate reasonable profits and steady income to the Group through sale and rental of the units and carparks.

The Group, through two other associated companies, has further participated in two property development projects, one at Kowloon Bay for an office building development and one at San Po Kong for a shopping complex development. Demolition of the existing building has been completed in the development at Kowloon Bay and the foundation work is now underway. For the shopping complex development at San Po Kong, the property has been sold to an independent third party and the Group has gained a reasonable return. The property disposal transaction has been completed at the end of December 2006.

LETTER FROM THE BOARD

For the year ended 31 March 2008

During the year under review, the Group has recorded a turnover of HK\$513 million which represents an increase of 6.9% compared with the turnover recorded in the corresponding period of last year. The Group recorded a net profit from ordinary activities attributable to equity holders of approximately HK\$8.1 million compared with a net profit from ordinary activities attributable to equity holders of approximately HK\$9.5 million for the corresponding period of last year.

(i) Construction and Building

The Group has secured several contracts during the last financial year, which include the Astounding Asia at Ocean Park, an industrial development at No.37-39 Wing Hong Street, Lai Chi Kok, a commercial development at No.7 Shing Yip Street, Kwun Tong, a new annex and swimming pool building for Tsung Tsin Christian Academy at No.8 Lai Hong Road, Cheung Sha Wan and a water mains replacement and rehabilitation contract in joint venture with China Harbour Engineering Company Limited. Together with contracts previously secured, the total value of current contracts on hand amounted to about HK\$675 million.

As regards major completed projects, the Group has satisfactorily completed the through-train school development at Shek Mun, Shatin, 3 minor contracts for an international theme park, a foundation contract for an annex and swimming pool building at Tsung Tsin Christian Academy at No.8 Lai Hong Road, Cheung Sha Wan and the third golf course at Kau Sai Chau which is undertaken through joint venture with China Harbour Engineering Company Limited.

In the leisure market, the Group's associated company, Hypsos Leisure Asia Limited, has secured the project management and implementation of an exhibition building for Johnson & Johnson in Beijing which is designed especially for the forthcoming Beijing Olympic Games.

Due to the continuous fierce competition in the construction market, a net loss of approximately HK\$12,000,000 has been recorded during the period under review arising from the construction sector and joint-ventures in this area.

(ii) Wastewater Treatment and Property Development

During the year under review, the Group has signed a sale and purchase agreement for the disposal of certain properties and investments and the wastewater treatment facility project in Zhuhai, China. The details of the disposal can be found in the Company's circular on the "Very Substantial Disposal and Connected Transaction" dated 26 March 2008. The said sale and purchase agreement and the transaction contemplated thereunder were subsequently approved by the shareholders at the special general meeting dated 14 April 2008. Through the disposal, the Group will realise a reasonable return which will be reflected in the 2008/2009 financial year.

LETTER FROM THE BOARD

Liquidity and financial resources

For the year ended 31 March 2006

As at 31 March 2006, the Group's outstanding borrowings amounted to approximately HK\$19,105,000 comprising interest-bearing bank borrowings repayable (i) within one year of approximately HK\$15,602,000 and (ii) repayable over one year of approximately HK\$3,503,000. As at 31 March 2006, the Group's banking facilities were supported by (i) legal charges over the Group's leasehold land and buildings, which are situated in Hong Kong, with carrying values of approximately HK\$10,392,000; (ii) legal charges over the Group's investment property, which is situated in Hong Kong, with carrying value of approximately HK\$4,400,000; (iii) pledged deposits of approximately HK\$20,944,000 of the Group; (iv) corporate guarantees to the extent of approximately HK\$52.1 million in aggregate executed by the Company in respect of banking facilities granted to certain subsidiaries of the Company; and (v) cross guarantees amongst certain subsidiaries of the Company.

The Group's gearing ratio as at 31 March 2006 was 0.07 (2005: 0.06), calculated based on the Group's total borrowings of approximately HK\$19,105,000 (2005 (as restated): HK\$18,605,000) over the Group's total assets of approximately HK\$271,510,000 (2005 (as restated): HK\$293,920,000).

The Group continues to adopt a policy of dealing principally with clients with whom the Group has enjoyed a long working relationship so as to minimise risks in its business.

For the year ended 31 March 2007

As at 31 March 2007, the Group's outstanding borrowings amounted to HK\$3,504,000 comprising interest-bearing bank borrowings repayable (i) within one year of approximately HK\$846,000 and (ii) repayable over one year of approximately HK\$2,658,000. As at 31 March 2007, the Group's banking facilities were supported by (i) legal charges over the Group's leasehold land and buildings, which are all situated in Hong Kong, with carrying value of approximately HK\$10,675,000, (ii) legal charges over the Group's investment property, which is situated in Hong Kong, with carrying value of approximately HK\$4,800,000, (iii) pledged deposits of approximately HK\$16,675,000 of the Group; (iv) corporate guarantees to the extent of approximately HK\$42.8 million in aggregate executed by the Company in respect of the banking facilities granted to certain subsidiaries of the company; and (v) cross guarantees among certain subsidiaries of the Company.

The Group's gearing ratio as at 31 March 2007 was 0.014 (2006: 0.07), calculated based on the Group's total borrowings of HK\$3,504,000 (2006: HK\$19,105,000) over the Group's total assets of HK\$250,588,000 (2006: HK\$271,622,000).

The Group continues to adopt a policy of dealing principally with clients with whom the Group has enjoyed a long working relationship so as to minimise risks in its business.

LETTER FROM THE BOARD

For the year end 31 March 2008

As at 31 March 2008, the Group's had no outstanding bank borrowings. As at 31 March 2008, the Group's banking facilities were supported by (i) legal charges over the Group's leasehold land and buildings, which are all situated in Hong Kong, with carrying value of approximately HK\$10,630,000; (ii) legal charges over the Group's investment property, which is situated in Hong Kong, with carrying value of approximately HK\$6,500,000; (iii) pledged deposits of approximately HK\$21,860,000 of the Group; (iv) corporate guarantees to the extent of approximately HK\$44.6 million in aggregate executed by the Company in respect of the banking facilities granted to certain subsidiaries of the company; and (v) cross guarantees amongst certain subsidiaries of the Company.

The Group's gearing ratio as at 31 March 2008 was 0.168 (2007: 0.014), calculated based on the Group's total borrowings of HK\$98,280,000 (2007: HK\$3,504,000) over the Group's total assets of HK\$584,731,000 (2007: HK\$250,588,000).

The Group continues to adopt a policy of dealing principally with clients with whom the Group has enjoyed a long working relationship so as to minimise risks in its business.

Employees

The Group employed approximately 320, 300 and 190 staff, excluding workers under exclusive subcontracting arrangements, for the three years ended 31 March 2006, 2007 and 2008 respectively. Total staff costs for the years ended 31 March 2006, 2007 and 2008, excluding Directors' remuneration, amounted to approximately HK\$58,409,000, HK\$75,478,000 and HK\$42,556,000 respectively. The remuneration packages of the Group's employees are mainly based on their performance and experience, taking into account current industry practices. The remuneration policy and packages of the Group's employees are reviewed regularly.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme in accordance with the rules of the MPF Scheme.

In addition to the provision of the MPF Scheme, a share option scheme (the "Scheme") is also available to employees based on their performance. The Company operates the Scheme for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity"). Eligible participants of the Scheme include the Directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any technical, financial and legal professional advisers engaged by the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity. The Scheme became effective on 29 August 2002 and unless otherwise terminated or amended, will remain in force for 10 years from that date.

LETTER FROM THE BOARD

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. No share options were granted under the Scheme as at 31 March 2006, 2007 and 2008.

Exposure to fluctuations in exchange rates

Since the functional currencies of the Group's operations are mainly Hong Kong dollars, United States dollars and Renminbi, the Directors consider that the potential foreign exchange exposure of the Group during each of the three years ended 31 March 2006, 2007 and 2008 is limited.

Material acquisitions and disposals of subsidiaries and associated companies

Save as disclosed below, there were no material acquisitions and disposals of subsidiaries, jointly controlled entities and associated companies during each of the three years ended 31 March 2006, 2007 and 2008.

The Group's acquisition of equity interest in a non-wholly owned subsidiary, CSP (HK) Limited, a company incorporated in Hong Kong and principally engaged in the investments in Veolia Water (Zhuhai) Wastewater Treatment Company Limited and Veolia Water (Zhuhai) Wastewater Treatment Operations Company Limited, during the year ended 31 March 2006.

The Group's investment in an associate, Powerluck Properties Limited, for a property development in Hong Kong during the year ended 31 March 2006.

The Group's investment in a company, Wealthy Star Development Limited, for a property development in Hong Kong during the year ended 31 March 2006.

The Group has disposed its equity interests in Anpoint Engineering Limited to an Independent Third Party during the year ended 31 March 2007.

The Group has acquired the entire equity interests in Farrell Global Limited, a company incorporated in the British Virgin Islands and a subsidiary of which is principally engaged in development and management of a series of sophora products and development and management of biological vegetable oil, including sunflower oil.

Significant investments or capital assets

Save as the addition of land and buildings and those disclosed under the paragraph headed "Material acquisition and disposals of subsidiaries and associated companies", there were no significant investment or capital assets for each of the years ended 31 March 2006, 2007 and 2008.

Future plans for material investments or capital assets

The Group generally finances its material investments or capital assets with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong and PRC.

Save as the Acquisition as disclosed in this circular or as otherwise disclosed herein, there were no future plans for material investments or capital assets for the year ended 31 March 2006, 2007 and 2008.

LETTER FROM THE BOARD

Contingent liabilities

As at 31 March 2006, 31 March 2007 and 31 March 2008 the Group had executed guarantees in respect of performance bonds in favour of contract customers of approximately HK\$22,125,000, HK\$54,138,000 and HK\$25,143,000 respectively. In addition to the above, As at 31 March 2006, 31 March 2007 and 31 March 2008, the Company had executed guarantees in favour of contract customers in respect of the performance of obligation under contracts by a jointly-controlled entity, China Harbour-CWF Joint Venture, with original contract sum of HK\$85,392,000, HK\$84,938,000 and HK\$85,392,000 respectively.

As at 31 March 2006, 31 March 2007 and 31 March 2008 the Company had executed guarantees in favour of contract customers in respect of the performance of a subsidiary's obligation under contracts with contract sum of nil, nil and nil respectively.

As at 31 March 2006, 31 March 2007 and 31 March 2008, the Group's jointly-controlled entities had contingent liabilities in respect of performance bond guarantees amounting to HK\$36,000,000, HK\$36,000,000 and HK\$36,000,000 respectively to which the Group, together with other joint venture partners, are jointly and severally liable.

As at 31 March 2006, 31 March 2007 and 31 March 2008, certain subsidiaries of the Company had provided undertakings of financial support to certain of the Group's jointly-controlled entities in proportion to their equity interests in these entities, in order that these entities could meet their obligations and liabilities as and when they fall due.

The Group's share of the net deficiency in assets of these jointly-controlled entities as at 31 March 2006, 31 March 2007 and 31 March 2008 in the amounts of HK\$590,000, HK\$14,372,000 and HK\$17,342,000 have already been accounted for in presenting the respective financial statements for the respective years.

As at 31 March 2006, the Company had executed guarantees for approximately HK\$36,000,000, HK\$44,100,000 and HK\$8,750,000 in respect of the general banking facilities granted to CHEC-CWF Limited (a jointly-controlled entity in which the Group has 30% equity interests), King Fine Development Limited (an associate in which the Group has 35% equity interests), Powerluck Properties Limited (an associate in which the Group has 35% equity interest), respectively.

At 31 March 2007 and 31 March 2008, the Company had executed guarantees for approximately HK\$36,000,000 and HK\$44,100,000 in respect of the general banking facilities granted to CHEC-CWF Limited (a jointly-controlled entity in which the Group has 30% equity interests) and King Fine Development Limited (an associate in which the Group has 35% equity interests), respectively.

As at 31 March 2006, 31 March 2007 and 31 March 2008 the Company had executed guarantees for approximately HK\$45,040,000, HK\$73,760,000 and HK\$73,760,000 respectively in respect of the general banking facilities granted to Wealthy Star Development Limited (an investee entity in which the Group has 8% equity interest).

LETTER FROM THE BOARD

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK\$3.3 million, HK\$2.4 million and HK\$2.6 million as at 31 March 2006, 31 March 2007 and 31 March 2008 respectively. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in the financial statements of the Group for the year ended 31 March 2008 in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

As at the close of business on 31 March 2006, 2007 and 2008, the Group was involved in various lawsuits and claims arising in the normal course of business of the Group, a summary of which is set out below:

- (i) The Group was involved during the three years ended 31 March 2003 in the undertaking of two construction contracts for the Hong Kong Housing Authority (the “HA”). In attending to these contract works, the Group received requests for clarifications from the HA regarding the technical compliance of the piling work sections of these contract works. Additional piling specification review, testing and other compliance procedures were carried out to substantiate the satisfactory adherence to the technical specifications required for these contract works and for any extension works required for the purpose of providing assurance to the HA. Provisions of approximately HK\$2.5 million have been made in the financial statements for the year ended 31 March 2004 for all additional costs incurred, as well as those necessarily required to be incurred, in attending to these and other additional works reasonably anticipated by the Directors to be necessary for the satisfaction of the HA.

As a result of the execution of these additional contract works, which were not anticipated at the stage of contract inception, the contract period was prolonged with a corresponding overrun of the contract costs incurred. In accordance with the contractual agreement, the HA is entitled to claim against the Group for liquidated damages for the delay in completion of contract works. The maximum potential amount of liquidated damages involved was assessed by the Directors based on the contractual provisions of approximately HK\$14 million, HK\$14 million and HK\$7.9 million, in aggregate, as at 31 March 2004, 2005 and 2006 respectively. Having regard to the circumstances surrounding the prolonged contract works as described above, the Directors are however of the opinion that the Group has meritorious defences against claims for the liquidated damages. In a letter dated 12 December 2000 issued by the HA, the HA confirmed that its building committee had considered the situation and approved the waiver of liquidated damages on an ex-gratia basis if the delay was due to unanticipated complex ground conditions and/or initiatives on supervision enhancement and design approval of piling works implemented after contract formation. Accordingly, although the Group’s grounds of claiming waiver of these possible liquidated damages has yet to be approved by the HA, having considered the legal counsel’s advice, the Directors are of the opinion that the likelihood of such damages falling to the Group is not probable and a provision therefor has not been made in presenting the financial statements for the three years ended 31 March 2006.

LETTER FROM THE BOARD

In July 2001, the piling sections involved in these HA contract works were completed and, up to 31 March 2006 the Group has not received any complaint or indications from the HA regarding sub-standard piling works. The Group has filed formal claims to the HA requesting compensation of the extra contract costs incurred, which have already been fully charged to the profit and loss account during each of the two years ended 31 March 2002, as a result of the contract prolongation. As the negotiations with the HA have not yet reached an advanced stage, as at 31 March 2006 in view of the uncertainties involved, no accrual for the potential compensation revenue has been made in the audited financial statements for the three years ended 31 March 2006.

Subsequent to 31 March 2006 two Supplemental Agreements for Granting Ex-Contractual Extension of Time and Ex-Gratia Payment (the “Supplemental Agreements”) were entered into between the Group and the HA for full settlement of all entitlements and claims of both parties in relation to the two construction contracts. Pursuant to the Supplemental Agreements, the Group has received approximately HK\$17.7 million from the HA during the year ended 31 March 2007.

- (ii) The Group was previously engaged in early 2000 in the undertaking of a piling work contract, which was terminated by the contract customer during 2001 prior to the completion of contract works as a result of the allegation of non-conforming piles. In the previous year, the contract customer demanded from the Group the retrenchment of HK\$5 million of the contract fees received by the Group, as compensation for early termination of the contract works. In prior years, the contract customer was in the process of undergoing a court compulsory winding-up and the provisional liquidator of the contract customer requested payment of HK\$8 million from the Group. Having considered legal counsel’s advice, the Directors are of the opinion that the claim is unlikely to succeed. Accordingly, no provision has been made in the financial statements of the Group for the three years ended 31 March 2006.
- (iii) The Group was previously engaged in early 2000 in the undertaking of a piling work contract. In 2001, the Group made a claim against the main contractor of HK\$7 million for variation orders in addition to the original contract sum. In prior years, the main contractor submitted a counterclaim of HK\$44 million for additional costs incurred due to wrongful repudiation of the subcontract. Having considered the legal counsel’s advice, the Directors are of the opinion that the Group has a good chance of defending the counterclaim. Accordingly, the Directors consider that a provision for the counterclaim is not necessary.

LETTER FROM THE BOARD

- (iv) The Group was held liable for two related claims for the alleged breach of contractual duties, brought against the Group by a contract customer and a nominated subcontractor in respect of renovation works undertaken by the Group in 1992. The total claims payable in respect of the claims amounted to HK\$9.2 million. Certain Directors through companies beneficially and wholly-owned by them, have covenanted with the Group to jointly and severally indemnify and keep the Group indemnified in full against the damages payable. A provision therefor, as well as the corresponding reimbursement recoverable of an equal amount, have been recognised in these financial statements. The outstanding claims payable in respect of the claims amounted to HK\$1.9 million, nil and nil as at 31 March 2004, 2005 and 2006 respectively.
- (v) A subsidiary of the Company, Anpoint Engineering Limited, was engaged in the undertaking of a HVAC installation works contract in 2004. In December 2004, Anpoint Engineering Limited made a claim against the sub-contractor for loss and damage caused by the sub-contractor's wrongful repudiation of contract in the sum of approximately HK\$1.4 million and other loss and damage due to completion of outstanding works and remedial works and payment of Labour Tribunal claims to unpaid workers on the sub-contractor's behalf. The sub-contractor submitted a counterclaim for unpaid workdone and loss of profit in the sum of approximately HK\$1.8 million. Having considered the legal counsel's advice, the Directors are of the opinion that Anpoint Engineering Limited has a good chance of defending the counterclaim. Accordingly, the Directors consider that a provision for the counterclaim is not necessary. Subsequent to 31 March 2006, the Group disposed its entire equity interest in Anpoint Engineering Limited to an independent third party.
- (vi) A number of claims have been brought against the Group in respect of compensation for alleged personal injuries sustained by construction workers during the execution of contract works. The Directors believe that any liabilities of the Group in respect of such claims will be covered either by the Group's insurance policies, or that the Group has a meritorious defense against such claims. Accordingly, the Directors do not believe that these claims will have any material adverse impact on the Group and, therefore no provisions have been made in respect thereof in the financial statements of the Group for the three years ended 31 March 2006.
- (vii) A claim for approximately HK\$1.6 million was brought against a subsidiary of the Company by a sub-contractor in 2002 alleging that the Group is liable for the settlement of sub-contracting charges to the subcontractor. No provision for the claim was made for the years ended 31 March 2004 and 2005, The case was fully settled during the year ended 31 March 2006 with the payment by the Group of approximately HK\$1.6 million to the sub-contractor.

LETTER FROM THE BOARD

Indebtedness

Save as disclosed under the section headed “Indebtedness” as set out in Appendix III “Financial Information of the Group” or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding borrowings, bank overdrafts, loans or other similar indebtedness under acceptances (other than normal trade bill) or acceptance credits, debentures or other loan capital, mortgages, charges, hire purchase or finance lease commitments, guarantees, capital commitments or other contingent liabilities at the close of business on 31 March 2008.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 March 2008.

REASONS FOR THE PROPOSED ACQUISITION

The Group is principally engaged in superstructure construction, foundation piling, substructure works, slope improvement, special construction projects and interior decoration works in Hong Kong and the PRC.

During the recent years, the Group has experienced fierce competition from other market competitors in tendering construction projects in both the private and public sectors. The difficult market conditions in the local construction industry have caused the Group to take a fresh look at its core business. In this regard, the Group has been actively exploring new business opportunities with a view to diversify its existing business. Nevertheless, the Director has no current intention to discontinue with the existing business of the Group.

The Directors consider that the Acquisition represents a good opportunity for the Group to diversify its existing businesses. Taking into account of (i) the prospect of the coal mining industry in the PRC; and (ii) the belief of the Directors that the Acquisition will provide stable income source for the Group based on the estimated total coal resources of the Coal Mines of 61,190,000 tons and the aggregate production capacity of the Coal Mines of 370,000 tons of coal per year in 2007, the Board is of the view that the terms and conditions of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Upon Completion, the Group will recruit experts with relevant experience and expertise to engage in the management of the Coal Mines and to maximise the potential value of the Coal Mines.

LETTER FROM THE BOARD

FINANCIAL EFFECTS ON THE GROUP

Assets and liabilities

Set out in Appendix V to this circular is the unaudited pro forma consolidated financial information of the Enlarged Group. Upon Completion, the consolidated total assets of the Enlarged Group would be increased by approximately 18.29% from approximately HK\$585 million to approximately HK\$692 million and the consolidated total liabilities of the Group would be increased by approximately 19.92% from approximately HK\$281 million to approximately HK\$337 million.

Earnings

Upon Completion, the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group. While there is no immediate material impact on earnings of the Group caused by the Acquisition, the Directors consider that the Acquisition will enhance the business diversification of the Group and the Target Group will contribute positively to the results of the Group.

PROSPECTS OF THE ENLARGED GROUP

Looking ahead, in the medium term, it is anticipated that the construction market in both the private and public sectors will steadily recover in tandem with Hong Kong's rising economic activities and the recent government commitment to increase public expenditures in infrastructure developments in the coming financial years. In the short term, as a result of the steady property prices, the construction market arising from property development projects will remain stable. The Group will focus on the high-end and professional construction markets, in particular the leisure areas like theme parks and institutional works. Due to the recent substantial fluctuations in construction materials and oil prices, the Group will continue to adopt a prudent tendering approach and to increase competitiveness by consolidation of the operations.

In China, the Group will prudently explore new investment opportunities. In January 2008, the Group has signed a sale and purchase agreement for the acquisition of three parcels of agricultural land of total area of 54.69 sq. km. in Inner Mongolia Autonomous Region of PRC. The farmland is intended to be used as a plantation base for cultivating kudouzi (as raw material for Chinese medicine) and oil crop (producing feedstock for biodiesel refinery). The details of the acquisition can be found in the Company's circular on the "Very Substantial Acquisition" dated 22 February 2008. The said sale and purchase agreement and the transaction contemplated thereunder were subsequently approved by the shareholders at the special general meeting dated 10 March 2008. The Group believe that due to the recent sharp increase in oil prices, biodiesel will be a viable alternative energy source and the said investment will provide good opportunity for the Group to secure long-term steady income.

LETTER FROM THE BOARD

The Directors recognised that the growth in the PRC and other developing countries will increase the demand for coal. The increase in the global demand compounded with the reduction in the amount coal exported by traditional coal exporting countries will lead to an increase in the price of coal. In the PRC, the situation of the coal mines has an effect on the price of coal due to the transportation costs. Transportation costs for coal mines situated in Guizhou will be relatively lower as there are a number of potential customers, such as coal driven power stations, in the province. Based on the above, the Board is of the view that, upon Completion, the Group's earning asset base and income will be enhanced.

In Hong Kong, the Group will concentrate on a few other areas on top of the traditional construction activities. Hypsos Leisure Asia Limited, an associated company established with two European partners, has been actively tendering for works in the leisure construction markets and it is expected that further new projects in this area are forthcoming.

The Group anticipates to evolve gradually from a traditional low-value construction group to a diversified conglomerate comprising construction, environmental engineering and investment, and high-value specialist construction in various areas related to leisure markets. Although the performance in the construction sector has not been satisfactory, the Group has recorded an overall net profit for the year under review. As a result, the Group is seriously considering reducing its participation in the construction market and will put more focus on other investment opportunities.

GENERAL

The Acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of the Shareholders at the SGM. Each of the Vendor and her associates is an Independent Third Party and does not hold any Shares as at the Latest Practicable Date. Accordingly, no Shareholder is required to abstain from voting at the SGM. A circular containing, among other matters, further details of the Acquisition and a notice to convene the SGM will be despatched to the Shareholders in compliance with the Listing Rules.

INCREASE IN AUTHORISED SHARE CAPITAL

The Directors propose to increase the authorised share capital of the Company from HK\$100,000,000 divided into 100,000,000 Shares to HK\$150,000,000 divided into 150,000,000 Shares by creating an additional 50,000,000 unissued Shares.

The Company has no current intention to issue any part of increased authorised share capital.

SGM

Set out on pages 313 to 315 is a notice convening the SGM to be held at 14th Floor, Yau Lee Centre, 45 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 September 2008 at 11:00 a.m. at which relevant resolution(s) will be proposed to the Shareholders to consider and, if thought fit, approve (i) the Acquisition and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares; and (ii) the Increase in Authorised Share Capital.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the

LETTER FROM THE BOARD

time appointed for the holding of the special general meeting or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

PROCEDURE FOR DEMANDING A POLL AT GENERAL MEETING

According to bye-law 79 of the bye-laws of the Company, a resolution put to the vote at any general meeting shall be determined by a show of hands of the Shareholders present in person (or, in the case of a Shareholder being a corporation, by its authorised representative entitled to vote) or by proxy unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of such meeting; or
- (ii) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is duly demanded in accordance with the foregoing provisions, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

RECOMMENDATION

The Board considers that the terms of each of the Acquisition and the Increase in Authorised Share Capital are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions as set out in the notice of SGM.

ADDITIONAL INFORMATION

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

Yours faithfully
For and on behalf of the Board
Wing Hing International (Holdings) Limited
Ng Tat Leung, George
Chairman

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 June 2008 of the shareholder's equity interests of the Target.



Asset Appraisal Limited
資產評估顧問有限公司

Rm 1303 13/F Beverly House
No. 93-107 Lockhart Road Wanchai HK
香港灣仔駱克道93-107號
利臨大廈13樓1303室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

29 August 2008

The Board of Directors

Wing Hing International (Holdings) Limited

14th Floor
Yau Lee Centre
45 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

Re: Valuation of shareholders' equities of Union Sense Development Limited (the "Target")

In accordance with the instructions from **Wing Hing International (Holdings) Limited** (referred to as the "**Company**") to value the shareholders' equity interests of the Target. We confirm that we have carried out inspection of the Coal Mines of the Target, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the fair value of the shareholders' equities of the Target as at 30 June 2008 (referred to as the "**Valuation Date**").

The Target is an investment holding company of which the only assets are mining rights in the following 5 coal mines (the "**Coal Mines**") all situated in Guizhou Province, the People's Republic of China (the "**PRC**").

Name of Coal Mine	Location
Tiechong Coal Mine (鐵沖煤礦)	Xiping Village, Maijiang City
Xinghe Coal Mine (興合煤礦)	Baimang, Duyun City
Shuishan Coal Mine (水山煤礦)	Northeast of Majiang City
Lushan Coal Mine (爐山煤礦)	Dafengdong Town, Kaili City
Dayan Coal Mine (大雁煤礦)	Zhijing County

BACKGROUND OF THE TARGET

Incorporated on 6 June 2007 in the British Virgin Islands, the Target is an investment holding company of which the only asset is the entire issued share capital of **Pacific Land International Limited** (“**HK Subsidiary**”).

The HK Subsidiary was incorporated on 12 September 2007 in Hong Kong and is an investment holding company of which the only asset is the entire issued share capital of 貴州金億達礦業有限公司 (transliterated as **Guizhou Jinyida Mining Company Limited**, “**PRC Subsidiary**”).

The PRC Subsidiary was established on 14 January 2008 in the PRC and has a permitted scope of businesses of metal refining, coal exploitation and trading. Pursuant to five separate coal mine acquisition agreements dated 28 April 2008 or 29 April 2008, the Target agreed to acquire the following mining right licences of the Coal Mines covering a total mining area of 16.9558 square kilometres:

Name of Coal Mine	Mining Right Licence	Annual Coal Output (tonnes)
Tiechong Coal Mine	Licence No. 5200000540313 (which shall be replaced by a new mining licence to be granted by Ministry of Land and Resources)	30,000 (which shall be enlarged to 90,000 under the new mining licence)
Xinghe Coal Mine	Licence No. 5200000711043 (which shall be replaced by a new mining licence to be granted by Ministry of Land and Resources)	90,000 (which shall be enlarged to 150,000 under the new mining licence)
Shuishan Coal Mine	Licence No. 5200000540312 (which shall be replaced by a new mining licence to be granted by Ministry of Land and Resources)	30,000 (which shall be enlarged to 90,000 under the new mining licence)
Lushan Coal Mine	Licence No. 5200000730035	90,000
Dayan Coal Mine	Licence No. 5200000711044 (which shall be replaced by a new mining licence to be granted by Ministry of Land and Resources)	90,000 (which shall be enlarged to 450,000 under the new mining licence)

COAL INDUSTRY IN THE PRC

The PRC is the second largest energy consumer and coal consumption accounted for 70% of the overall PRC’s energy requirements.

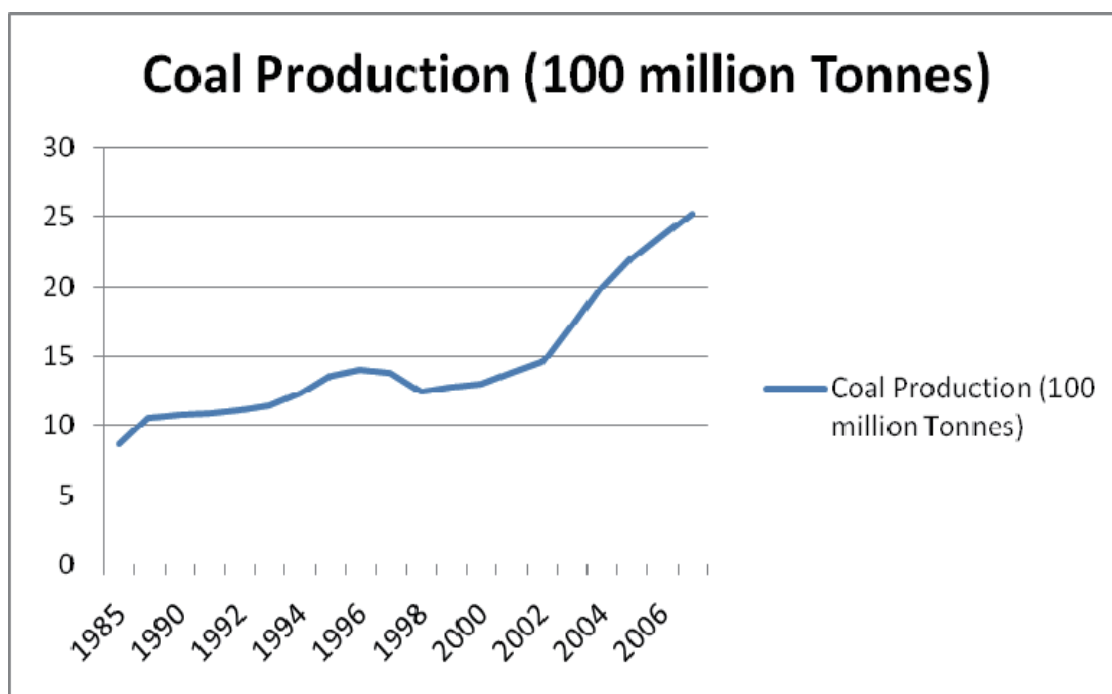
Coal Supply and Demand of the PRC for the first 9 months of 2006 and 2007 are shown below.

Unit: 1,000 tonnes

Coal Supply	Sept 07	Sept 06	Jan-Sept 07	Jan-Sept 06
Domestic	203,550	182,810	1,711,910	1,583,850
Import	3,620	3,085	38,610	25,911
Total Supply	<u>207,170</u>	<u>195,895</u>	<u>1,750,640</u>	<u>1,609,871</u>

Source: China Coal Resource

The PRC's coal production is estimated to be exceeding 2.5 billion tonnes in 2007 according to the Deputy Director of the State Administration of Work Safety. This estimated level of annual output with a growth of 11.5% from the previous year has helped to meet the increasing energy demand of the PRC's double-digit economic growth.



Source: the National Statistics Bureau of the PRC

Guizhou Province is one of the major coal bases (ranking the fifth in the PRC in term of coal output) which contributed about 5% of the total coal output of mainland in 2006 with an output of 118 million tonnes.

Coal consumption categorized by industries for the first 9 months of 2006 and 2007 are shown below:

Unit: 1,000 tonnes

Coal Consumption	Sept 07	Sept 06	Jan-Sept 07	Jan-Sept 06
Export	4,470	6,262	38,010	48,021
Power	107,586	98,040	987,723	876,637
Metallic	52,383	43,689	450,106	362,989
Building Material	26,292	23,587	206,681	183,025
Chemicals	<u>7,748</u>	<u>7,169</u>	<u>68,869</u>	<u>65,944</u>

Source: China Coal Resource

As shown above, the two main areas on coal consumption are power and metallic. Other than the need of the power to sustain the fast growing economy, the PRC's robust economy growth needs steel, hence the demand of coking coal continues to growth.

Coal prices will maintain a trend of appreciation as a whole for the following grounds:

- i. The PRC has streamlined its coal mining industry since last year by closing thousands of small-scale substandard mining entities.
- ii. Coal exports are discouraged and encouraging use of foreign resources, the government has also scrapped tax rebates and now levies export duties on coal. National statistics show that the PRC produced 2.38 billion tonnes of coal in 2006 and consumed 2.37 billion tonnes, promoting a balanced market.
- iii. with the PRC's GDP growing at an average of 9% through 2010, coal consumption is expected to reach 2.87 billion tonnes in 2010, a shortfall of 270 million tonnes out of the 2.6 billion tonnes of planned domestic output of the same year.
- iv. As the government boosts a market-based transformation for the coal industry to encourage suppliers and parties with demands to negotiate on pricing independently according to the supply-demand relation in the market, it is certain that the relatively low price in key contracts on high grade coal provided for power plants in a long period of time will get close to the price in the market according to the supply-demand relation and the deficient degree.

Meanwhile, the relatively large number of factors leading to more expenditure due to policies and the large-scale appreciation of coal production costs will surely drive coal prices to appreciate. A moderate improvement of coal prices is propitious to accelerating the structural adjustment in the coal industry and progresses in energy-saving technologies. Experts said the government's latest policies aimed at regulating the accident-plagued coal industry and protecting domestic energy resources have tipped the previously abundant coal market.

THE COAL MINES

Brief Description of the Coal Mines

A. *Tiechong Coal Mine*

Tiechong Coal Mine, which is situated in close proximity of Xiping Village and some 15 kilometres south of Majiang County with a mining area of 1.4 square kilometres, has been developed since 2005 and commenced mining operations in 2007. Current permitted maximum output of the coal mine is 30,000 tonnes per annum and the owner of the coal mine has applied for expanding the maximum output to 90,000 tonnes per annum.

The coal seam of the coal premium has a gross thickness of 1.53 to 2.1 metres and produces medium-high ash, medium-high sulphur and low-medium volatile coal with gross calorific value averaged 13.55MJ/kg. The coal is primarily supplying the domestic thermal energy market with local plant powers, chemical plants and cement plants as major buyers.

As revealed from the Independent Expert Report prepared by SRK Consulting (the “IER”), the coal resource of the coal mine is estimated at 5,959,489 tonnes of which 91,116 tonnes is category 122b, 803,083 tonnes is category 333 and the remainder is category 334. Out of the estimated coal resources, a total of 104,783 tonnes can be categorized as probable reserve. Up to the end of March 2008, approximately 60,000 tonnes has been extracted from the coal mine. Further exploration is required to convert the category 333 and 334 coal resources into coal reserve.

B. *Xinghe Coal Mine*

Xinghe Coal Mine, which is situated in close proximity of Baimang and some 25 kilometres west of Duyun City with a mining area of 8.5818 square kilometres, has been developed since 2002. In 2005, the coal mine was undertaken its first revamping and re-commenced its mining operations in 2007. Current permitted maximum output of the coal mine is 90,000 tonnes per annum and the owner of the coal mine has applied for expanding the maximum output to 150,000 tonnes per annum.

The coal seam of the coal premium has a gross thickness of 1.1 to 1.6 metres and produces medium ash, medium sulphur and low volatile coal with gross calorific value ranging from 26.71MJ/kg to 27.86MJ/kg. The coal is primarily supplying the domestic thermal energy market with local plant powers, chemical plants and cement plants as major buyers.

As revealed from the IER, the coal resource of the coal mine is estimated at 9,233,348 tonnes of which 1,447,585 tonnes is category 332, 2,867,908 tonnes is category 333 and the remainder is category 334. Out of the estimated coal resources, a total of 1,136,482 tonnes can be categorized as probable reserve. Up to the end of March 2008, approximately 460,000 tonnes has been extracted from the coal mine. Further exploration is required to convert the category 333 and 334 coal resources into coal reserve.

C. Shuishan Coal Mine

Shuishan Coal Mine, which is situated some 9.5 kilometres northeast Majiang City with a mining site area of 1.28 square kilometres. It has been developed since 2003 and was issued with a mining licence in December 2005. Currently, the coal mine is being undertaken technical overhaul. Current permitted maximum output of the coal mine is 30,000 tonnes per annum and the owner of the coal mine has applied for expanding the maximum output to 90,000 tonnes per annum.

The coal seam of the coal premium has a gross thickness of 0.55 to 1.55 metres and produces medium-high ash, medium-high sulphur and medium volatile coal with gross calorific value ranging from 12.63MJ/kg to 20.35MJ/kg. The coal is primarily supplying the domestic thermal energy market with local plant powers, chemical plants and cement plants as major buyers.

As revealed from the IER, the coal resource of the coal mine is estimated at 8,465,355 tonnes of which 912,542 tonnes is category 333 and the remainder is category 334. Further exploration is required to convert the coal resources into coal reserve.

D. Lushan Coal Mine

Lushan Coal Mine, which is situated in close proximity of Dafengdong Town and some 35 kilometres from Kaili City with a mining area of 3.931 square kilometres,. It has been developed since 2003 and was issued with a mining licence in December 2005. Currently, the coal mine is being undertaken technical overhaul. Current permitted maximum output of the coal mine is 30,000 tonnes per annum.

The coal seam of the coal premium has a gross thickness of 0.8 to 1.8 metres and produces medium ash, medium-high sulphur and high volatile coal with gross calorific value averaging 21MJ/kg. The coal is primarily supplying the domestic thermal energy market with local plant powers, chemical plants and cement plants as major buyers.

As revealed from the IER, the coal resource of the coal mine is estimated at 6,615,742 tonnes of which 3,827,891 tonnes is category 122b and the remainder is category 333. Out of the estimated coal resources, a total of 2,817,628 tonnes can be categorized as reserve. Up to the end of March 2008, approximately 19,000 tonnes has been extracted from the coal mine. Further exploration is required to convert the remaining coal resources into coal reserve.

E. Dayan Coal Mine

Dayan Coal Mine, which is situated in close proximity of Shaopu Town and some 48 kilometres from Zhijin County with a mining area of 1.76 square kilometres. It is a newly built coal mine and is targeted to become a modern, high-yield and safe coal mine with a designed productive capacity of 450,000 tonnes per annum.

The coal seam of the coal premium has a gross thickness of 1.8 to 4.2 metres and produces low ash, low sulphur anthracite coal with calorific value ranging from 6,000 to 8,500 kcal/kg. The coal is primarily supplying the domestic thermal energy market with local plant powers, chemical plants and cement plants as major buyers.

As revealed from the IER, the coal resource of the coal mine is estimated at 30,920,710 tonnes all of which is category 111b. Out of the estimated coal resources, a total of 18,977,658 tonnes can be categorized as reserve. Up to the end of March 2008, approximately 240,000 tonnes has been extracted from the coal mine. Further exploration is required to convert the remaining coal resources into coal reserve.

Accessibility of the Coal Mines

Tiechong Coal Mine, Xinghe Coal Mine, Shuishan Coal Mine and Lushan Coal Mine are situated about 70-120 km east-southeast of Guiyang City (the capital of Guizhou Province), whereas Dayan Coal Mine is located approximately 120 km west of Guiyang. They are served with good infrastructures and an extensive network of provincial and national roads as well as six lane freeways. Railway access is particularly good for Shuishan Coal Mine, Tiechong Coal Mine and Lushan Coal Mine, and is fair for Dayan Coal Mine and Xinghe Coal Mine.

Coal Resources and Reserves

With reference to the IER, the coal resources and reserve of respective mines are estimated as follows:

Coal Resources						
Category (tonnes)	111b	122b	332	333	334	Total
Tiechong Mine	Nil	91,116	Nil	803,083	5,065,291	5,959,490
Xinghe Mine	Nil	Nil	1,447,585	2,867,908	4,917,855	9,233,348
Shuishan Mine	Nil	Nil	Nil	912,542	7,552,813	8,465,355
Lushan Mine	Nil	3,827,891	Nil	2,787,851	Nil	6,615,742
Dayan Mine	30,920,710	Nil	Nil	Nil	Nil	30,920,710
Total	30,920,710	3,919,007	1,447,585	7,371,384	17,535,959	61,194,645

Out of the total coal resources of the coal mines, the following tonnages can be classified as coal reserve by SRK Consulting:

Coal Reserve (tonnes)	Reserve	Depleted	Remaining Reserve
Tiechong Mine	104,783	60,000	44,783
Xinghe Mine	1,136,482	460,000	676,482
Shuishan Mine	—	—	—
Lushan Mine	2,817,628	19,000	2,798,628
Dayan Mine	18,977,658	240,000	18,737,658
Total	23,036,551	779,000	22,257,551
		(36.37% of estimated total coal resources)	

Mining Rights

As at the date of this report, the following consents, permits and approvals have been issued to the coal mines for their mining operations:

Coal Mine Exploitation Permit (採礦許可証)

Coal Mine	Permit Holder	Mining Certificate No.	Area (km ²)	Permitted Annual Output (tonnes)	Valid Period
Tiechong	麻江縣賢昌鄉鐵沖煤礦 (Majiang Yanchong Tiechong Coal Mine)	5200000540313	1.4000	30,000	12/2005 to 12/2010 ¹
Xinghe	貴州都勻市興和礦業有限公司, 邊傳哲 (Guizhou Douyun Xinghe Mining Co. Ltd., Bian Chuan Zhe)	5200000711403	8.5818	90,000	8/2007 to 8/2008 ²
Shuishan	麻江縣碧波鄉水山煤礦 (Majiang Bibo Shuishan Coal Mine)	5200000540312	1.2800	30,000	12/2005 to 12/2010 ³
Lushan	凱里市爐山鎮煤礦 (楊林湧) Kai Li Lushan Coal Mine (Yang Lin Yong)	5200000730053	3.9310	90,000	12/2007 to 12/2016
Dayan	織金縣大雁煤礦 Zhi Jin Dayan Coal Mine (He Yong Mo)	5200000711044	1.7630	90,000	5/2007 to 5/2008 ⁴

Notes:

- ¹ the owner of Tiechong Coal Mine has applied for a new Coal Mine Exploitation Permit for expanding the maximum output to 90,000 tonnes per annum
- ² the owner of Xinghe Coal Mine has applied for renewal of Coal Mine Exploitation Permit and expanding the maximum output to 150,000 tonnes per annum
- ³ the owner of Shuishan Coal Mine has applied for a new Coal Mine Exploitation Permit for expanding the maximum output to 90,000 tonnes per annum
- ⁴ the owner of Dayan Coal Mine has applied for renewal of Coal Mine Exploitation Permit

Our valuation has been arrived at on the basis that the operators of the coal mines shall have no legal impediment and not be subject to any substantial costs to apply for renewal of the above, permits by the appropriate regulatory bodies and Government authorities for undertaking their existing coal mining and processing activities and operations.

BASIS OF VALUATION

The shareholders' equity interests have been valued on the basis of "Fair Value" in the premise of continued use. In our appraisal, the fair value reflects the future economic benefit to be derived from the continuous operation of the business and the ownership of the assets. Fair Value in continued use is defined as the estimated amount at which an asset might be expected to exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion and with the buyer and seller contemplating retention of the asset for continuation of its current operations and implementation of the business plans in associate with the asset.

The definition of fair value adopted in this valuation report is similar and/or interchangeable with definitions of the valuation standards below:

Market Value

According to The Hong Kong Business Valuation Forum – Business Valuation Standards, market value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Fair Market Value

The International Valuation Glossary defines fair market value as the amount at which an asset would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

For the purpose of this valuation, the term fair value will be used throughout this valuation report. Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum, which are generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises.

VALUATION METHODOLOGY

The shareholders' equities of the Target have been valued by the Market Transaction Method. The market transaction method determines the fair value of an asset by reference to the transaction prices, or 'valuation multiples' implicit in the transaction prices, of similar assets in the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar assets by a measurement units. The coal resources of the transacted coal mines are considered to be the most appropriate measurement units in working out the valuation multiples.

We have analyzed the following comparable coal mine transactions which have been selected on the following criteria:

- the comparable coal mines are situated close to the Coal Mines;
- the tonnage of coal resources and the production scales of the comparable coal mines are within comparable ranges of the Coal Mines;

No.	Purchaser and Date of Announcement	Coal Mine	Purchase Consideration	Estimated Coal Resources (Mil tonnes)	Price per ton of coal resources	Remarks
1	Hidili Industry International Development Ltd. (1393HK) 29-Dec-2007	Diemaogou Coal Mine, Dongguanao Coal Mine, Mengzhe Jichanghe Coal Mine, Panxian, Boguozhen, Guizhou 盤縣柏果鎮迭毛溝, 冬瓜凹, 猛者雞場河煤礦	RMB355Mil	75.6	RMB4.70	The coal mines have not yet commenced mining operations (Note 1)
2	Heilongjiang Tianlun Real Estate Development Co., Ltd. (000711SHE) 10-Apr-2008	Jiyuan Coal Mine, Liu Pan Shui, Guizhou 貴州六盤水吉源煤礦	RMB6Mil (for 60% interest and the purchaser assumed total debt of RMB46.975Mil)	10.1614	RM8.69	Annual output of the coal mine is 300,000 tonnes (Note 2)
3	Hubei Yihua Chemical Industry Co., Ltd. (000422SHE) 31-Mar-2008	Qinshui Coal Mine, Jincheng, Shanxi 山西省晉城市沁水縣煤礦	RMB100.98Mil (for 51% interest and the purchaser assumed total debt of RMB93.6Mil)	24.367	RMB15.66	Annual output of the coal mine is 300,000 tonnes (Note 3)
4	Pearl Oriental Innovation Limited (632HK) 20-Jul-2006	Shanxi Sanxing Coal Mine, Lin County, Shanxi 山西臨縣三興煤礦	HK\$395.62Mil (for 40% interest)	67.5	RMB14.65	Annual output of the coal mine is 300,000 tonnes. (Note 4)
5	China Coal Energy Ltd (1898) 17-May-2008	Shuocheng Dongpa Coal Mine, Shuozhou, Shanxi 山西省朔州市朔城區東坡煤礦	RMB1,331.51M	158.408	RMB8.4	Annual output of the coal mine is 1,500,000 tonnes (Note 5)
6	Kenfair International Holdings Ltd. (223HK) 13-Feb-2008	Shenping Coal Mine, Jixian, Heilongjiang 黑龍江集賢縣升平煤礦	RMB700Mil	63.966	RMB10.94	Annual output of the coal mine is 600,000 tonnes (Note 6)
7	Everbest Energy Holdings Ltd (578HK) 27-Aug-2007	Xiangyang Coal Mine, Dengfeng, Zhengzhou 鄭州登封市向陽煤礦	RMB450M	18.04	RMB24.94	Coal mining operations of the coal mine is currently held up and it is needed to be revamped before operations can be resumed (Note 7)

Notes:

- ¹ The coal mine transaction was announced by Hidili Industry International Development Limited on 31 December 2007.
- ² The coal mine transaction was announced by Heilongjiang Tianlun Real Estate Development Co Ltd on 12 April 2008.
- ³ The coal mine transaction was announced by Hubei Yihua Chemical Industry Co., Ltd. on 31 March 2008.
- ⁴ The coal mine transaction was announced by Pearl Oriental Innovation Limited on 26 July 2006 and details of the transaction were revealed in the Circular issued by the company on 15 September 2006.
- ⁵ Details of the coal mine transaction were revealed in the Circular issued by the company on 14 December 2007.
- ⁶ The coal mine transaction was announced by Kenfair International Holdings Ltd. on 26 October 2007 and details of the transaction were revealed in the Circular issued by the company on 13 February 2008.
- ⁷ The coal mine transaction was announced by Everbest Energy Holdings Ltd. on 27 August 2007 and details of the transaction were revealed in the Circular issued by the company on 9 October 2007.

In term of price per tonne of coal resources, the comparables were transacted at prices ranging from RMB4.7 to RMB24.94, reflecting the location difference and stage of coal mine development. Among the seven comparable transactions, comparable 1 and 2 of which the coal mines are situated within Guizhou commands the least location difference with the Coal Mines. Comparable 1 are developing coal mines and the purchaser is expected to pour further development costs into the coal mines before income can be reaped. Comparable 2 is a fully developed coal mine with an annual output capacity of 300,000 tonnes which is superior to the Coal Mines in term of physical condition. Taken into consideration the above analysis, we conclude that the fair value of the Coal Mines can be represented by a price of RMB5.5 per tonne of coal resources which is calculated as follows.

Price per tonne of coal resource of a developed coal mine	: RMB8.6/ton ¹
Total estimated coal resources of the Coal Mines	: 61.19 million tonnes
Market Value on fully developed stage	: RMB8.6 X 61.19 million tonnes = RMB526,234,000
less capital costs for production ramp up	: RMB(190,000,000) ²
Market Value in existing state	: RMB336,234,000 (RMB5.5/tonne of coal resources)

Notes

- ¹ Based on purchase consideration of the Comparable 2 in term of price per tonnes of coal resource.
- ² Based on capital costs estimated by SRK for ramping up production of Tiechong Coal Mine, Xinghe Coal Mine, Shuishan Coal Mine and Dayan Coal Mine.

ASSUMPTIONS

Our appraisal included on-site inspection of the Coal Mines and their production facilities (which are rented by the Target from the owners of the Coal Mines), discussions with the management of the Company in relation to the history and nature of the business operations of the Coal Mines; a review of the information provided by the Company in connection with the strategy of and the plan of action to be taken to implement the business plan. We have assumed that such information, opinions and representation provided to us are true and accurate. Before arrived at our opinion of value, we have considered the following major factors:

- i. the coal market conditions in which the Coal Mines is situated;
- ii. the nature of the mining operations of the Coal Mines, the Mining Rights in the Coal Mines and future operating strategies to be employed in operating their businesses;
- iii. the coal reserve, nature and quality of coal of the Coal Mines as revealed from the IER and the management of the Company.

In view of the general environment and the particular situation in which the Coal Mines are situated, the following assumptions have been adopted in our appraisal in order to sufficiently support our concluded value of the shareholders' equities of the Target:

- i. there will be no major change in the existing political, legal and economic conditions in the PRC in which the Coal Mines are operating;
- ii. there will be no major change (except those changes that have been officially announced) in the current taxation law in the PRC, that the rates of tax payable by the operators of the Coal Mines remain unchanged and that all applicable laws and regulations will be complied with by them;
- iii. the Coal Mines are free from any interest bearing debts as at the valuation date;
- iv. the operators of the Coal Mines shall secure and retain competent management, key personnel, marketing and technical staff to carry out the support of their mining operations;
- v. the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary fair value of the shareholders' equity of the Target;
- vi. the interest rates will not differ materially from those presently prevailing;
- vii. the operators of the Coal Mines shall have uninterrupted rights to operate the Coal Mines throughout the period until the entire coal reserves of the Coal Mines are fully exploited and subject to no land premium or any payment to the Government of substantial amount;
- viii. the shareholders' equities of the Target have been valued on the basis that the operators of the Coal Mines shall have no legal impediment and extra costs to renew their permits/licences/certificate/approval in associate with their coal mining and processing activities and businesses from the Government authority from time to time until the coal reserves of the Coal Mine are fully exploited. As represented by the Company, they are not aware of any circumstance which may result in such permits/licenses/certificate not being renewed upon their expiries; and
- ix. the operators shall continue to rent the production facilities from the owners of the coal mines at nominal rent throughout the period until the entire coal reserves of the Coal Mines are fully exploited;

LIMITING CONDITIONS

We have accepted such information as nature of the Coal Mines and their Mining Rights and in the identification of the Coal Mines from the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the instructing party. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not carried out detailed site measurement to verify the correctness of the mining areas of the Coal Mines but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar assets in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions and areas are approximations.

For this valuation, we have conducted site inspections of the Coal Mines but no structural survey has been conducted. Our valuation has been made on the basis that the underground conditions and services of the Coal Mines are satisfactory and that no extraordinary expenses or delays will be incurred during the mining operations.

No allowance has been made in our valuation for any charges, mortgages, outstanding land and development payment or amounts owing on the Coal Mines nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the Coal Mines are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

OPINION OF VALUE

Based upon the investigation and analysis outline above, our valuation basis, valuation assumption and appraisal method employed, we are of the opinion that the fair values of 100% shareholders' equities of the Target as at the Valuation Date is reasonably represented by a sum of **RENMINBI THREE HUNDRED THIRTY SIX MILLION TWO HUNDRED AND THIRTY FOUR THOUSAND** (RMB336,234,000). The fair value attributable to 70% shareholders' equities of the Target to be acquired by the Company is represented by a sum of **RENMINBI TWO HUNDRED THIRTY FIVE THREE HUNDRED SIXTY THREE THOUSAND AND EIGHT HUNDRED ONLY** (RMB235,363,800).

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the asset appraised.

Yours faithfully,
For and on behalf of
Asset Appraisal Limited

Sandra Lau
MFin MHKIS AAPI RPS(GP)
Director

Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 June 2008 of the property interests held by the Enlarged Group.



Asset Appraisal Limited
資產評值顧問有限公司

Rm 1303 13/F Beverly House
No. 93-107 Lockhart Road Wanchai HK
香港灣仔駱克道93-107號
利臨大廈13樓1303室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

29 August 2008

The Board of Directors

Wing Hing International (Holdings) Limited

14th Floor
Yau Lee Centre
45 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

Re: Valuation of properties situated in the People's Republic of China (the "properties")

In accordance with your instructions to value the property interests held by **Wing Hing International Holdings Limited** (the "Company") and its subsidiaries (altogether referred to as the "Enlarged Group") situated in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at **30 June 2008** (the "date of valuation").

BASIS OF VALUATION

Our valuation of the properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

TITLESHIP

We have caused title search to be made in the Land Registry for the properties situated in Hong Kong. In addition, we been provided with copies of legal documents regarding the property situated in the PRC. However, we have not verified ownership of the properties and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Hills & Co Law Firm (君道律師事務所), a qualified law firm in the PRC (the “PRC Legal Opinion”), to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights in the property situated in the PRC. According to the PRC Legal Opinion, there is no legal impediment for Mongolia Meng Wei Biodiesel and Environmental Protection Products Company Limited (“Meng Wei”) to obtain the land use rights in the property from Inner Mongolia Sophora Investment Company Limited under the relevant PRC laws and regulations.

VALUATION METHODOLOGY

The properties are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

For the property of which the land use rights are in the nature of collectively-owned, our valuation of the property has reflected the land costs by which the property was acquired by Meng Wei.

ASSUMPTIONS

Our valuation has been made on the assumption that the owners sell the properties on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the properties.

As the property situated in the PRC is held by the owner by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term of the respective land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

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

on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the properties.

We have relied to a very considerable extent on the information given by the Enlarged Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Enlarged Group. We have also sought confirmation from the Enlarged Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1st January 2005.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our valuation certificate is attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

Sandra Lau
MFin MHKIS AAPI RPS(GP)
Director

Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

VALUATION CERTIFICATE

Properties held by the Enlarged Group of self occupation

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 June 2008 RMB
Three parcels of cultivation ground situated at the south of Ji Ba Highway Da Qi Wu Lan Xiang Wu Lan Cun Inner Mongolia Autonomous Region the PRC	The property comprises three contiguous parcels of agricultural land and is designated as a plantation base for planting Sunflower and oil crops, Ricinus Communis L., Kudouzi (Sophora Alopecuroides).	The property is occupied by the Enlarged Group as a herb and oil crop plantation base.	184,000,000 55% interest attributable to the Enlarged Group: 101,200,000
	The agricultural land covers a total land area of 82,040 mus (54.69 square kilometers). The property is held under three Collectively-owned Land Use Certificates for the term expiring on 31 December 2049.		

Notes:

- As stated in a Collectively-owned Land Use Certificate (集體土地使用証) (Ref Nos.Da Ji Yong (2000) Zhi 00002) dated 8 May 2000, the undertaking operation rights (承包經營權) of an agricultural land with an area of 33,800 mus (22.53 sq.km.) of which 32,000 mus (21.33 sq.km.) is attributable to the property are held by Inner Mongolia Sophora Investment Company Limited (內蒙古苦豆籽投資有限公司) for a land use right term expiring on 31 December 2049. The land parcel is situated at Pu Ge Bu Village Ji Ba Xian Nan (蒲圪卜村吉巴線南).
- As stated in another Collectively-owned Land Use Certificate (集體土地使用証) (Ref Nos.Da Ji Yong (2000) Zhi 00004) dated 8 May 2000, the undertaking operation rights (承包經營權) of another portion of the property with an area of 3,040 mus (2.03 sq.km.) are held by Inner Mongolia Sophora Investment Company Limited for a land use right term expiring on 31 December 2049. The land parcel is situated at Xin Sheng Village Bu Se Tai Gou Dong (新勝村卜色太溝東).
- As stated in another Collectively-owned Land Use Certificate (集體土地使用証) (Ref Nos.Da Ji Yong (2000) Zhi 00005) dated 8 May 2000, the undertaking operation rights (承包經營權) the remaining portion of the property with an area of 47,000 mus (31.33 sq.km.) are held by Inner Mongolia Sophora Investment Company Limited for a land use right term expiring on 31 December 2049. The land parcel is situated at Xin Ge Dan Village Nan Leng Pan (新圪旦村南楞畔).
- As confirmed by the Company, the undertaking operation rights in the property have been transferred from Inner Mongolia Sophora Investment Company Limited to Meng Wei and both parties have applied to the Land Administration Bureau for the land transfer and for new Land Use Right Certificate(s) in the name of Meng Wei.
- Meng Wei is a Sino-foreign joint venture enterprises established by Inner Mongolia Sophora Investment Company Limited (45%) and Asia Biodiesel and Renewable Energy (Mongolia) Company Limited (55%), a directly wholly-owned subsidiary of Farrell Global Limited (the Target).
- As the land in the property are in the nature of collectively-owned, our valuation of the property has reflected the land costs by which the property was acquired by Meng Wei. Given the total land costs of HK\$194,284,840 (RMB182,627,750) and a total land area of 82,040 mus (54.69 sq.km.), the costs is translated into an unit cost of approximately RMB2,230/mu of land area. This land cost is in line with market price of concession rights in agricultural land in the PRC.

7. Opinion of the PRC Lawyer on the property is summarized as follows:

- 7.1 Meng Wei has been granted all necessary and valid permit, approval, registration status and consent for operating and developing Kudouzi products and feedstock for biodiesel. Such approval and consent have been granted by legitimate authorities without violating any Government policies for restricting overseas investors from participating in certain industries. No legal impediment is found for the continuation of the business operations by Meng Wei under the existing situation.
- 7.2 Meng Wei is a Sino-foreign cooperating joint venture established by Inner Mongolia Sophora Investment Company Limited (Party A) and Asia Biodiesel and Renewable Energy (Mongolia) Company Limited (Party B) via a joint venture contract dated 5 August 2007 and its incorporation was approved by the Municipal Government of Inner Mongolia via a Joint Venture Enterprise Approval (Ref No. 商外資蒙呼如審字20070113號, transliterated as Shang Wai Zi Meng Hu Ru Shen Zhi 20070113) dated 23 October 2007 with an operating period of 30 years from the issue date of Business Licence (Ref No. 150100400000380) i.e. 30 October 2007.
- 7.3 The registered capital of Meng Wei is US\$29.95 million. Party A would inject a parcel of land with an area of 50,040 mus of land as its 45% contribution to the capital and Party B would inject a cash amount of US\$16.4725 million as its 55% contribution to the capital of Meng Wei. Up to 31 December 2007, Party B has injected a total cash amount of US\$11.54 million to Meng Wei.
- 7.4 The Land Undertaking Operation Rights (土地承包經營權) in the land parcel mentioned in note 7.3 are currently held by Party A via two Collective Land Use Right Certificates (ref nos. 達集用(2000)字第00004號, transliterated as Da Ji Yong (2000) Zhi No. 00004 and 達集用(2000)字第00005號, transliterated as Da Ji Yong (2000) Zhi No. 00005) for a term expiring on 31 December 2049. The permitted use of the Land Undertaking Operation Rights is agriculture (Kudouzi plantation base).
- 7.5 The Land Undertaking Operation Rights in the remaining portion of the property with an area of 32,000 mus are currently held by Party A via another Collective Land Use Right Certificate (達集用(2000)字第00002號, transliterated as Da Ji Yong (2000) Zhi No. 00002). The permitted use of the Land Undertaking Operation Rights is agriculture (Kudouzi plantation base).
- 7.6 Pursuant to Land Use Right Transfer Contract (土地使用權出讓合同) dated 31 December 2007 between Party A and Meng Wei, Party A agreed to transfer its Land Undertaking Operation Rights in the land parcel mentioned in note 7.5 to Meng Wei at a consideration of RMB84,154,000. Such purchase price has been settled by Meng Wei in full. The completion of the land transfer is subject to the completion of land transfer procedures and registration by Party A. Party A agreed to return the total land purchase price to Meng Wei should the land transfer procedures and registration cannot be completed within a period of 120 days.
- 7.7 As the Land Undertaking Operation Rights in the aforesaid land parcels have been legally acquired by Party A, the transfer of the rights by Party A to Meng Wei mentioned in note 7.3 and 7.6 are permitted. Party A have submitted relevant application to the Municipal Government of Ordos City Inner Mongolia for the land transfers and upon obtaining Collective Land Use Certificate from the Government, Meng Wei shall be the legitimate holder of the Land Undertaking Operation Rights in the property. The rights can then be allowed to be assigned, leased, capitalized, charged or circulated in any other manners.
- 7.8 Up to the date of the PRC Legal Opinion, the Land Undertaking Operation Rights in the property were free from any third parties' rights, liabilities and encumbrances.

Property Value Reconciliation

Property	Three parcels of cultivation ground situated at the south of Ji Ba Highway, Da Qi, Wu Lan Xiang, Wu Lan Cun, Inner Mongolia Autonomous Region, the PRC
Carrying value as at 31 March 2008 (<i>Note 1</i>)	HK\$189,659,010
Amortization for the 3 months ended 30 June 2008 (<i>Note 2</i>)	HK\$(1,156,457)
Carrying value as at 30 June 2008 (<i>Note 3</i>)	HK\$188,502,553
Revaluation Surplus of property interest (<i>Note 4</i>)	HK\$20,367,618
Market Value of property interest as at 30 June 2008 (<i>Note 5</i>)	HK\$208,870,171

Notes:—

1. extracted from note 17 to the consolidated balance sheet of the Group as at 31 March 2008 as set out in Appendix III to this circular.
2. extracted from the management accounts of the Group for the period ended 30 June 2008
3. extracted from the management account of the Group for the period ended 30 June 2008
4. pursuant to the revaluation of the properties (see Appendix IV to this Circular). Such revaluation surplus will not be recorded in the Group's financial statements as the Group's prepaid lease payments are stated at cost less accumulated amortization and currency realignment (if any)
5. extracted from property valuation report as at 30 June 2008 as set out in Appendix II to this circular. The assessed property value is converted from Renminbi into Hong Kong Dollars at an exchange rate of HK\$1 to RMB0.88093

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 March 2008. A summary of the audited results, assets and liabilities of the Group as extracted from the annual reports of the Company is set out below.

	Year ended 31 March		
	2008	2007	2006
	HK\$'000	HK\$'000	HK\$'000
Revenue	513,387	480,292	494,445
Cost of sales	(490,108)	(425,548)	(490,730)
Gross profit	23,279	54,744	3,715
Other income	8,735	43,829	13,294
Other gains and losses	(5,642)	5,713	4,889
Administrative and operating expenses	(34,919)	(68,816)	(42,019)
Share of profits/(losses) of associates	21,484	(3,497)	(413)
Share of (losses)/profits of jointly-controlled entities	(4,847)	(19,467)	800
Finance costs	(484)	(1,007)	(890)
Profit/(Loss) before tax	7,606	11,499	(20,624)
Income tax expense	(1,585)	(734)	(369)
Profit/(Loss) for the year	6,021	10,765	(20,993)
Attributable to:			
Equity holders of the Company	8,104	9,519	(22,336)
Minority interests	(2,083)	1,246	1,343
	<u>6,021</u>	<u>10,765</u>	<u>(20,993)</u>
Earnings/(Loss) per share			
Basic and diluted (HK cents per share)	<u>14.74</u>	<u>18.97</u>	<u>(63.46)</u>

Consolidated balance sheets

	At 31 March		
	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	16,594	21,198	23,997
Prepaid lease payments	190,318	675	692
Investment property	6,500	4,800	4,400
Goodwill	89,829	1,943	2,308
Interests in associates	22,253	21,039	17,704
Interests in jointly-controlled entities	14,792	9,309	37,621
Available-for-sale investment	1	1	1
Amount due from an investee entity	53,796	16,604	13,164
Contract retention receivables	10,484	2,154	3,963
Deferred tax assets	189	104	112
	<u>404,756</u>	<u>77,827</u>	<u>103,962</u>
Current assets			
Loan receivable	1,000	–	–
Trade and other receivables	98,496	122,344	128,251
Pledged bank deposits	21,860	16,675	20,944
Bank balances and cash	58,619	33,742	18,465
	<u>179,975</u>	<u>172,761</u>	<u>167,660</u>
Current liabilities			
Trade and other payables	179,217	81,494	114,729
Current tax liabilities	669	–	657
Bank borrowings, secured	–	846	15,602
	<u>179,886</u>	<u>82,340</u>	<u>130,988</u>
Net current assets	<u>89</u>	<u>90,421</u>	<u>36,672</u>
Total assets less current liabilities	<u><u>404,845</u></u>	<u><u>168,248</u></u>	<u><u>140,634</u></u>
Capital and reserves			
Share capital	69,000	54,300	36,200
Reserves	132,075	106,511	95,235
Equity attributable to the equity holders of the Company	<u>201,075</u>	<u>160,811</u>	<u>131,435</u>
Minority interests	103,003	2,951	5,087
Total equity	<u>304,078</u>	<u>163,762</u>	<u>136,522</u>
Non-current liabilities			
Deferred tax liabilities	2,487	1,828	609
Bank borrowings, secured	–	2,658	3,503
Promissory note	98,280	–	–
	<u>100,767</u>	<u>4,486</u>	<u>4,112</u>
	<u><u>404,845</u></u>	<u><u>168,248</u></u>	<u><u>140,634</u></u>

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP

The following is the audited financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 March 2008.

Consolidated Income Statement

For the year ended 31 March 2008

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Revenue	5	513,387	480,292
Cost of sales		<u>(490,108)</u>	<u>(425,548)</u>
Gross profit		23,279	54,744
Other income	7	8,735	43,829
Other gains and losses	8	(5,642)	5,713
Administrative and operating expenses		(34,919)	(68,816)
Share of profits/(losses) of associates		21,484	(3,497)
Share of losses of jointly-controlled entities		(4,847)	(19,467)
Finance costs	9	<u>(484)</u>	<u>(1,007)</u>
Profit before tax		7,606	11,499
Income tax expense	10	<u>(1,585)</u>	<u>(734)</u>
Profit for the year	11	<u><u>6,021</u></u>	<u><u>10,765</u></u>
Attributable to:			
Equity holders of the Company		8,104	9,519
Minority interests		<u>(2,083)</u>	<u>1,246</u>
		<u><u>6,021</u></u>	<u><u>10,765</u></u>
Earnings per share			
Basic and diluted (HK cents per share)	14	<u><u>14.74</u></u>	<u><u>18.97</u></u>

Consolidated Balance Sheet*At 31 March 2008*

		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	16	16,594	21,198
Prepaid lease payments	17	190,318	675
Investment property	18	6,500	4,800
Goodwill	19	89,829	1,943
Interests in associates	21	22,253	21,039
Interests in jointly-controlled entities	22	14,792	9,309
Available-for-sale investment	23	1	1
Amount due from an investee entity	23	53,796	16,604
Contract retention receivables	26	10,484	2,154
Deferred tax assets	24	189	104
		<u>404,756</u>	<u>77,827</u>
Current assets			
Loan receivable	25	1,000	–
Trade and other receivables	26	98,496	122,344
Pledged bank deposits	27, 43	21,860	16,675
Bank balances and cash	27	58,619	33,742
		<u>179,975</u>	<u>172,761</u>
Current liabilities			
Trade and other payables	28	179,217	81,494
Current tax liabilities		669	–
Bank borrowing, secured	29	–	846
		<u>179,886</u>	<u>82,340</u>
Net current assets		<u>89</u>	<u>90,421</u>
Total assets less current liabilities		<u><u>404,845</u></u>	<u><u>168,248</u></u>

APPENDIX III

FINANCIAL INFORMATION OF THE GROUP

		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Share capital	31	69,000	54,300
Reserves		<u>132,075</u>	<u>106,511</u>
Equity attributable to the equity holders of the Company		201,075	160,811
Minority interests		<u>103,003</u>	<u>2,951</u>
Total equity		<u>304,078</u>	<u>163,762</u>
Non-current liabilities			
Deferred tax liabilities	24	2,487	1,828
Bank borrowing, secured	29	–	2,658
Promissory note	30	<u>98,280</u>	<u>–</u>
		<u>100,767</u>	<u>4,486</u>
		<u>404,845</u>	<u>168,248</u>

Balance Sheet*At 31 March 2008*

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	16	138	205
Interests in subsidiaries	20	276,423	98,890
		<u>276,561</u>	<u>99,095</u>
Current assets			
Amounts due from subsidiaries	20	44,262	58,580
Amounts due from associates		1,262	59
Other receivables		1,476	755
Bank balances and cash		38	544
		<u>47,038</u>	<u>59,938</u>
Current liabilities			
Amounts due to subsidiaries	20	6,037	2,204
Other payables		31,898	703
		<u>37,935</u>	<u>2,907</u>
Net current assets		<u>9,103</u>	<u>57,031</u>
Total assets less current liabilities		<u><u>285,664</u></u>	<u><u>156,126</u></u>
Capital and reserves			
Share capital	31	69,000	54,300
Reserves	32	118,384	101,826
Total equity		<u>187,384</u>	<u>156,126</u>
Non-current liabilities			
Promissory note	30	98,280	—
		<u><u>285,664</u></u>	<u><u>156,126</u></u>

Consolidated Statement Of Changes In Equity*For the year ended 31 March 2008*

	Attributable to the equity holders of the Company									
	Share capital	Share premium	Contributed surplus	Assets revaluation reserve	Warrant reserve	Convertible loan note equity reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	36,200	35,491	1,781	18,488	1,000	–	38,475	131,435	5,087	136,522
Gain on fair value changes of property, plant and equipment	–	–	–	2,882	–	–	–	2,882	–	2,882
Loss on fair value changes of property, plant and equipment	–	–	–	(7)	–	–	–	(7)	–	(7)
Deferred tax (note 24)	–	–	–	(1,040)	–	–	–	(1,040)	–	(1,040)
Release upon disposal of property, plant and equipment	–	–	–	(585)	–	–	585	–	–	–
Net income recognized directly in equity	–	–	–	1,250	–	–	585	1,835	–	1,835
Profit for the year	–	–	–	–	–	–	9,519	9,519	1,246	10,765
Total income and expenses recognized for the year	–	–	–	1,250	–	–	10,104	11,354	1,246	12,600
Issue of ordinary shares (note 31)	18,100	–	–	–	–	–	–	18,100	–	18,100
Release upon disposal of a subsidiary (note 37)	–	–	–	(78)	–	–	–	(78)	(3,382)	(3,460)
At 31 March 2007	54,300	35,491	1,781	19,660	1,000	–	48,579	160,811	2,951	163,762

APPENDIX III

FINANCIAL INFORMATION OF THE GROUP

	Attributable to the equity holders of the Company								
	Share capital	Share premium	Contributed surplus	Assets revaluation reserve	Warrant reserve	Convertible loan note equity reserve	Retained profits	Total	Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	<u>54,300</u>	<u>35,491</u>	<u>1,781</u>	<u>19,660</u>	<u>1,000</u>	<u>-</u>	<u>48,579</u>	<u>160,811</u>	<u>2,951</u>
Gain on fair value changes of property, plant and equipment	-	-	-	2,176	-	-	-	2,176	-
Deferred tax (<i>note 24</i>)	-	-	-	487	-	-	-	487	-
Release upon disposal of property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,849)</u>	<u>-</u>	<u>-</u>	<u>4,849</u>	<u>-</u>	<u>-</u>
Net income recognized directly in equity	-	-	-	(2,186)	-	-	4,849	2,663	-
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,104</u>	<u>8,104</u>	<u>(2,083)</u>
Total income and expenses recognized for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,186)</u>	<u>-</u>	<u>-</u>	<u>12,953</u>	<u>10,767</u>	<u>(2,083)</u>
Recognition of equity component of convertible loan note (<i>note 33</i>)	-	-	-	-	-	1,653	-	1,653	-
Early redemption of convertible loan note (<i>note 33</i>)	-	-	-	-	-	(1,653)	244	(1,409)	-
Acquisition of subsidiaries (<i>note 36</i>)	-	-	-	-	-	-	-	-	105,086
Shares issued on acquisition of subsidiaries (<i>note 31 and 36</i>)	14,700	14,553	-	-	-	-	-	29,253	-
Release upon disposal of a subsidiary (<i>note 37</i>)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,951)</u>
At 31 March 2008	<u>69,000</u>	<u>50,044</u>	<u>1,781</u>	<u>17,474</u>	<u>1,000</u>	<u>-</u>	<u>61,776</u>	<u>201,075</u>	<u>103,003</u>

The contributed surplus of the Group arose as a result of the Group reorganization completed on 2 October 1995 and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganization, over the nominal value of the share capital of the Company issued in exchange therefor.

Consolidated Cash Flow Statement*For the year ended 31 March 2008*

	2008	2007
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities		
Profit for the year	6,021	10,765
Adjustments for:		
Amortization of prepaid lease payments	4,642	17
Depreciation for property, plant and equipment	4,480	4,888
Loss/(Gain) on disposal of subsidiaries	2,791	(3,843)
Gain on fair value changes of an investment property	(1,700)	(400)
Loss on fair value changes of property, plant and equipment	5	11
Impairment loss recognized in respect of trade receivables	1,185	989
Impairment loss reversed in respect of trade receivables	(1,155)	(2,246)
Impairment loss recognized in respect of amounts due from associates	6,198	–
Interest income	(1,809)	(785)
(Gain)/Loss on disposal of property, plant and equipment	(1,365)	165
Gain on disposal of an associate	(2)	–
Loss on disposal of a jointly-controlled entity	–	111
Gain on early redemption of convertible loan note	(48)	–
Bad debt recovery	(19)	–
Write off of other receivables	599	–
Write back of long outstanding payables	(847)	(371)
Share of (profits)/losses of associates	(21,484)	3,497
Share of losses of jointly-controlled entities	4,847	19,467
Finance costs	484	1,007
Income tax expense	1,585	734
Operating cash flows before movements in working capital	4,408	34,006
Trade receivables	2,525	6,236
Balances with jointly-controlled entities	1,435	(3,523)
Balances with associates	56,427	(2,372)
Balances with minority shareholders	(601)	144
Prepayments, deposits and other receivables	(1,844)	(693)
Trade payables	35,519	(10,630)
Other payables and accruals	954	(478)
Cash generated from operations	98,823	22,690
Interest paid	(192)	(1,007)
Hong Kong Profits Tax paid	–	(48)
Net cash generated by operating activities	98,631	21,635

		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Investing activities			
Interest received		1,809	785
Dividends received from jointly-controlled entities		–	3,560
Purchase of property, plant and equipment		(372)	(291)
Acquisition of subsidiaries	36	(21,475)	–
Disposal of subsidiaries	37	(536)	(14,009)
Amounts advanced to associates		(1,000)	–
Amounts advanced to a jointly-controlled entity		(10,330)	–
Amounts advanced to an investee entity		(37,192)	(3,440)
Proceeds from disposal of property, plant and equipment		4,031	269
(Increase)/Decrease in pledged bank deposits		(5,185)	4,269
Net cash used in investing activities		(70,250)	(8,857)
Financing activities			
Proceeds from issue of ordinary shares		–	18,100
Repayment of bank borrowing		(3,504)	(801)
Proceeds from new trust receipt loans		5,960	24,363
Repayment of trust receipt loans		(5,960)	(37,479)
Repayment of term loan		–	(1,620)
Proceeds from issue of convertible loan note		15,000	–
Payment for early redemption of convertible loan note		(15,000)	–
Net cash (used in)/generated by financing activities		(3,504)	2,563
Net increase in cash and cash equivalents		24,877	15,341
Cash and cash equivalents at the beginning of the financial year		33,742	18,401
Cash and cash equivalents at the end of the financial year		58,619	33,742
Analysis of balances of cash and cash equivalents			
Bank balances and cash		58,619	33,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 March 2008***1. GENERAL**

Wing Hing International (Holdings) Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s registered office is situated at Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda. The Company’s principal place of business in Hong Kong is situated at 14th Floor, Yau Lee Centre, 45 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in (i) the undertaking of superstructure construction, foundation piling, substructure works, slope improvement, special construction projects, interior decoration and landscaping works in Hong Kong; and (ii) the development and management of a series of sophora products and of biological vegetable oil in the People’s Republic of China (the “PRC”).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 April 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 12	Service Concession Arrangements ³
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

Notes:

1. Effective for annual periods beginning on or after 1 January 2009
2. Effective for annual periods beginning on or after 1 July 2009
3. Effective for annual periods beginning on or after 1 January 2008
4. Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties, plant and equipment and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly-controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly-controlled entities.

The results and assets and liabilities of jointly-controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly-controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly-controlled entity equals or exceeds its interest in that jointly-controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly-controlled entity), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly-controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly-controlled entity recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When a group entity transacts with a jointly-controlled entity of the Group, unrealized profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity.

Revenue recognition

Revenue from construction contracts is recognized in accordance with the Group's accounting policy on construction contracts (see below).

Revenue for sales of goods is recognized when the goods are delivered and title has passed.

Service income is recognized when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less subsequent accumulated depreciation and impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognized.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed to the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land

Interest in leasehold land is accounted for as operating leases and amortized over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. To the extent that fixed-rated bank borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflected the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment of tangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under the standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that standard.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amount due from an investee entity, loan receivable, trade receivables, other receivables, pledged bank deposits, and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated certain unlisted equity securities as available-for sale financial assets.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including trade payables, other payables and promissory note) are subsequently measured at amortized cost, using the effective interest method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortized cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to retained profits. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortized over the period of the convertible loan notes using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with HKAS 18 Revenue.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits.

Share options granted to suppliers

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognized as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustments have been made to equity (share options reserve).

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Impairment loss of trade and other receivables

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required.

Impairment loss on amounts due from an investee entity, associates and jointly-controlled entities

Management regularly reviews the recoverability of the amounts due from an investee entity, associates and jointly-controlled entities. Appropriate impairment for estimated irrecoverable amount is recognized in profit and loss when there is objective evidence that the amount is not recoverable. Specific allowance is only made for the amounts due from an investee entity, associates and jointly-controlled entities that the management assessed that the recovery of the amounts is doubtful. As at 31 March 2008, the amounts due from an investee entity, associates and jointly-controlled entities amounted to approximately HK\$53,796,000 (2007: HK\$16,604,000), HK\$7,932,000 (2007: HK\$31,243,000) and HK\$15,014,000 (2007: HK\$8,652,000), respectively.

Outcome of construction contracts

The Group determines whether outcome of a construction contract can be estimated reliably. This requires a continuous estimation of the total contract revenue and costs and stage of completion with reference to work certified by architects and the assessment of the probability of the future economic flows to the Group.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Construction contract revenue	493,829	447,385
Revenue from sales of goods	19,558	32,907
	<u>513,387</u>	<u>480,292</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

For management purposes, the Group is currently organized into six operating divisions:

- (a) Superstructure construction;
- (b) Foundation piling, substructure works and slope improvement;
- (c) Special construction projects;
- (d) Interior decoration and landscaping works;
- (e) Energy-related investments, including the development and management of a series of sophora products and of biological vegetable oil in the PRC; and
- (f) Corporate and others segment, which comprises the Group's investment holding, and trading of construction machines and plastic products.

These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2008

	Superstructure construction <i>HK\$'000</i>	Foundation piling, substructure works and slope improvement <i>HK\$'000</i>	Special construction projects <i>HK\$'000</i>	Interior decoration and landscaping works <i>HK\$'000</i>	Energy- related investments <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE								
External sales	484,139	9,609	–	81	–	19,558	–	513,387
Inter-segment sales	–	19,489	–	46,887	–	–	(66,376)	–
Total	<u>484,139</u>	<u>29,098</u>	<u>–</u>	<u>46,968</u>	<u>–</u>	<u>19,558</u>	<u>(66,376)</u>	<u>513,387</u>

Inter-segment sales are charged at prevailing market rates.

RESULT								
Segment result	<u>18,889</u>	<u>6,915</u>	<u>–</u>	<u>3,276</u>	<u>–</u>	<u>1,136</u>	<u>(11)</u>	30,205
Unallocated income								(5,197)
Unallocated corporate expenses								(33,555)
Share of profits/ (losses) of								
– associates								21,484
– jointly-controlled entities								(4,847)
Finance costs								<u>(484)</u>
Profit before tax								7,606
Income tax expense								<u>(1,585)</u>
Profit for the year								<u>6,021</u>

BALANCE SHEET

ASSETS								
Segment assets	99,290	13,205	–	192	279,488	74,322	521	467,018
Interests in associates	–	–	–	–	–	22,253	–	22,253
Interests in jointly- controlled entities	646	1,927	(7,012)	–	–	19,231	–	14,792
Unallocated corporate assets								<u>80,668</u>
Consolidated total assets								<u>584,731</u>

2008

	Superstructure construction HK\$'000	Foundation piling, substructure works and slope improvement HK\$'000	Special construction projects HK\$'000	Interior decoration and landscaping works HK\$'000	Energy- related investments HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
LIABILITIES								
Segment liabilities	93,494	6,916	–	7,565	23	71,219	–	179,217
Unallocated corporate liabilities								101,436
Consolidated total liabilities								280,653

OTHER INFORMATION

Capital additions	–	53	–	–	284,114	319	–	284,486
Depreciation and amortization	237	2,457	–	3	4,625	1,800	–	9,122
Loss on fair value changes of property, plant and equipment	–	5	–	–	–	–	–	5
Impairment losses on trade receivables	144	775	–	221	–	45	–	1,185
Impairment losses reversed on trade receivables	(420)	(30)	–	(705)	–	–	–	(1,155)
Impairment losses on amounts due from associates	6,198	–	–	–	–	–	–	6,198
Gain on disposal of property, plant and equipment	12	132	–	–	–	(1,509)	–	(1,365)
Loss on disposal of subsidiaries	–	(932)	–	–	–	3,723	–	2,791
Gain on disposal of an associate	–	–	–	–	–	(2)	–	(2)
Gain on fair value changes of investment property	–	–	–	–	–	(1,700)	–	(1,700)
Write back of long- outstanding payables	(847)	–	–	–	–	–	–	(847)
Write off of other receivables	599	–	–	–	–	–	–	599

2007

	Superstructure construction <i>HK\$'000</i>	Foundation piling, substructure works and slope improvement <i>HK\$'000</i>	Special construction projects <i>HK\$'000</i>	Interior decoration and landscaping works <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External sales	400,745	31,466	1,653	13,521	32,907	–	480,292
Inter-segment sales	–	1,704	–	32,082	–	(33,786)	–
Total	<u>400,745</u>	<u>33,170</u>	<u>1,653</u>	<u>45,603</u>	<u>32,907</u>	<u>(33,786)</u>	<u>480,292</u>

Inter-segment sales are charged at prevailing market rates.

RESULT							
Segment result	<u>43,720</u>	<u>46,466</u>	<u>(2,034)</u>	<u>7,672</u>	<u>2,014</u>	<u>(50)</u>	97,788
Unallocated income							6,663
Unallocated corporate expenses							(68,981)
Share of losses of							
– associates							(3,497)
– jointly-controlled entities							(19,467)
Finance costs							<u>(1,007)</u>
Profit before tax							11,499
Income tax expense							<u>(734)</u>
Profit for the year							<u><u>10,765</u></u>

BALANCE SHEET

ASSETS							
Segment assets	100,740	15,313	–	3,697	47,505	521	167,776
Interests in associates	–	–	–	702	20,337	–	21,039
Interests in jointly-controlled entities	646	1,621	(14,323)	–	21,365	–	9,309
Unallocated corporate assets							<u>52,464</u>
Consolidated total assets							<u><u>250,588</u></u>

2007

	Superstructure construction <i>HK\$'000</i>	Foundation piling, substructure works and slope improvement <i>HK\$'000</i>	Special construction projects <i>HK\$'000</i>	Interior decoration and landscaping works <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
LIABILITIES							
Segment liabilities	61,390	14,043	–	3,313	2,748	–	81,494
Unallocated corporate liabilities							5,332
Consolidated total liabilities							86,826

OTHER INFORMATION

Capital additions	208	–	–	39	44	–	291
Depreciation and amortization	225	275	–	76	4,329	–	4,905
Loss on fair value changes of property, plant and equipment	11	–	–	–	–	–	11
Impairment losses on trade receivables	130	649	–	210	–	–	989
Impairment losses reversed on trade receivables	(2,246)	–	–	–	–	–	(2,246)
Loss on disposal of property, plant and equipment	100	33	–	32	–	–	165
Loss on disposal of a jointly controlled entity	–	–	111	–	–	–	111
Gain on fair value changes of investment property	–	–	–	–	(400)	–	(400)
Gain on disposal of subsidiaries	–	–	–	(3,843)	–	–	(3,843)
Write back of long- outstanding payables	(74)	(187)	–	(110)	–	–	(371)

Geographical segments

As over 90% of the Group's revenue is derived from customers based in Hong Kong, no further analysis of the Group's segment revenue by geographical area is presented.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, land use right and intangible assets, analyzed by the geographical area in which the assets are located:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Assets located in		
– Hong Kong	268,194	220,240
– PRC	279,492	–
	<u>547,686</u>	<u>220,240</u>
Interests in associates	22,253	21,039
Interests in jointly-controlled entities	14,792	9,309
	<u>584,731</u>	<u>250,588</u>
Capital expenditure		
– Hong Kong	372	291
– PRC	284,114	–
	<u>284,486</u>	<u>291</u>

7. OTHER INCOME

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Service fee income from:		
– jointly-controlled entities	1,549	40,366
– associates	2,045	370
– independent third parties	972	765
	<u>4,566</u>	<u>41,501</u>
Interest income on bank deposits	1,796	785
Interest income on loan to an associate	13	–
Rental income from investment property	22	128
Rental income from machinery held for operating lease purposes	1,308	167
Others	1,030	1,248
	<u>8,735</u>	<u>43,829</u>

8. OTHER GAINS AND LOSSES

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Gain/(Loss) on disposal of property, plant and equipment	1,365	(165)
Gain on early redemption of convertible loan note	48	–
(Loss)/Gain on disposal of subsidiaries	(2,791)	3,843
Gain on disposal of an associate	2	–
Loss on disposal of a jointly-controlled entity	–	(111)
Loss on fair value changes of property, plant and equipment	(5)	(11)
Impairment losses recognized in respect of trade receivables	(1,185)	(989)
Impairment losses reversed in respect of trade receivables	1,155	2,246
Impairment losses recognized in respect of amounts due from associates	(6,198)	–
Write off of other receivables	(599)	–
Write back of long outstanding payables	847	371
Gain on fair value changes of an investment property	1,700	400
Bad debt recovery	19	–
Others	–	129
	<u>(5,642)</u>	<u>5,713</u>

9. FINANCE COSTS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Interest on bank borrowing wholly repayable within five years	192	1,007
Effective interest expense on convertible loan note	292	–
	<u>484</u>	<u>1,007</u>

No borrowing costs were capitalized during the year ended 31 March 2008 (2007: Nil).

10. INCOME TAX EXPENSE

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current tax		
Hong Kong	669	547
Deferred tax (<i>note 24</i>)	916	187
	<u>1,585</u>	<u>734</u>
Tax charge for the year		

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the year.

No PRC income tax has been provided in respect of the Group's PRC subsidiary since the PRC subsidiary had no taxable profit for the year.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Profit before tax	<u>7,606</u>	<u>11,499</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2007: 17.5%)	1,331	2,012
Tax effect of income not taxable for tax purpose	(2,181)	(1,977)
Tax effect of expenses not deductible for tax purpose	4,593	1,028
Utilization of tax losses previously not recognized	(2,093)	(5,011)
Others	<u>(65)</u>	<u>4,682</u>
Tax charge for the year	<u><u>1,585</u></u>	<u><u>734</u></u>

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Depreciation for property, plant and equipment	4,480	4,888
Less: Amounts capitalized in construction contracts	<u>(2,358)</u>	<u>(3,677)</u>
	2,122	1,211
Amortization of prepaid lease payments	<u>4,642</u>	<u>17</u>
Total depreciation and amortization	<u><u>6,764</u></u>	<u><u>1,228</u></u>
Auditors' remuneration	<u>834</u>	<u>610</u>
Net foreign exchange losses	<u><u>233</u></u>	<u><u>81</u></u>
Gross rental income from investment property	(22)	(128)
Less: Direct operating expenses from investment property that generated rental income during the year	<u>25</u>	<u>32</u>
	<u><u>3</u></u>	<u><u>(96)</u></u>

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

	2008 HK\$'000	2007 HK\$'000
Minimum lease payments paid under operating leases during the period:		
Leasehold land and buildings	437	1,115
Less: Amounts capitalized in construction contracts	—	(442)
	<u>437</u>	<u>673</u>
Plant and machinery	676	3,117
Less: Amounts capitalized in construction contracts	(676)	(3,117)
	<u>—</u>	<u>—</u>
	<u><u>437</u></u>	<u><u>673</u></u>
Employee benefits expense (including directors' remuneration):		
Wages and salaries	46,950	81,685
Contributions to retirement benefits schemes	1,462	3,035
	<u>48,412</u>	<u>84,720</u>
Less: Amounts capitalized in construction contracts	(13,955)	(23,860)
	<u>34,457</u>	<u>60,860</u>
Cost of services and inventories recognized as an expense	<u><u>490,108</u></u>	<u><u>425,548</u></u>
Share of tax of associates (included in share of results of associates)	<u><u>4,722</u></u>	<u><u>90</u></u>
Share of tax of a jointly-controlled entity (included in share of results of jointly-controlled entities)	<u><u>158</u></u>	<u><u>155</u></u>

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2007: 11) directors were as follows:

For the year ended 31 March 2008

	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Contributions to retirement benefits schemes <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Executive directors</i>				
Mr. Ng Tat Leung, George	–	1,569	12	1,581
Mr. Wong Teck Ming	–	1,246	12	1,258
Mr. Lui Siu Yee, Samuel	–	770	12	782
Mr. Chan Wai Keung, Ivan	–	803	12	815
Mr. Lo Chung Sun, Simon (resigned on 7 March 2008)	–	1,089	11	1,100
Ms. Leung Pui Kwan (appointed on 7 March 2008)	–	–	–	–
<i>Independent non-executive directors</i>				
Mr. Wong Lit Chor, Alexis	100	–	–	100
Mr. Lo Ka Wai (resigned on 7 March 2008)	120	–	–	120
Dr. Leung Wai Cheung	100	–	–	100
Mr. Hui Wah Tat, Anthony (appointed on 7 March 2008)	–	–	–	–
Total	320	5,477	59	5,856

For the year ended 31 March 2007

	Fees	Salaries and other benefits	Contributions to retirement benefits schemes	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Executive directors</i>				
Mr. Ng Tat Leung, George	–	1,435	12	1,447
Mr. Wong Teck Ming	–	1,113	12	1,125
Mr. Chen Jinkui (resigned on 9 November 2006)	–	–	–	–
Mr. Sun Haichao (resigned on 9 November 2006)	–	–	–	–
Mr. Lui Siu Yee, Samuel	–	568	12	580
Mr. Chan Wai Keung, Ivan	–	883	12	895
Mr. Lo Chung Sun, Simon	–	1,062	12	1,074
<i>Non-executive directors</i>				
Mr. Wang Xianzhang (resigned on 29 August 2006)	–	–	–	–
<i>Independent non-executive directors</i>				
Mr. Wong Lit Chor, Alexis	80	–	–	80
Mr. Lo Ka Wai	80	–	–	80
Dr. Leung Wai Cheung	80	–	–	80
Total	240	5,061	60	5,361

During both years, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

The amount of directors' emoluments which is directly attributable to construction activities and capitalized in construction contracts amounted to approximately HK\$1,108,000 (2007: HK\$716,000).

The directors' emoluments shown above do not include the estimated monetary value of the Group's owned premises provided rent-free to a director. The estimated rental value of such accommodation was approximately HK\$96,000 (2007: HK\$96,000) for the year ended 31 March 2008.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: four) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining one (2007: one) individual were as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Salaries and other benefits	1,060	2,650
Contributions to retirement benefits schemes	<u>12</u>	<u>5</u>
	<u>1,072</u>	<u>2,655</u>

Their emoluments were within the following bands:

	Number of individuals 2008	2007
HK\$1,000,001-HK\$1,500,000	1	–
HK\$2,500,001-HK\$3,000,000	<u>–</u>	<u>1</u>
	<u>1</u>	<u>1</u>

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<u>Earnings</u>		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	<u>8,104</u>	<u>9,519</u>
<u>Number of shares</u>		
	2008 <i>'000</i>	2007 <i>'000</i>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>54,983</u>	<u>50,184</u>

The computation of diluted earnings per share did not assume the exercise of the Company's outstanding warrants as their exercise price was higher than the average market price for shares for the years ended 31 March 2007 and 2008.

15. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$1,761,000 (2007: HK\$8,011,000) (note 32).

16. PROPERTY, PLANT AND EQUIPMENT**Group**

	Leasehold buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 1 April 2006	9,700	11,928	9,601	1,245	32,474
Additions	–	39	46	206	291
Disposals	–	(2)	–	(432)	(434)
Disposal of subsidiaries	–	(469)	(1,045)	(154)	(1,668)
Revaluation	300	(1,580)	–	(195)	(1,475)
At 31 March 2007	10,000	9,916	8,602	670	29,188
Additions	–	–	26	346	372
Disposals	–	(2,491)	–	(175)	(2,666)
Disposal of subsidiaries	–	–	(35)	–	(35)
Revaluation	(29)	(1,832)	–	(120)	(1,981)
At 31 March 2008	9,971	5,593	8,593	721	24,878
Comprising					
At cost	–	–	8,593	–	8,593
At valuation	9,971	5,593	–	721	16,285
	9,971	5,593	8,593	721	24,878
Depreciation and impairment					
At 1 April 2006	–	–	8,477	–	8,477
Provided for the year	242	3,763	484	399	4,888
Eliminated on disposal of subsidiaries	–	(48)	(971)	(17)	(1,036)
Eliminated on revaluation	(242)	(3,715)	–	(382)	(4,339)
At 31 March 2007	–	–	7,990	–	7,990
Provided for the year	250	3,612	328	290	4,480
Eliminated on disposal of subsidiaries	–	–	(34)	–	(34)
Eliminated on revaluation	(250)	(3,612)	–	(290)	(4,152)
At 31 March 2008	–	–	8,284	–	8,284
Carrying amounts					
At 31 March 2008	9,971	5,593	309	721	16,594
At 31 March 2007	10,000	9,916	612	670	21,198

Company	Furniture and equipment HK\$'000
Cost	
At 1 April 2006	2,329
Additions	<u>44</u>
At 31 March 2007	2,373
Additions	<u>26</u>
At 31 March 2008	<u>2,399</u>
Depreciation and impairment	
At 1 April 2006	1,935
Provided for the year	<u>233</u>
At 31 March 2007	2,168
Provided for the year	<u>93</u>
At 31 March 2008	<u>2,261</u>
Carrying amounts	
At 31 March 2008	<u><u>138</u></u>
At 31 March 2007	<u><u>205</u></u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold buildings:	Over the lease terms
Plant and machinery:	10%
Furniture and equipment:	20%
Motor vehicles:	20%

At 31 March 2008, the Group's leasehold buildings were situated in Hong Kong and held under medium-term leases, which were pledged to secure general banking facilities granted to the Group (note 43).

The Group's leasehold buildings were revalued on 31 March 2008 at HK\$9,971,000 (2007: HK\$10,000,000) by Asset Appraisal Limited, independent qualified professional valuers not connected with the Group. Asset Appraisal Limited is a member of Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The gain on revaluation of approximately HK\$221,000 (2007: HK\$542,000) was credited to the asset revaluation reserve.

The fair value of the Group's plant and machinery at 31 March 2008 of approximately HK\$5,593,000 (2007: HK\$9,916,000) was arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited, on a fair market value, continued use basis. The gain on revaluation of approximately HK\$1,780,000 (2007: HK\$2,135,000) was credited to the asset revaluation reserve.

The fair value of the Group's motor vehicles at 31 March 2008 of approximately HK\$721,000 (2007: HK\$670,000) was arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited, on a fair market value, continued use basis. The gain on revaluation of approximately HK\$175,000 (2007: HK\$198,000) was credited to the asset revaluation reserve and a loss on revaluation of approximately HK\$5,000 (2007: HK\$11,000) was charged to the income statement.

The directors consider that the carrying value of furniture and equipment at 31 March 2008 of approximately HK\$309,000 (2007: HK\$612,000) approximates their fair values and, in view of the immateriality of the individual amount involved, a professional valuation has not been carried out on these assets.

Had the Group's property, plant and equipment been measured on a historical cost basis, the carrying amounts of leasehold buildings, plant and machinery, and motor vehicles at 31 March 2008 would have been approximately HK\$5,187,000, HK\$2,408,000 and HK\$468,000, respectively.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2008 HK\$'000	2007 HK\$'000
Land in Hong Kong		
Medium term lease	659	675
Land outside Hong Kong		
Medium term lease	189,659	—
	<u>190,318</u>	<u>675</u>

18. INVESTMENT PROPERTY

	Group HK\$'000
FAIR VALUE	
At 1 April 2006	4,400
Net increase in fair value	<u>400</u>
At 31 March 2007	4,800
Net increase in fair value	<u>1,700</u>
At 31 March 2008	<u><u>6,500</u></u>

The fair value of the Group's investment property at 31 March 2008 has been arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals purposes are measured using the fair value model and are classified and accounted for as investment properties.

At 31 March 2008, the Group's investment property was located in Hong Kong and held under medium-term lease, which was pledged to secure general banking facilities granted to the Group (note 43).

19. GOODWILL

	Group <i>HK\$'000</i>
Cost and carrying amounts	
At 1 April 2006	2,308
Eliminated on disposal of a subsidiary (<i>note 37</i>)	(365)
At 31 March 2007	1,943
Eliminated on disposal of a subsidiary (<i>note 37</i>)	(1,943)
Acquired on acquisition of subsidiaries (<i>note 36</i>)	89,829
At 31 March 2008	<u>89,829</u>

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units (CGU):

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trading of plastic products	–	1,943
Development and management of a series of sophora products and of biological vegetable oil in the PRC	89,829	–
	<u>89,829</u>	<u>1,943</u>

The recoverable amount of the CGU which is engaged in the development and management of a series of sophora products and of biological vegetable oil in the PRC is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 4% per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3% per annum growth rate, which is determined by management based on its expectation of market development.

20. INTERESTS IN SUBSIDIARIES

	Company 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Unlisted shares, at cost	53,662	53,662
Amounts due from subsidiaries	382,150	219,471
	435,812	273,133
Less: accumulated impairment	(115,127)	(115,663)
	320,685	157,470
Amounts due from subsidiaries classified as current	(44,262)	(58,580)
	<u>276,423</u>	<u>98,890</u>

The amounts due from and due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries at 31 March 2008 are as follows:

Name of subsidiary	Place of incorporation and operations	Form of business structure	Issued share capital/paid up capital	Percentage of equity attributable to the Company	Principal activities
Directly held					
Wing Hing Group (BVI) Limited	British Virgin Islands	Limited liability company	Ordinary HK\$320,000	100%	Investment holding
CWS International Trading Limited	British Virgin Islands	Limited liability company	Ordinary US\$10	100%	Investment holding
Club Ace Holdings Limited	British Virgin Islands	Limited liability company	Ordinary US\$1	100%	Investment holding
Indirectly held					
W. Hing Construction Company Limited	Hong Kong	Limited liability company	Ordinary HK\$102,300,100 Deferred HK\$2,380,000 (Note (i))	100%	Superstructure construction
CWF Piling & Civil Engineering Company Limited	Hong Kong	Limited liability company	Ordinary HK\$48,500,000 Deferred HK\$1,500,000 (Note (i))	100%	Foundation piling

APPENDIX III

FINANCIAL INFORMATION OF THE GROUP

Name of subsidiary	Place of incorporation and operations	Form of business structure	Issued share capital/paid up capital	Percentage of equity attributable to the Company	Principal activities
Sunny Engineering Limited	Hong Kong	Limited liability company	Ordinary HK\$1,000	100%	Property investment and investment holding
W H China (Holdings) Limited	Hong Kong	Limited liability company	Ordinary HK\$2	100%	Investment holding
W H Interior Design and Contracting Company Limited	Hong Kong	Limited liability company	Ordinary HK\$2	100%	Interior decoration
JCL Engineering Limited	Hong Kong	Limited liability company	Ordinary HK\$10,000	91%	Environmental engineering
CSP (HK) Limited	Hong Kong	Limited liability company	Ordinary HK\$10	100%	Investment holding
TCL Piling Specialist Limited	Hong Kong	Limited liability company	Ordinary HK\$1,920,002	100%	Foundation piling
Farrell Global Limited	British Virgin Islands	Limited liability company	Ordinary US\$1	100%	Investment holding
Asia Biodiesel and Renewable Energy (Mongolia) Company Limited	Hong Kong	Limited liability company	Ordinary HK\$1	100%	Investment holding
內蒙古威生物油環保製品有限公司 (Transliterated as Inner Mongolia Meng Wei Biodiesel and Environmental Protection Products Company Limited)	PRC	Sino-foreign co-operative joint venture	Registered capital US\$25,017,500	55%	Development and management of a series of sophora products and of biological vegetable oil

Note:

- (i) The deferred shares carry no rights to dividends and no rights to receive notice of or to attend or vote at any general meeting of the company. In the winding-up of a company, holders of the deferred shares are entitled to receive amounts paid-up or credited as paid-up on shares after the holders of the ordinary shares of the company have received a total return of HK\$1,000,000,000 per share. At 31 March 2008, all these deferred shares were owned by Wing Hing Group (BVI) Limited.

21. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investments in associates		
Unlisted	4,787	4,787
Share of post-acquisition results, net of dividends received	17,466	(3,913)
	<u>22,253</u>	<u>874</u>
Amounts due from associates	15,007	32,120
Less: accumulated impairment	(7,075)	(877)
	7,932	31,243
Amounts due from associates classified as current	(7,932)	(11,078)
	<u>—</u>	<u>20,165</u>
	<u><u>22,253</u></u>	<u><u>21,039</u></u>

Particulars of the Group's principal associates at 31 March 2008 are as follows:

Name of entity	Form of business structure	Place of incorporation and operations	Proportion of nominal value of issued capital held by the Group	Principal activities
Design Landscapes International (HK) Company Limited (note (i))	Limited liability company	Hong Kong	50%	Provision of landscaping services
Design Landscapes International (Group) Company Limited	Limited liability company	Hong Kong	50%	Provision of landscaping services
King Fine Development Limited	Limited liability company	Hong Kong	35%	Property development
Hypsos Leisure Asia Limited	Limited liability company	Hong Kong	42.5%	Exhibition project management

Notes:

- (i) On 13 July 2006, W. Hing Construction Company Limited (“WH Construction”), a wholly-owned subsidiary of the Company, entered into a conditional subscription agreement dated 13 July 2006 with Design Landscapes International (HK) Company Limited (“Design Landscapes”), pursuant to which WH Construction agreed to subscribe for 42,711 new shares of Design Landscapes for an aggregate cash consideration of HK\$93,110. On the same day, Mr. Keith Jeferey Dood, an independent third party, entered into another conditional subscription agreement dated 13 July 2006 with Design Landscapes, pursuant to which Mr. Dood agreed to subscribe for 67,511 new shares of Design Landscapes for an aggregate cash consideration of HK\$147,174. Upon completion of the aforesaid subscription agreements, the interest of WH Construction in Design Landscapes was reduced from 51% to approximately 50%. Accordingly, the results of Design Landscapes were consolidated up to August 2006 and accounted for as an associate of the Group thereafter.
- (ii) The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The summarized financial information in respect of the Group’s associates is set out below:

	2008 <i>HK\$’000</i>	2007 <i>HK\$’000</i>
Total assets	261,716	196,507
Total liabilities	(207,023)	(196,326)
Net assets	<u>54,693</u>	<u>181</u>
Group’s share of net assets of associates	<u>22,253</u>	<u>874</u>
Revenue	<u>176,358</u>	<u>71,110</u>
Profit/(Loss) for the year	<u>50,564</u>	<u>(8,945)</u>
Group’s share of profits/(losses) of associates for the year	<u>21,484</u>	<u>(3,497)</u>

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investments in jointly-controlled entities		
Unlisted	34,639	34,639
Share of post-acquisition results, net of dividends received	(30,177)	(25,330)
	<u>4,462</u>	<u>9,309</u>
Amounts due from jointly-controlled entities	15,014	8,652
	<u>19,476</u>	<u>17,961</u>
Amounts due from jointly-controlled entities classified as current	(4,684)	(8,652)
	<u>14,792</u>	<u>9,309</u>

Particulars of the Group's principal jointly-controlled entities at 31 March 2008 are as follows:

Name of entity	Form of business structure	Place of incorporation/ registration and operations	Proportion of voting power held	Proportion of nominal value of issued capital held by the Group	Principal activities
Costain-China Harbour Joint Venture	Unincorporated	Hong Kong	33-1/3%	40%	Foundation piling
CHEC-CWF Limited	Limited liability company	Hong Kong	30%	30%	Highway maintenance
China Harbour- Transfield Joint Venture	Unincorporated	Hong Kong	25%	15.3%	Drainage improvement
China Harbour-CWF Joint Venture	Unincorporated	Hong Kong	50%	49%	Foundation piling
MLL-CWF Joint Venture	Unincorporated	Hong Kong	50%	40%	Foundation piling
Excel-China Harbour Joint Venture	Unincorporated	Hong Kong	15%	15%	Fresh Water Plumbing Work

Name of entity	Form of business structure	Place of incorporation/ registration and operations	Proportion of voting power held	Proportion of nominal value of issued capital held by the Group	Principal activities
Veolia Water (Zhuhai) Wastewater Treatment Company Limited	Sino-foreign co-operative joint venture	PRC	50%	40%	Provision of wastewater treatment service
Veolia Water (Zhuhai) Wastewater Treatment Operations Company Limited	Sino-foreign co-operative joint venture	PRC	20%	39%	Provision of wastewater treatment management service

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

The summarized financial information in respect of the Group's jointly-controlled entities is set out below:

	2008 HK\$'000	2007 HK\$'000
Total assets	378,486	378,923
Total liabilities	(391,847)	(365,967)
Net (liabilities)/assets	(13,361)	12,956
Group's share of net assets of jointly-controlled entities	4,462	9,309
Revenue	549,233	412,994
Loss for the year	(31,202)	(68,134)
Group's share of losses of jointly-controlled entities for the year	(4,847)	(19,467)

23. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity securities	<u><u>1</u></u>	<u><u>1</u></u>

Notes:

- (i) The unlisted equity securities represent the Group's investment in 8% of the issued share capital of Wealthy Star Development Limited, a private limited liability company incorporated in Hong Kong which is engaged in property development. The investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.
- (ii) The amount due from an investee entity, Wealthy Star Development Limited, at 31 March 2008 of approximately HK\$53,796,000 (2007: HK\$16,604,000) is unsecured, interest-free and has no fixed terms of repayment.

24. DEFERRED TAXATION

The following are the major deferred tax balances recognized and movements thereon during the current and prior year:

Deferred tax liabilities

	Accelerated tax depreciation	Revaluation of assets	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2006	(140)	1,772	1,632
Charge to consolidated income statement for the year (<i>note 10</i>)	140	–	140
Charge to equity for the year	<u>–</u>	<u>1,040</u>	<u>1,040</u>
At 31 March 2007	–	2,812	2,812
Charge to consolidated income statement for the year (<i>note 10</i>)	818	–	818
Credit to equity for the year	<u>–</u>	<u>(487)</u>	<u>(487)</u>
At 31 March 2008	<u><u>818</u></u>	<u><u>2,325</u></u>	<u><u>3,143</u></u>

Deferred tax assets

	Tax losses <i>HK\$'000</i>	Decelerated tax depreciation <i>HK\$'000</i>	Revaluation of assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2006	1,011	–	124	1,135
Credit/ (Charge) to consolidated income statement for the year (<i>note 10</i>)	<u>(403)</u>	<u>356</u>	<u>–</u>	<u>(47)</u>
At 31 March 2007	608	356	124	1,088
Released on disposal of a subsidiary (<i>note 37</i>)	(144)	(1)	–	(145)
Credit/ (Charge) to consolidated income statement for the year (<i>note 10</i>)	<u>381</u>	<u>(355)</u>	<u>(124)</u>	<u>(98)</u>
At 31 March 2008	<u><u>845</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>845</u></u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Deferred tax liabilities	2,487	1,828
Deferred tax assets	<u>(189)</u>	<u>(104)</u>
	<u><u>2,298</u></u>	<u><u>1,724</u></u>

At the balance sheet date, the Group has unused tax losses of approximately HK\$31,735,000 (2007: HK\$40,091,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognized in respect of approximately HK\$4,830,000 (2007: HK\$3,474,000) of such losses. No deferred tax asset has been recognized in respect of the remaining tax losses of approximately HK\$26,905,000 (2007: HK\$36,617,000) due to the unpredictability of future profit streams.

25. LOAN RECEIVABLE

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loan to an associate	<u><u>1,000</u></u>	<u><u>–</u></u>

The Group has provided a short-term loan to an associate which is unsecured and has no fixed terms of repayment. The effective interest for the current year is 12% per annum.

26. TRADE AND OTHER RECEIVABLES

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivable	68,998	75,214
Less: Allowance for doubtful debts	(27,491)	(27,333)
	<u>41,507</u>	<u>47,881</u>
Contract retention receivables	35,344	33,606
Less: Allowance for doubtful debts	(9,444)	(9,859)
	<u>25,900</u>	<u>23,747</u>
Less: contract retention receivables classified as non-current assets	(10,484)	(2,154)
Retentions held by contract customers included in trade receivables under current assets	<u>15,416</u>	<u>21,593</u>
Amounts due from contract customers	<u>26,603</u>	<u>25,883</u>
Total trade receivables as shown under current assets	<u>83,526</u>	<u>95,357</u>
Prepayments, deposits and other receivables	2,354	2,794
Amounts due from jointly-controlled entities	4,684	8,652
Amounts due from associates	7,932	11,078
Amounts due from minority shareholders	<u>—</u>	<u>4,463</u>
	<u>14,970</u>	<u>26,987</u>
	<u><u>98,496</u></u>	<u><u>122,344</u></u>

The Group's credit terms for its contracting business are negotiated with contract customers. Accounts receivable of a non-retention nature are generally due within 30 days of certification by independent architects as to the value of the contract works performed and claimed by the Group in its interim applications for progress payment.

Retentions are due on the expiration of contract maintenance/defects liability period, which is determined in accordance with relevant contract terms and generally stipulated as 181 days to 365 days from the date of practical completion of the contract works.

Included in trade receivables are amounts due from contract customers which represent the excess of contract costs incurred to date by the Group plus recognized profits (less recognized losses) over progress billings raised by the Group for respective contracts at the balance sheet date:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Contract costs incurred plus recognized profits		
less recognized losses	591,047	844,087
Less: progress billings	<u>(564,444)</u>	<u>(818,204)</u>
Amounts due from contract customers	<u><u>26,603</u></u>	<u><u>25,883</u></u>

Included in the Group's trade receivables at 31 March 2008 are amounts due from associates and a jointly-controlled entity of the Group of approximately HK\$1,775,000 (2007: HK\$6,087,000) and HK\$541,000 (2007: HK\$1,163,000) respectively, which are unsecured, interest-free and payable on similar credit terms to those offered to other major customers of the Group. The receivables arose from the undertaking of construction contract works during the year.

The amounts due from jointly-controlled entities, associates and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

An aged analysis of accounts receivable net of allowance for doubtful debts at the balance sheet date, based on the invoice date, is as follows:

	Group 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0-90 days	40,619	45,153
91-180 days	24	276
181-365 days	644	70
Over 365 days	<u>220</u>	<u>2,382</u>
	<u><u>41,507</u></u>	<u><u>47,881</u></u>

An aged analysis of contract retention receivables net of allowance for doubtful debts at the balance sheet date, based on the invoice date, is as follows:

	Group 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0-90 days	3,487	4,135
91-180 days	3,351	2,639
181-365 days	10,533	4,500
Over 365 days	<u>8,529</u>	<u>12,473</u>
	<u><u>25,900</u></u>	<u><u>23,747</u></u>

An aged analysis of accounts receivable that are not considered to be impaired is as follows:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	39,798	45,343
Past due but not impaired		
1-90 days	933	144
91-180 days	–	13
181-365 days	644	–
Over 365 days	132	2,381
	<u>41,507</u>	<u>47,881</u>

An aged analysis of contract retention receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	25,012	23,747
Past due but not impaired		
1-90 days	888	–
	<u>25,900</u>	<u>23,747</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movement in the allowance for doubtful debts on accounts receivable is as follows:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of the year	27,333	28,712
Impairment losses recognized	975	501
Amounts written off as uncollectible	(67)	(1,035)
Impairment losses reversed	(750)	(845)
	<u>27,491</u>	<u>27,333</u>

The movement in the allowance for doubtful debts on contract retention receivables is as follows:

	Group	
	2008	2007
	HK\$'000	HK\$'000
Balance at beginning of the year	9,859	12,549
Impairment losses recognized	210	488
Amounts written off as uncollectible	(220)	(1,777)
Impairment losses reversed	(405)	(1,401)
	<u>9,444</u>	<u>9,859</u>
Balance at end of the year	<u>9,444</u>	<u>9,859</u>

Included in the allowances for doubtful debts are individually impaired accounts receivable and contract retention receivables with balances of HK\$27,491,000 and HK\$9,444,000 (2007: HK\$27,333,000 and HK\$9,859,000) respectively. The individually impaired receivables related to customers that were in dispute or in delinquency in payments and the management assessed that the recovery of the amounts is doubtful. The Group does not hold any collateral over these balances.

An aged analysis of impaired accounts receivable is as follows:

	Group	
	2008	2007
	HK\$'000	HK\$'000
Over 365 days	<u>27,491</u>	<u>27,333</u>

An aged analysis of impaired contract retention receivables is as follows:

	Group	
	2008	2007
	HK\$'000	HK\$'000
Over 365 days	<u>9,444</u>	<u>9,859</u>

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits and bank balances carried interest at prevailing market rates.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Pledged bank deposits were mainly denominated in Hong Kong dollars. Further details are set out in note 43 to the financial statements.

28. TRADE AND OTHER PAYABLES

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts payable	67,923	61,727
Amounts due to contract customers	37,333	11,856
	<u>105,256</u>	<u>73,583</u>
Total trade payables as shown under current liabilities		
Other payables and accruals	34,485	4,278
Amount due to an associate	39,207	–
Amounts due to jointly-controlled entities	59	2,592
Amounts due to minority shareholders	210	1,041
	<u>73,961</u>	<u>7,911</u>
	<u>179,217</u>	<u>81,494</u>

An aged analysis of accounts payable at the balance sheet date is as follows:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	37,982	32,515
91-180 days	2,257	3,646
181-365 days	8,166	4,746
Over 365 days	19,518	20,820
	<u>67,923</u>	<u>61,727</u>

Included in trade payables are amounts due to contract customers which represent the excess of progress billings raised by the Group for the respective contracts over the contract costs incurred to date by the Group plus recognized profits (less recognized losses) at the balance sheet date:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred plus recognized profits		
less recognized losses	849,294	308,331
Less: progress billings	<u>(886,627)</u>	<u>(320,187)</u>
Amounts due to contract customers	<u>(37,333)</u>	<u>(11,856)</u>

The amounts due to an associate, jointly-controlled entities and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

29. BANK BORROWING, SECURED

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mortgage loan	<u>—</u>	<u>3,504</u>
Carrying amount repayable:		
On demand or within one year	—	846
More than one year, but not exceeding two years	—	848
More than two years, but not more than five years	<u>—</u>	<u>1,810</u>
	—	3,504
Less: Amounts due within one year shown under current liabilities	<u>—</u>	<u>(846)</u>
	<u>—</u>	<u>2,658</u>

The mortgage loan at 31 March 2007 was denominated in Hong Kong dollars and its effective interest rate was 6.41% per annum.

At 31 March 2007, the bank borrowing was secured by the followings:

- (i) legal charges over the Group's leasehold land and buildings situated in Hong Kong, with carrying value of approximately HK\$10,675,000 at 31 March 2007;
- (ii) legal charges over the Group's investment property situated in Hong Kong, with carrying value of approximately HK\$4,800,000 at 31 March 2007; and
- (iii) corporate guarantee to the extent of approximately HK\$4.5 million executed by the Company.

In the opinion of the directors, no material liabilities will arise from the above corporate guarantee which arose in the ordinary course of business and the fair value of the corporate guarantee granted by the Company is immaterial.

30. PROMISSORY NOTE

On 26 March 2008, the Company issued a promissory note with a principal amount of HK\$120,000,000 to the vendor as part of the purchase consideration for the acquisition of the entire equity interests in Farrell Global Limited (note 36). The promissory note is transferable, unsecured, interest-free and has a fixed term of five years from the date of issue.

31. SHARE CAPITAL

	<i>Notes</i>	Number of share	Share capital HK\$'000
Authorized			
At 1 April 2006			
Ordinary shares of HK\$0.1 each		1,000,000,000	100,000
Share consolidation	(b)	<u>(900,000,000)</u>	<u>–</u>
At 1 April 2007 and 31 March 2008			
Ordinary shares of HK\$1 each		<u>100,000,000</u>	<u>100,000</u>
Issued and fully paid			
At 1 April 2006			
Ordinary shares of HK\$0.1 each		362,000,000	36,200
Share consolidation	(b)	<u>(325,800,000)</u>	<u>–</u>
Rights issue	(c)	<u>18,100,000</u>	<u>18,100</u>
At 1 April 2007			
Ordinary shares of HK\$1 each		54,300,000	54,300
Shares issued on acquisition of subsidiaries	(d)	<u>14,700,000</u>	<u>14,700</u>
At 31 March 2008			
Ordinary shares of HK\$1 each		<u>69,000,000</u>	<u>69,000</u>

Notes:

- (a) On 30 August 2005, the Company issued 5,000,000 unlisted warrants to Complete Success Limited at HK\$0.20 each as part of the purchase consideration for acquisition of additional interest in a subsidiary. The warrants were issued to Complete Success Limited in registered form and constituted by a warrant instrument, and rank pari passu in all respects among themselves. Each warrant carries the right to subscribe for one share of HK\$1.00 each in the capital of the Company at an adjusted subscription price of HK\$2.64 per share. The exercise in full of the outstanding warrants would, with the capital structure of the Company at 31 March 2008, result in the issue of additional 5,681,818 shares of HK\$1.00 each in the capital of the Company.
- (b) Pursuant to the resolutions passed by the Company's shareholders at the special general meeting of the Company held on 22 May 2006, every 10 then existing ordinary shares of HK\$0.10 each in the issued and unissued share capital of the Company were consolidated into one consolidated share of HK\$1.00.
- (c) In June 2006, the Company completed a rights issue by issuing 18,100,000 shares of HK\$1.00 each at the subscription price of HK\$1.00 per share.
- (d) Pursuant to a sale and purchase agreement dated 10 January 2008, the Company issued 14,700,000 consideration shares to the vendor as part of the purchase consideration for the acquisition of the entire equity interests in Farrell Global Limited (note 36).

32. RESERVES**Company**

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Convertible loan note equity reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2006	35,491	51,562	1,000	–	5,762	93,815
Profit for the year	–	–	–	–	8,011	8,011
At 31 March 2007	35,491	51,562	1,000	–	13,773	101,826
Profit for the year	–	–	–	–	1,761	1,761
Recognition of equity component of convertible loan note (<i>note 33</i>)	–	–	–	1,653	–	1,653
Early redemption of convertible loan note (<i>note 33</i>)	–	–	–	(1,653)	244	(1,409)
Shares issued on acquisition of subsidiaries (<i>note 36</i>)	14,553	–	–	–	–	14,553
At 31 March 2008	50,044	51,562	1,000	–	15,778	118,384

The contributed surplus of the Company arose as a result of the Group reorganization scheme and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. In accordance with the laws of Bermuda, the contributed surplus is distributable in certain circumstances.

33. CONVERTIBLE LOAN NOTE

On 7 May 2007, the Company issued an unsecured convertible loan note with a principal amount of HK\$15,000,000 (the "Convertible Note") to Best Time International Limited. The Convertible Note bore interest at 1% per annum payable half yearly in arrears, with a maturity date of 6 May 2009. The Convertible Note was, at the option of the holder, convertible into ordinary shares of the Company at an initial conversion price of HK\$1.50 per share (subject to adjustment) at any time between the date of issue and the maturity date. The Company had the option to redeem the Convertible Note at any time after the expiry of three calendar months after the date of issue.

The directors had assessed the fair value of the embedded derivative representing the early redemption option and considered that its fair value was insignificant.

On 29 August 2007, the entire Convertible Note was early redeemed by the Company for a consideration of HK\$15,000,000.

The Convertible Note contains the liability and equity components. The equity component is presented in equity heading "Convertible loan note equity reserve". The effective interest rate of the liability component is 7% per annum.

The movement of the liability component of the convertible loan note for the year is set out below:

	<i>HK\$'000</i>
Proceed of issue	15,000
Equity component	<u>(1,653)</u>
Liability component at date of issue	13,347
Interest charged during the year	292
Interest payable during the year	(48)
Early redemption by the Company	<u>(13,591)</u>
Liability component at 31 March 2008	<u><u>—</u></u>

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt (which includes trade and other payables, bank borrowing and promissory note), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

Gearing ratio

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Debt (i)	277,497	84,998
Cash and cash equivalents	<u>(58,619)</u>	<u>(33,742)</u>
Net debt	218,878	51,256
Equity (ii)	304,078	163,762
Net debt to equity ratio	<u><u>72%</u></u>	<u><u>31%</u></u>

Notes:

- (i) Debt comprises trade and other payables, bank borrowing and promissory note as detailed in notes 28, 29 and 30 respectively.
- (ii) Equity includes all capital and reserves of the Group.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

		2008	2007
	Notes	HK\$'000	HK\$'000
Financial assets			
Loans and receivables:			
– Amount due from an investee entity	23	53,796	16,604
– Loan receivable	25	1,000	–
– Trade and other receivables	26	91,572	118,780
– Pledged bank deposits	27	21,860	16,675
– Bank balances and cash	27	58,619	33,742
		<u>226,847</u>	<u>185,801</u>
Available-for-sale financial asset:			
– Available-for-sale investment	23	<u>1</u>	<u>1</u>
Financial liabilities			
Amortized cost:			
– Trade and other payables	28	141,884	69,638
– Bank borrowing, secured	29	–	3,504
– Promissory note	30	<u>98,280</u>	<u>–</u>
		<u>240,164</u>	<u>73,142</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, loan receivable, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowing and promissory note. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

Foreign currency risk

During the year ended 31 March 2008, the Group mainly operated in Hong Kong and the majority of the Group's transactions and balances as at and for the year ended 31 March 2008 were denominated in Hong Kong dollars. The directors consider that the currency risk is not significant and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group is not exposed to significant fair value interest rate risk and cash flows interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Price risk

As the Group has no significant investments, the Group is not subject to significant price risk.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong, which accounted for over 90% (2007: over 90%) of the total trade receivables as at 31 March 2008. In addition, the Group has concentration risk on the amounts due from an investee entity, a jointly-controlled entity and an associate amounted to approximately HK\$53,796,000 (2007: HK\$16,604,000), HK\$12,506,000 (2007: HK\$4,212,000) and HK\$14,000,000 (2007: HK\$10,900,000) respectively. The Group has no significant concentration of credit risk by customers, with exposure spread over a number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	On demand HK\$'000	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
2008						
Non-derivative financial liabilities						
Trade and other payables	63,314	39,094	39,476	–	141,884	141,884
Promissory note	–	–	–	120,000	120,000	98,280
	<u>63,314</u>	<u>39,094</u>	<u>39,476</u>	<u>120,000</u>	<u>261,884</u>	<u>240,164</u>

	On demand HK\$'000	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
2007						
Non-derivative financial liabilities						
Trade and other payables	34,187	31,818	3,633	–	69,638	69,638
Bank borrowing, secured	–	263	788	2,890	3,941	3,504
	<u>34,187</u>	<u>32,081</u>	<u>4,421</u>	<u>2,890</u>	<u>73,579</u>	<u>73,142</u>

(c) **Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined as follows:

- (i) The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- (ii) The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

36. ACQUISITION OF SUBSIDIARIES

Pursuant to a sale and purchase agreement dated 10 January 2008, the Group acquired the entire equity interests in Farrell Global Limited and its shareholder's loan for an aggregate consideration of HK\$250,000,000.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Acquirees' carrying amount before combination and fair value HK\$'000
Net assets acquired:	
Prepaid lease payments	194,285
Bank balances and cash	5
Other payables	(20)
Minority interests	(105,086)
	89,184
Goodwill	89,829
	179,013
	HK\$'000
Total consideration satisfied by:	
Costs directly attributable to the acquisition	1,480
Cash consideration paid	20,000
Cash consideration payable (included in other payables and accruals at 31 March 2008)	30,000
Fair value of 14,700,000 consideration shares issued (<i>note (i)</i>)	29,253
Fair value of promissory note issued (<i>note (ii)</i>)	98,280
	179,013
Net cash outflow arising on acquisition:	
Cash consideration paid	(21,480)
Bank balances and cash acquired	5
	(21,475)

Notes:

- (i) The fair value of the 14,700,000 consideration shares issued was determined by reference to the published share price at the date of exchange.
- (ii) The fair value of the promissory note issued was determined by discounting the amounts payable to their present value at the date of exchange.

The goodwill arising on acquisition of Farrell Global Limited was attributable to the anticipated profitability of its business.

Farrell Global Limited and its subsidiaries contributed a loss of approximately HK\$4,629,000 to the Group's profit for the period between the date of acquisition and 31 March 2008. If the acquisition had been completed on 1 April 2007, total group revenue for the year ended 31 March 2008 would have been approximately HK\$513,387,000 and profit for the year would have been approximately HK\$5,909,000. This pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor is it intended to be a projection of future results.

37. DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2008, CHEC-CWF Joint Venture, a 51% owned subsidiary of the Group, was deregistered on 2 January 2008 upon cessation of business. On 3 January 2008, the Group disposed of its entire equity interests in Supertact Plastics Company Limited for a cash consideration of HK\$5. The net assets of CHEC-CWF Joint Venture and Supertact Plastics Company Limited at the respective dates of disposal were as follows:

	2008 HK\$'000	2007 HK\$'000
Net assets/(liabilities) disposed of:		
Property, plant and equipment	1	632
Deferred tax assets	145	–
Trade receivables	965	16,026
Other receivables	1,685	219
Bank balances and cash	536	13,916
Trade payables	(3,754)	(16,337)
Other payables and accruals	(12)	(201)
Amounts due to associates	–	(10,009)
Amounts due from/(to) minority shareholders	4,233	(2)
Current tax liabilities	–	(1,156)
Minority interests	(2,951)	(3,382)
	848	(294)
Attributable goodwill	1,943	365
Release of assets revaluation reserves	–	(78)
	2,791	(7)
(Loss)/Gain on disposal of subsidiaries	(2,791)	3,843
	–	3,836

	2008 HK\$'000	2007 HK\$'000
Satisfied by:		
Cash consideration	—	—
Interest in associates	—	3,929
Cash consideration paid for acquisition of new shares of an associate	—	(93)
	<u>—</u>	<u>3,836</u>
Net cash outflow arising on disposal:		
Cash consideration	—	—
Cash consideration paid for acquisition of new shares of an associate	—	93
Bank balances and cash disposed of	536	13,916
	<u>536</u>	<u>14,009</u>

38. CONTINGENT LIABILITIES

- (i) At 31 March 2008, the Group had executed guarantees in respect of performance bonds in favor of contract customers of approximately HK\$25,143,000 (2007: HK\$54,138,000). In addition, at 31 March 2008, the Company had executed guarantees in favor of contract customers in respect of the performance of obligation under contracts by a jointly-controlled entity, China Harbour-CWF Joint Venture, with original contract sum of approximately HK\$85,392,000 (2007: HK\$84,938,000). China Harbour-CWF Joint Venture is jointly-controlled by China Harbour Engineering Company Limited, an independent third party, and CWF Piling & Civil Engineering Co., Ltd., a wholly-owned subsidiary of the Company.

At 31 March 2008, the Company had executed guarantees for approximately HK\$36,000,000 in respect of the general banking facilities granted to CHEC-CWF Limited (a jointly-controlled entity in which the Group has 30% equity interests).

At 31 March 2008, the Company had executed guarantees for approximately HK\$73,760,000 in respect of the general banking facilities granted to Wealthy Star Development Limited (an investee entity in which the Group has 8% equity interests).

At 31 March 2008, the Company had executed guarantees for approximately HK\$44,620,000 (2007: HK\$42,800,000) in respect of the general banking facilities granted to W. Hing Construction Company Limited and CWF Piling & Civil Engineering Company Limited (wholly-owned subsidiaries of the Company).

In the opinion of the directors, no material liabilities will arise from the above corporate guarantees which arose in the ordinary course of business and the fair value of the corporate guarantees granted by the Company is immaterial.

- (ii) At 31 March 2008, certain subsidiaries of the Company had provided undertakings of financial support to certain of the Group's jointly-controlled entities in proportion to their equity interests in these entities, in order that these entities could meet their obligations and liabilities as and when they fall due. The Group's share of the net deficiency in assets of these jointly-controlled entities at 31 March 2008 in the amount of approximately HK\$17,342,000 (2007: HK\$14,372,000) has already been accounted for in presenting these financial statements.

- (iii) The Group was previously engaged in early 2000 in the undertaking of a piling work contract, which was terminated by the contract customer during 2001 prior to the completion of contract works as a result of the allegation of non-conforming piles. In the previous year, the contract customer demanded from the Group the retrenchment of HK\$5 million of the contract fees received by the Group, as compensation for early termination of the contract works. In prior years, the contract customer was in the process of undergoing a court compulsory winding-up and the provisional liquidator of the contract customer requested payment of HK\$8 million from the Group. Having considered legal counsel's advice, the directors are of the opinion that the claim is unlikely to succeed. Accordingly, no provision has been made in these financial statements.
- (iv) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$2.6 million at 31 March 2008. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (v) The Group was previously engaged in early 2000 in the undertaking of a piling work contract. In 2001, the Group made a claim against the main contractor of HK\$7 million for variation orders in addition to the original contract sum. In prior years, the main contractor submitted a counterclaim of HK\$44 million for additional costs incurred due to wrongful repudiation of the subcontract. Having considered the legal counsel's advice, the directors are of the opinion that the Group has a good chance of defending the counterclaim. Accordingly, the directors consider that a provision for the counterclaim is not necessary.
- (vi) A number of claims have been brought against the Group in respect of compensation for alleged personal injuries sustained by construction workers during the execution of contract works. The directors believe that any liabilities of the Group in respect of such claims will be covered either by the Group's insurance policies, or that the Group has a meritorious defense against such claims. Accordingly, the directors do not believe that these claims will have any material adverse impact on the Group and, therefore no provisions have been made in respect thereof.

39. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	2008 HK\$'000	2007 HK\$'000
Within one year	—	28

The Group as lessor

Property rental income earned during the year was HK\$22,000. The investment property of the Group is held for rental purpose.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Within one year	264	–
In the second to fifth year inclusive	242	–
	<u>506</u>	<u>–</u>

40. COMMITMENT

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Capital commitment of US\$4,932,500 to the registered capital of a PRC subsidiary payable by the Group	<u>38,474</u>	<u>–</u>

41. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the “Invested Entity”). Eligible participants of the Scheme include the directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any technical, financial and legal professional advisers engaged by the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity. The Scheme became effective on 28 August 2002 and unless otherwise terminated or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 28 August 2002. Share options which lapse in accordance with the terms of the Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit. The Company may seek approval of the shareholders in a general meeting for refreshing the 10% limit under the Scheme, save that the total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit as refreshed. Share options previously granted under the Scheme or any other share option schemes of the Company (including share options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as refreshed. The total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Each grant of the share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, under the Scheme must comply with the requirements of Rule 17.04 of the Listing Rules and must be subject to approval by independent non-executive directors to whom share options have not been granted. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, are subject to prior shareholders' approval in a general meeting.

The offer of a grant of share options shall be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, save that such period shall not be more than 10 years from the date of the offer of the share options, subject to the provisions for early termination set out in the Scheme. There is no minimum period for which an option must be held before the exercise of the subscription right attaching thereto, except as otherwise imposed by the board of directors.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as quoted on the daily quotation sheets of the Stock Exchange on the date of the offer of the share options; (ii) the average closing price of the Company's shares as quoted on the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The Company has not granted any share options during the year ended 31 March 2008 (2007: Nil). At 31 March 2008, there were no outstanding share options.

42. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees. During the year under review, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$1,462,000 (2007: HK\$3,035,000). At 31 March 2008, there were no forfeited contributions available for the Group to offset contributions payable in future years (2007: Nil).

43. PLEDGED OF ASSETS

Assets with the following carrying amounts have been pledged to secure general bank facilities granted to the Group:

	2008 HK\$'000	2007 HK\$'000
Investment property (<i>note 18</i>)	6,500	4,800
Leasehold land and buildings (<i>note 16 and 17</i>)	10,630	10,675
Bank deposits (<i>note 27</i>)	21,860	16,675
	<u>38,990</u>	<u>32,150</u>

44. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant related party transactions:

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Service fee income from jointly-controlled entities	(i)	1,549	40,366
Service fee income from associates	(i)	2,045	371
Sales of materials to a jointly-controlled entity	(ii)	6,522	12,123
Purchases of finished goods from a jointly-controlled entity	(ii)	12,325	18,473
Contract sum received and receivable from an associate	(iii)	<u>7,088</u>	<u>685</u>

Notes:

- (i) The service fee income was charged in relation to the provision of management and consultancy services and labors in respect of the undertaking of construction works. The service charge was made on a cost recovery basis.
- (ii) The sales of materials and purchases of finished goods were made in accordance with terms mutually agreed between the parties involved.
- (iii) The contract sum was received for construction contracts subcontracted to the Group. The contract fees were charged in accordance with terms mutually agreed between the parties involved.

The directors of the Company consider that they are the only key management personnel of the Group and details of their compensation are set out in note 12.

45. POST BALANCE SHEET EVENTS**(i) Disposal of subsidiaries**

On 4 March 2008, the Company announced that, on 28 February 2008, the Company entered into a conditional sale and purchase agreement (the "Disposal Agreement") with Heart Ace Limited (a connected person of the Company) to dispose of the entire equity interests in Wing Hing Group (BVI) Limited (a wholly-owned subsidiary of the Company) and its shareholder's loan for a total consideration of HK\$171,000,000 (the "Disposal").

Pursuant to the Disposal Agreement, a reorganization of the Group shall be conducted prior to completion of the Disposal. Upon completion of the reorganization, Wing Hing Group (BVI) Limited will directly hold the entire issued share capital of Sunny Engineering Limited and CSP (HK) Limited and indirectly hold 35% of the issued share capital of King Fine Development Limited, 8% of the issued share capital of Wealthy Star Development Limited, 39% of the registered and paid up capital of Veolia Water (Zhuhai) Wastewater Treatment Operations Company Limited and 40% of the registered and paid up capital of Veolia Water (Zhuhai) Wastewater Treatment Company Limited.

The Disposal constitutes a very substantial disposal and a connected transaction on the part of the Company under the Listing Rules. Further details of the Disposal are set out in the Company's circular dated 26 March 2008. The resolutions in respect of the transaction were duly passed by the Company's shareholders at the special general meeting of the Company held on 14 April 2008.

(ii) Acquisition of subsidiaries

On 8 July 2008, the Company announced that Bless Luck International Limited (a wholly owned subsidiary of the Company which was formed by the Company on 2 April 2008) entered into a conditional sale and purchase agreement dated 20 June 2008 with an independent third party to acquire 70% of the entire issued share capital of Union Sense Development Limited for a consideration of HK\$210,000,000. The acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of the Company's shareholders at a special general meeting to be convened. Further details of the acquisition are set out in the Company's announcement dated 8 July 2008. The aforesaid acquisition has not been completed as of the date of approval of these consolidated financial statements.

3. INDEBTEDNESS

Borrowings

As at the close of business on 30 June 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had no secured interest-bearing bank borrowings.

As at 30 June 2008, the Enlarged Group's banking facilities were supported by the following:

- Legal charges over the Enlarged Group's leasehold land and buildings and investment property, all of which are situated in Hong Kong, with aggregate carrying value of approximately HK\$14,550,000; and
- Pledged deposits of approximately HK\$22,452,000 of the Enlarged Group.

As at 30 June 2008, the Target Group had total indebtedness of approximately HK\$3,055,000, representing the Loan unsecured, interest-free and repayable on demand. Prior to Completion, the Target shall capitalise the Loan by issuing 99 shares of US\$1.00 in the capital of the Target to the Vendor.

Contingent liabilities

As at 30 June 2008, the Enlarged Group had executed guarantees in respect of performance bonds in favor of contract customers of approximately HK\$24,811,000. In addition to the above, as at 30 June 2008, the Company had executed guarantees in favor of contract customers in respect of the performance of obligation under contracts by a jointly-controlled entity, China Harbour-CWF Joint Venture, with contract sum of approximately HK\$84,938,000.

As at 30 June 2008, the Enlarged Group had executed guarantees for HK\$44,100,000 and HK\$36,000,000 in respect of the general banking facilities granted to the Enlarged Group's associate and jointly-controlled entity, respectively.

As at 30 June 2008, the Enlarged Group had executed a guarantee for HK\$73,760,000 in respect of the general banking facilities granted to Wealthy Star Development Limited, an investee entity in which the Enlarged Group has 8% equity interests.

The Enlarged Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK\$2,700,000 as at 30 June 2008. The contingent liability has arisen because, at 30 June 2008, a number of current employees have achieved the required number of years of service to the Enlarged Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. No provision has been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Enlarged Group.

As at the close of business on 30 June 2008, the Enlarged Group was involved in various lawsuits and claims arising in the normal course of its business from which contingent liabilities might arise, a summary of which is set out in the paragraph headed "Litigations" in Appendix VII to this circular.

Disclaimer

Save as referred to in this section and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, at the close of business on 30 June 2008, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance leases, guarantees, or other material contingent liabilities.

4. WORKING CAPITAL

It is estimated that the funding requirement of the Coal Mines for the next two years will be approximately RMB190 million. Taking into account the internally generated funds and the presently available credit facilities, the Directors are of the opinion that the Enlarged Group will, following the completion of the Sale and Purchase Agreement and the Fund Raising Exercise, have sufficient working capital for its present requirements, that is for at least two years from the date of this circular, in the absence of unforeseeable circumstances.

The Board anticipates that the Group will receive income not less than RMB127 million from the revenue of the Target Group under the mining activities with the Coal Mines pursuant to the Mining Licences Agreements during the coming two years following the issue of this circular as a result of the Acquisition.

Save as disclosed above, no further finance is required to enable the Group to exploit the proven reserves in the Coal Mines on a commercial scale.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong. As described in the paragraph headed “Documents Available for Inspection” in Appendix VII, a copy of the following accountants’ report is available for inspection.



國 衛 會 計 師 事 務 所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

29 August 2008

The Directors
Wing Hing International (Holdings) Limited
14th Floor
Yau Lee Centre
45 Hoi Yuen Road
Kowloon
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Union Sense Development Limited (the “Target”) and its subsidiaries (collectively referred to as the “Target Group”) for the period from 6 June 2007 (date of incorporation of the Target) to 31 March 2008 (the “Relevant Period”), for inclusion in the circular (the “Circular”) dated 29 August 2008 issued by Wing Hing International (Holdings) Limited (the “Company”) in connection with the proposed acquisition of 70% of the entire issued share capital of the Target as contemplated under the conditional sale and purchase agreement dated 20 June 2008 and the supplemental agreement dated 31 July 2008 entered into between Bless Luck International Limited (a wholly owned subsidiary of the Company) and Ms. Cheung Oi Chun (the “Vendor”).

The Target is a limited liability company incorporated in the British Virgin Islands on 6 June 2007 and wholly owned by the Vendor. As at the date of this report, the Target has an authorised share capital of 50,000 shares of no par value, of which 1 share was issued at US\$1 for cash to provide the initial capital of the Target. The principal activity of the Target is investment holding.

As at the date of this report, particulars of the Target's subsidiaries are as follows:

Name	Legal form, place and date of incorporation/ establishment	Particulars of issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Target	Principal activities
Pacific Land International Investments Limited (the "HK Subsidiary")	Limited liability company incorporated in Hong Kong on 12 September 2007	Issued and paid up ordinary share capital of HK\$1	100% (direct)	Investment holding
貴州金億達礦業有限 公司 (transliterated as Guizhou Jinyida Mining Company Limited) (the "PRC Subsidiary")	Wholly foreign owned enterprise established in the People's Republic of China ("PRC") on 14 January 2008	Registered capital of US\$3,680,000 (none of which has been contributed as of 31 March 2008)	100% (indirect)	Not yet commenced business as of 31 March 2008

No audited financial statements have been prepared for the Target since its date of incorporation because it is incorporated in a jurisdiction where there is no statutory audit requirement. No audited financial statements have been prepared for the HK Subsidiary and the PRC Subsidiary since their respective dates of incorporation because they are newly incorporated.

For the purpose of this report, the directors of the Target have prepared consolidated management accounts of the Target Group for the Relevant Period in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements"). The Financial Information set out in this report has been prepared from the Underlying Financial Statements.

For the purpose of this report, we have examined and carried out independent audit procedures on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

No adjustments to the Underlying Financial Statements have been considered necessary in preparing the Financial Information for the purpose of this report.

The Underlying Financial Statements are the responsibility of the directors of the Target. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target and of the Target Group as at 31 March 2008 and of the results and cash flows of the Target Group for the Relevant Period.

I. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation

The financial information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the financial information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Target Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Target anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Target Group.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 12	Service Concession Arrangements ³
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Target and entities (including special purpose entities) controlled by the Target (its subsidiaries). Control is achieved where the Target has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Target Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Target Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Target Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Target Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Target Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Target Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Target's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Target Group's financial assets are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the original effective interest rate. Impairment losses are reversed through profit or loss in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Target Group's financial liabilities are generally classified as other financial liabilities.

Other financial liabilities

Other financial liabilities (including amount due to the Vendor) are subsequently measured at amortized cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Equity instruments

Equity instruments issued by companies comprising the Target Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivables and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

2. Financial risk management*2.1 Financial risk factors*

The Target Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Target Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Group's financial performance.

(a) Market risks

(i) Foreign currency risk

The directors of the Target consider that the Target Group is not exposed to significant foreign currency risk.

(ii) Cash flow and fair value interest rate risk

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

(iii) Price risk

The directors of the Target consider that the Target Group is not exposed to significant price risk.

(b) Credit risk

The Target Group has no significant credit risk, including risk resulting from counterparty default and risk of concentration. The Target Group has policies in place for the control and monitoring of such credit risk.

(c) Liquidity risk

The liquidity of the Target Group is managed and monitored by maintaining sufficient cash balances. The directors of the Target consider that the Target Group does not have significant liquidity risk.

Fair value estimation

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Target consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial information approximate their fair values.

2.2 Capital risk management

The primary objective of the Target Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group sets the amount of capital in proportion to risk. The Target Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. However, there are no estimates and assumptions used in these financial statements that the directors of the Target expect will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

II. FINANCIAL INFORMATION

1. Consolidated income statement

		Period from 6 June 2007 (date of incorporation of the Target) to 31 March 2008 HK\$
	<i>Notes</i>	
Revenue	(a)	–
Administrative and operating expenses		<u>(18,009)</u>
Loss before tax		(18,009)
Income tax expense	(b)	<u>–</u>
Loss for the period	(c)	<u><u>(18,009)</u></u>
Attributable to:		
Equity holders of the Target		<u><u>(18,009)</u></u>

(a) *Revenue and segment information*

The Target Group did not generate any revenue for the Relevant Period.

No business segment information has been presented as the Target Group has not yet commenced business during the Relevant Period and intends to principally engage in the coal mining business in the PRC.

No geographical segment information has been presented as over 90% of the Target Group's assets at 31 March 2008 were located in Hong Kong.

(b) *Income tax expense*

No provision for Hong Kong profits tax has been made as the companies comprising the Target Group did not generate any taxable profit in Hong Kong for the period ended 31 March 2008.

No provision for PRC Enterprise Income Tax has been made as the PRC Subsidiary did not generate any taxable profit in the PRC for the period ended 31 March 2008.

As at 31 March 2008, the Target Group did not have any material unprovided deferred tax.

(c) Loss for the period

Loss for the period has been arrived at after charging:

	Period from 6 June 2007 (date of incorporation of the Target) to 31 March 2008 HK\$
Auditors' remuneration	—
Employee benefit expenses:	
– Directors' remuneration	—
– Other staff costs	—
Compensation to key management personnel	—
	<u> </u>

(d) Loss per share

Loss per share has not been presented as such information is not considered meaningful for the purpose of this report.

2. Balance sheets

		The Target As at 31 March 2008 HK\$	The Target Group As at 31 March 2008 HK\$
	<i>Notes</i>		
Non-current assets			
Investment in a subsidiary	(e)	1	–
Current assets			
Amount due from a subsidiary	(e)	3,047,808	–
Bank balances	(f)	–	3,037,300
		3,047,808	3,037,300
Current liabilities			
Amount due to the Vendor	(g)	3,055,301	3,055,301
Net current liabilities		(7,493)	(18,001)
Net liabilities		<u>(7,492)</u>	<u>(18,001)</u>
Capital and reserves			
Share capital	(h)	8	8
Accumulated loss		(7,500)	(18,009)
Total equity		<u>(7,492)</u>	<u>(18,001)</u>

(e) Investment in and amount due from a subsidiary

The Target

**As at
31 March 2008
HK\$**

Unlisted share, at cost 1

The amount due from a subsidiary was unsecured, interest-free and had no fixed term of repayment.

(f) Bank balances

The bank balances of the Target Group were denominated in Hong Kong dollars. These financial assets are classified as loans and receivables.

(g) Amount due to the Vendor

The amount due to the Vendor was unsecured, interest-free and had no fixed term of repayment. These financial liabilities are classified as financial liabilities at amortized cost.

(h) Share capital

As at
31 March 2008
HK\$

Issued and fully paid:
1 share of no par value

8

The Target was incorporated in the British Virgin Islands on 6 June 2007 with an authorised share capital of 50,000 shares of no par value, of which 1 share was issued at US\$1 for cash to provide the initial capital of the Target.

(i) Commitment and contingent liabilities

As at
31 March 2008
HK\$

Capital contribution of US\$9,800,000 to the
registered capital of the PRC Subsidiary payable by
the HK Subsidiary

76,440,000

The PRC Subsidiary was originally established on 14 January 2008 with a registered capital of US\$9,800,000. In July 2008, the registered capital of the PRC Subsidiary was reduced from US\$9,800,000 to US\$3,680,000.

As at 31 March 2008, the Target Group did not have any material contingent liabilities.

3. Consolidated statement of changes in equity

	Share capital HK\$	Accumulated loss HK\$	Total equity HK\$
Issue of share	8	–	8
Loss for the period	–	(18,009)	(18,009)
At 31 March 2008	<u>8</u>	<u>(18,009)</u>	<u>(18,001)</u>

4. Consolidated cash flow statement

**Period from 6 June 2007
(date of incorporation
of the Target) to 31 March 2008
HK\$**

Operating activities

Loss for the period (18,009)

Net cash used in operating activities (18,009)

Financing activities

Increase in amount due to the Vendor 3,055,301

Proceeds from issue of ordinary share 8

Net cash generated by financing activities 3,055,309

Increase in cash and cash equivalents 3,037,300

Cash and cash equivalents at the beginning of the period –

Cash and cash equivalents at the end of the period 3,037,300

III. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2008 and up to the date of this report:

- (i) Subsequent to 31 March 2008, the HK Subsidiary contributed an amount of US\$640,000 to the registered capital of the PRC Subsidiary by cash.

- (ii) The PRC Subsidiary entered into an agreement with Su Jian Feng and Shen Jun Chen on 28 April 2008 to acquire the mining rights licence to be granted by the Ministry of Land and Resources of the PRC in relation to the Tiechong Coal Mine and to rent the ancillary facilities for 30 years at the consideration of RMB3,600,000 and RMB10,000 respectively, for which a deposit of RMB500,000 was paid by the PRC Subsidiary.
- (iii) The PRC Subsidiary entered into an agreement with Bian Zhuan Zhe and Shen Jun Chen on 28 April 2008 to acquire the mining rights licence to be granted by the Ministry of Land and Resources of the PRC in relation to the Xinghe Coal Mine and to rent the ancillary facilities for 30 years at the consideration of RMB9,500,000 and RMB10,000 respectively, for which a deposit of RMB500,000 was paid by the PRC Subsidiary.
- (iv) The PRC Subsidiary entered into an agreement with Huang Xue Yun and Shen Jun Chen on 28 April 2008 to acquire the mining rights licence to be granted by the Ministry of Land and Resources of the PRC in relation to the Shuishan Coal Mine and to rent the ancillary facilities for 30 years at the consideration of RMB3,600,000 and RMB10,000 respectively, for which a deposit of RMB500,000 was paid by the PRC Subsidiary.
- (v) The PRC Subsidiary entered into an agreement with 凱里市爐山鎮煤礦 (transliterated as Kaili City Lushan Town Coal Mine) on 28 April 2008 to acquire the mining rights licence granted by the Ministry of Land and Resources of the PRC in relation to the Lushan Coal Mine and to rent the ancillary facilities for 30 years at the consideration of RMB5,500,000 and RMB10,000 respectively, for which a deposit of RMB500,000 was paid by the PRC Subsidiary.
- (vi) The PRC Subsidiary entered into an agreement with Shen Jun Chen on 29 April 2008 to acquire the mining rights licence to be granted by the Ministry of Land and Resources of the PRC in relation to the Dayan Coal Mine and to rent the ancillary facilities for 30 years at the consideration of RMB11,000,000 and RMB10,000 respectively, for which a deposit of RMB500,000 was paid by the PRC Subsidiary.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies comprising the Target Group have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

APPENDIX V	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
-------------------	--

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated cash flow statement of the Enlarged Group (the “Pro Forma Financial Information”), has been prepared by the Directors to illustrate the effect of the Acquisition.

The Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix III, the financial information of the Target Group as set out in Appendix IV and other financial information included elsewhere in this circular. The Pro Forma Financial Information does not take account of any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group included in the Pro Forma Financial Information.

2. PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated income statement of the Enlarged Group as if the Acquisition had been completed at the commencement of the period reported on. The unaudited pro forma consolidated income statement has been prepared based on the audited consolidated income statement of the Group for the year ended 31 March 2008 as set out in Appendix III to this circular and the audited consolidated income statement of the Target Group for the period ended 31 March 2008 as set out in Appendix IV to this circular, after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated income statement has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the results of the Enlarged Group for the year ended 31 March 2008 or any future periods.

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

	The Group	The Target Group	Pro forma		Pro forma
	Year ended	Period ended	adjustments		Enlarged Group
	31 March 2008	31 March 2008	adjustments		Enlarged Group
	HK\$'000	HK\$'000	HK\$'000		HK\$'000
	(Audited)	(Audited)	(Unaudited)	Notes	(Unaudited)
		Note 2.1			
Revenue	513,387	–	–		513,387
Cost of sales	(490,108)	–	(531)	2.3	(490,639)
Gross profit	23,279	–	(531)		22,748
Other income	8,735	–	–		8,735
Other gains and losses	(5,642)	–	–		(5,642)
Administrative and operating expenses	(34,919)	(18)	–		(34,937)
Share of profits of associates	21,484	–	–		21,484
Share of losses of jointly-controlled entities	(4,847)	–	–		(4,847)
Finance costs	(484)	–	(800)	2.2	(1,284)
Profit/(Loss) before tax	7,606	(18)	(1,331)		6,257
Income tax expense	(1,585)	–	140	2.2	(1,445)
Profit/(Loss) for the year/period	<u>6,021</u>	<u>(18)</u>	<u>(1,191)</u>		<u>4,812</u>

Notes to the unaudited pro forma consolidated income statement of the Enlarged Group:

- 2.1 The adjustment reflects the inclusion of the income and expenses of the Target Group as if the Acquisition had been completed at the commencement of the period reported on. The balances have been extracted from the audited consolidated income statement of the Target Group for the period ended 31 March 2008 as set out in Appendix IV to this circular.
- 2.2 The adjustment represents notional interest expense of approximately HK\$800,000 on the Promissory Note, and the corresponding tax effect calculated at the Hong Kong profits tax rate of 17.5% thereon, as if the Acquisition had been completed and the Promissory Note was issued by the Company at the commencement of the period reported on. The Promissory Note has a principal amount of HK\$20,000,000, carries interest at the rate of 4% per annum and has a fixed term of five years from the date of issue. For the purpose of the preparation of the unaudited pro forma consolidated income statement, the notional interest expense has been computed on the assumption that the Promissory Note was outstanding for twelve months. This adjustment is expected to have a continuing effect on the Enlarged Group.
- 2.3 Subsequent to 31 March 2008, the Target Group entered into the Mining Licences Agreements to acquire certain mining rights in relation to certain coal mines in the PRC at an aggregate consideration of approximately RMB33.2 million (equivalent to approximately HK\$36,781,000). The adjustment reflects the estimated amortization charge of the aforesaid mining rights based on the estimated useful lives of the respective mining rights, as if the Mining Licences Agreements had been completed at the commencement of the period reported on. This adjustment is expected to have a continuing effect on the Enlarged Group.

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

3. PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group as if the Acquisition had been completed at the date reported on. The unaudited pro forma consolidated balance sheet has been prepared based on the audited consolidated balance sheet of the Group as at 31 March 2008 as set out in Appendix III to this circular and the audited consolidated balance sheet of the Target Group as at 31 March 2008 as set out in Appendix IV to this circular, after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated balance sheet has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 March 2008 or any future date.

	The Group As at 31 March 2008 HK\$'000 (Audited)	The Target Group As at 31 March 2008 HK\$'000 (Audited) <i>Note 3.1</i>	Pro forma adjustments HK\$'000 (Unaudited)	Notes	Pro forma Enlarged Group HK\$'000 (Unaudited)
Non-current assets					
Property, plant and equipment	16,594	–	–		16,594
Prepaid lease payments	190,318	–	–		190,318
Investment property	6,500	–	–		6,500
Goodwill	89,829	–	210,000 5,000 (2,126)	3.4 3.4 3.4	302,703
Mining rights	–	–	36,781	3.3	36,781
Interests in associates	22,253	–	–		22,253
Interests in jointly-controlled entities	14,792	–	–		14,792
Available-for-sale investment	1	–	–		1
Amount due from an investee entity	53,796	–	–		53,796
Contract retention receivables	10,484	–	–		10,484
Deferred tax assets	189	–	–		189
	<u>404,756</u>	<u>–</u>	<u>249,655</u>		<u>654,411</u>
Current assets					
Loan receivable	1,000	–	–		1,000
Trade and other receivables	98,496	–	–		98,496
Pledged bank deposits	21,860	–	–		21,860
Bank balances and cash	58,619	3,037	(20,000) (40,000) (80,000) (5,000)	3.5 3.5 3.5 3.5	(83,344)
	<u>179,975</u>	<u>3,037</u>	<u>(145,000)</u>		<u>38,012</u>

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group As at 31 March 2008 HK\$'000 (Audited)	The Target Group As at 31 March 2008 HK\$'000 (Audited) <i>Note 3.1</i>	Pro forma adjustments HK\$'000 (Unaudited)	Notes	Pro forma Enlarged Group HK\$'000 (Unaudited)
Current liabilities					
Trade and other payables	179,217	–	36,781	3.3	215,998
Current tax liabilities	669	–	–		669
The Loan	–	3,055	(3,055)	3.2	–
	<u>179,886</u>	<u>3,055</u>	<u>33,726</u>		<u>216,667</u>
Non-current liabilities					
Deferred tax liabilities	2,487	–	–		2,487
Promissory notes	98,280	–	20,000	3.5	118,280
	<u>100,767</u>	<u>–</u>	<u>20,000</u>		<u>120,767</u>
Net assets/(liabilities)	<u>304,078</u>	<u>(18)</u>	<u>50,929</u>		<u>354,989</u>
Capital and reserves					
Share capital	69,000	–	10,000	3.5	79,000
Reserves	132,075	(18)	40,000 18	3.5 3.5	172,075
Equity attributable to the equity holders of the Company	201,075	(18)	50,018		251,075
Minority interests	103,003	–	911	3.5	103,914
Total equity	<u>304,078</u>	<u>(18)</u>	<u>50,929</u>		<u>354,989</u>

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group:

- 3.1 The adjustment reflects the inclusion of the assets and liabilities of the Target Group as if the Acquisition had been completed at the date reported on. The balances have been extracted from the audited consolidated balance sheet of the Target Group as at 31 March 2008 as set out in Appendix IV to this circular.
- 3.2 Prior to Completion, the Target shall capitalize the Loan by issuing 99 shares of US\$1 in the capital of the Target to the Vendor. The adjustment reflects the capitalization of the Loan with a carrying amount of approximately HK\$3,055,000 as at 31 March 2008.
- 3.3 Subsequent to 31 March 2008, the Target Group entered into the Mining Licences Agreements to acquire certain mining rights in relation to certain coal mines in the PRC at an aggregate consideration of approximately RMB33.2 million (equivalent to approximately HK\$36,781,000). The adjustments reflect the increase in the aforesaid mining rights to be acquired by the Target Group at a cost of approximately HK\$36,781,000, with a corresponding increase in other payables of approximately HK\$36,781,000, as if the Mining Licences Agreements had been completed at the date reported on. No pro forma adjustment has been made to account for any fair value adjustment of the aforesaid mining rights upon completion of the Group's acquisition of the Target Group as such fair value adjustment is not factually supportable for the purpose of the preparation of the unaudited pro forma consolidated balance sheet.
- 3.4 The adjustments reflect the excess of the Consideration of HK\$210,000,000 and the estimated costs directly attributable to the Acquisition of approximately HK\$5,000,000, over 70% of the adjusted consolidated net assets of the Target Group, as if the Acquisition had been completed at the date reported on. This excess is recognized as goodwill arising from the Acquisition on the unaudited pro forma consolidated balance sheet. For the purpose of the preparation of the unaudited pro forma consolidated balance sheet, the adjusted consolidated net assets of the Target Group of approximately HK\$3,037,000 represents the net liabilities of the Target Group of approximately HK\$18,000 as at 31 March 2008 as adjusted for the capitalization of the Loan with a carrying amount of approximately HK\$3,055,000 as at 31 March 2008, and have been assumed to approximate the fair values of the assets, liabilities and contingent liabilities of the Target Group at Completion.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Since the actual fair values of the assets, liabilities and contingent liabilities of the Target Group and the actual fair values of the Consideration Shares and the Promissory Note at Completion would be different from their estimated fair values used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual goodwill arising from the Acquisition might be materially different from the estimated amount shown in this Appendix.

3.5 The adjustments reflect:

- (i) settlement of the Consideration of HK\$210,000,000 in the following manner:
 - (a) HK\$20,000,000 has been paid in cash by the Purchaser to the Vendor on 31 July 2008 as initial deposit;
 - (b) HK\$40,000,000 shall be payable in cash by the Purchaser to the Vendor on the date of completion of the Fund Raising Exercise as second deposit;
 - (c) HK\$50,000,000 shall be satisfied by the Purchaser procuring the Company to allot and issue 10,000,000 Consideration Shares of HK\$1.00 each to the Vendor credited as fully paid, at the Issue Price of HK\$5.00 per Consideration Share at Completion;
 - (d) HK\$80,000,000 shall be payable in cash by the Purchaser to the Vendor at Completion; and
 - (e) the balance of HK\$20,000,000 shall be satisfied by the Purchaser procuring the Company to issue the Promissory Note to the Vendor at Completion.
- (ii) elimination of the share capital and pre-acquisition reserves of the Target Group.
- (iii) recognition of 30% minority interests of the Target Group.

For the purpose of the preparation of the unaudited pro forma consolidated balance sheet, it has been assumed that the Issue Price of the Consideration Shares and the face value of the Promissory Note approximated their respective fair values at the date of exchange. It has been further assumed that the estimated costs directly attributable to the Acquisition of approximately HK\$5,000,000 were paid by the Group from internal resources of the Group on 31 March 2008, and the Consideration Shares and the Promissory Note were issued on 31 March 2008.

Since the actual dates of settlement of the Consideration and the estimated costs directly attributable to the Acquisition would be different from the assumptions used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual financial position arising from the Acquisition might be materially different from the financial position shown in this Appendix.

4. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group as if the Acquisition had been completed at the commencement of the period reported on. The unaudited pro forma consolidated cash flow statement has been prepared based on the audited consolidated cash flow statement of the Group for the year ended 31 March 2008 as set out in Appendix III to this circular and the audited consolidated cash flow statement of the Target Group for the period ended 31 March 2008 as set out in Appendix IV to this circular, after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

The unaudited pro forma consolidated cash flow statement has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 March 2008 or any future periods.

	The Group Year ended 31 March 2008 <i>HK\$'000</i> (Audited)	The Target Group Period ended 31 March 2008 <i>HK\$'000</i> (Audited) <i>Note 4.1</i>	Pro forma adjustments <i>HK\$'000</i> (Unaudited)	<i>Notes</i>	Pro forma Enlarged Group <i>HK\$'000</i> (Unaudited)
Operating activities					
Profit/(Loss) for the year/period	6,021	(18)	(1,191)		4,812
Adjustments for:					
Amortization of mining rights	–	–	531	2.3	531
Amortization of prepaid lease payments	4,642	–	–		4,642
Depreciation for property, plant and equipment	4,480	–	–		4,480
Loss on disposal of subsidiaries	2,791	–	–		2,791
Gain on fair value changes of an investment property	(1,700)	–	–		(1,700)
Loss on fair value changes of property, plant and equipment	5	–	–		5
Impairment loss recognized in respect of trade receivables	1,185	–	–		1,185
Impairment loss reversed in respect of trade receivables	(1,155)	–	–		(1,155)
Impairment loss recognized in respect of amounts due from associates	6,198	–	–		6,198
Interest income	(1,809)	–	–		(1,809)
Gain on disposal of property, plant and equipment	(1,365)	–	–		(1,365)
Gain on disposal of an associate	(2)	–	–		(2)
Gain on early redemption of convertible loan note	(48)	–	–		(48)
Bad debt recovery	(19)	–	–		(19)
Write off of other receivables	599	–	–		599
Write back of long outstanding payables	(847)	–	–		(847)
Share of profits of associates	(21,484)	–	–		(21,484)
Share of losses of jointly-controlled entities	4,847	–	–		4,847
Finance costs	484	–	800	2.2	1,284
Income tax expense	1,585	–	(140)	2.2	1,445
Operating cash flows before movements in working capital	4,408	(18)	–		4,390
Trade receivables	2,525	–	–		2,525
Balances with jointly-controlled entities	1,435	–	–		1,435
Balances with associates	56,427	–	–		56,427
Balances with minority shareholders	(601)	–	–		(601)
Prepayments, deposits and other receivables	(1,844)	–	–		(1,844)
Trade payables	35,519	–	–		35,519
Other payables and accruals	954	–	–		954
Cash generated from/(used in) operations	98,823	(18)	–		98,805
Interest paid	(192)	–	–		(192)
Net cash generated by/(used in) operating activities	98,631	(18)	–		98,613

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

	The Group	The	Pro forma		Pro forma
	Year ended	Target Group	adjustments		Enlarged Group
	31 March 2008	31 March 2008	HK\$'000		HK\$'000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>Notes</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Unaudited)		(Unaudited)
		<i>Note 4.1</i>			
Investing activities					
Payment of the cash element of the Consideration	–	–	(140,000)	3.5	(140,000)
Payment of estimated costs directly attributable to the Acquisition	–	–	(5,000)	4.2	(5,000)
Interest received	1,809	–	–		1,809
Purchase of property, plant and equipment	(372)	–	–		(372)
Acquisition of subsidiaries	(21,475)	–	–		(21,475)
Disposal of subsidiaries	(536)	–	–		(536)
Amounts advanced to associates	(1,000)	–	–		(1,000)
Amounts advanced to a jointly-controlled entity	(10,330)	–	–		(10,330)
Amounts advanced to an investee entity	(37,192)	–	–		(37,192)
Proceeds from disposal of property, plant and equipment	4,031	–	–		4,031
Increase in pledged bank deposits	(5,185)	–	–		(5,185)
Net cash used in investing activities	(70,250)	–	(145,000)		(215,250)
Financing activities					
Increase in the Loan	–	3,055	–		3,055
Repayment of bank borrowings	(3,504)	–	–		(3,504)
Proceeds from new trust receipt loans	5,960	–	–		5,960
Repayment of trust receipt loans	(5,960)	–	–		(5,960)
Proceeds from issue of convertible loan note	15,000	–	–		15,000
Payment for early redemption of convertible loan note	(15,000)	–	–		(15,000)
Net cash (used in)/generated by financing activities	(3,504)	3,055	–		(449)
Net increase in cash and cash equivalents	24,877	3,037	(145,000)		(117,086)
Cash and cash equivalents at the beginning of the financial year	33,742	–	–		33,742
Cash and cash equivalents at the end of the financial year	58,619	3,037	(145,000)		(83,344)

APPENDIX V	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
-------------------	--

Notes to the unaudited pro forma consolidated cash flow statement of the Enlarged Group:

- 4.1 The adjustment reflects the inclusion of the cash flows of the Target Group as if the Acquisition had been completed at the commencement of the period reported on. The balances have been extracted from the audited consolidated cash flow statement of the Target Group for the period ended 31 March 2008 as set out in Appendix IV to this circular.
- 4.2 The adjustment reflects the cash flow effect from the Acquisition as if the Acquisition had been completed at the commencement of the period reported on. The net cash outflow represents payment of the cash element of the Consideration of HK\$140,000,000 and the estimated costs directly attributable to the Acquisition of approximately HK\$5,000,000. This adjustment is not expected to have a continuing effect on the Enlarged Group.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the auditors of the Company, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong. As described in the paragraph headed "Documents Available for Inspection" in Appendix VII, a copy of the following accountants' report is available for inspection.



Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

29 August 2008

The Directors
Wing Hing International (Holdings) Limited
14th Floor
Yau Lee Centre
45 Hoi Yuen Road
Kowloon
Hong Kong

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

We report on the unaudited pro forma financial information of Wing Hing International (Holdings) Limited (the "Company") and its subsidiaries (collectively, the "Group"), and Union Sense Development Limited (the "Target") and its subsidiaries (collectively, the "Target Group") (hereinafter collectively referred to as the "Enlarged Group"), comprising the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated cash flow statement of the Enlarged Group (the "Pro Forma Financial Information"), as set out in Section A entitled "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix V to the Company's circular dated 29 August 2008 (the "Circular"). The Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Acquisition (as defined in the Circular) might have affected the financial information presented. The basis of preparation of the Pro Forma Financial Information is set out in Section A of Appendix V to the Circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

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

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 March 2008 or any future date;
or
- the results or cash flows of the Enlarged Group for the year ended 31 March 2008 or any future periods.

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

Opinion

In our opinion:

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

Yours faithfully,

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular received from SRK Consulting, a mining engineering consultant and an Independent Third Party, in connection with the Coal Mines.



SRK Consulting
Level 9
300 Adelaide Street
Brisbane Queensland 4000 Australia

Email: brisbane@srk.com.au
www.srk.com.au

Tel: 61 7 3832 9999
Fax: 61 7 3832 9330

29 August 2008

The Directors
Wing Hing International (Holdings) Limited
14th Floor
Yau Lee Centre
45 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

EXECUTIVE SUMMARY

SUMMARY OF PRINCIPAL OBJECTIVES

The objective of SRK Consulting China (“SRK”) was to review all relevant technical aspects of the Guizhou Coal Project in order to provide Asset Appraisal Limited (“Asset Appraisal” or “the company”) with an independent expert report on the five underground coal mines in Guizhou. The SRK report was required to be suitable for inclusion in documents for The Stock Exchange of Hong Kong Limited.

OUTLINE OF WORK PROGRAM

The work program involved two phases:

Phase 1, a review of information provided, site visits to Tiechong, Xinghe, Shuishan, Lushan and Dayan underground coal mines, discussions with staff of the company and collection and review of documents provided to SRK; and,

Phase 2, analysis of the provided data and writing of a draft report, review of additional data and finalisation of this report.

RESULTS

Overall

The Tiechong, Xinghe, Shuishan, Lushan and Dayan underground coal mines were reviewed by SRK based on geological resource verification reports and other information received from mine officials. The information was verified by site visits to each mine during March and April 2008.

Based on all available data and information, as well as observations and measurements during the site visits, SRK is of the opinion that the management is strongly committed to achieving high productivity while striving to maintain high safety standards. Out of the five mines, the Dayan coal mine is the most promising in view of its structural framework, reserves/resources and coal quality. The mining parameters of the Xinghe and Lushan mines are favourable, and somewhat reasonable at Shuishan.

It is noted here that achieving or even surpassing the designed rate of production is possible in the four mines, provided the technical reforms undertaken in these coal mines are completed in due time.

Geotechnical data from the Tiechong mine is less favourable, than the other mines. The coal seam and roof strata are mylonitised and somewhat unstable. Unless support systems are properly designed, based on the geotechnical parameters, safety and production of the mine may indeed be endangered.

Throughout the five mines the development plans are short term. To sustain production during the service life of the mines, long term mine planning will be required. All the mines are located in very hilly karst landscape. The mining method planned is retreating longwall with caving under low to medium cover. SRK suggests that long term mine planning should consider the possible effect of subsidence due to caving on the stability of the hills. If found feasible, the no subsidence mining method may be planned, even with lower recovery of coal, in order to avoid large scale environmental damage. The approach roads to all five mines will need to be revamped for smooth dispatch of coal products as production ramps up.

Geology

The geological conditions vary across the five underground coal mines, from relatively simple geology to more complex and difficult geological conditions. Furthermore, the types and quality of the coal products vary from high energy, low ash, anthracite to relatively low quality thermal coal.

Due to the very limited drill hole information and very limited coal quality data made available for this assessment, the geological confidence level at all five mines is rather low. However, the Late Paleozoic coal-bearing deposits show no signs of igneous intrusives, and only minor faults were observed in the mines. The coal seams are considered here to have developed on an extensive coastal plain and might well be regionally extensive and as such somewhat “stable”. The seams developed in response to forced sea-level regressions, and are considered to represent event beds.

The Tiechong underground coal mine is at an early development stage. It extracts a 1.53-2.1 m thick, Late Permian, low energy, thermal coal seam. The sulphur levels are high, however, the seam meet the Chinese emission standards. The immediate seam roof conditions are poor due to intensive bedding slip deformation. Methane gas levels are very low.

The geological conditions at the Xinghe Coal Mine operations are in general simple, with good conditions for underground extraction of the two Early Carboniferous coal seams. The mining operation extracts two 1.10 - 1.60 m thick, high energy, coal seams. The sulphur levels are relatively low and meet the Chinese emission standards. The coal products are well suited for the local thermal coal market. The immediate seam roof conditions appear to be good. Methane gas levels are low.

The Shuishan underground mine is at an early development stage. The geological conditions are fair, with relatively stable seam roof. The mine produces a fair domestic thermal coal product of Late Permian age. The sulphur levels are high; however, the Late Permian coal seams meet the Chinese emission standards.

The Lushan underground coal mine is also at an early development stage. It extracts a 0.8 - 1.8 m thick, medium energy, thermal coal seam. The sulphur levels are high, however, the Early Permian coal seam meet the Chinese emission standards. The immediate seam roof conditions appear to be good and methane gas levels are very low.

The Dayan underground mine is unsurpassed the best of the five coal mines, with great potential for increasing production. It has excellent conditions for underground coal mining operations including relatively thick seams (up to 4.2 m), competent roof, little structural disturbance and good quality coal products. The four minable coal seams will produce low ash, low sulphur and high energy coal. However, gas could be a problem as mining progresses down dip, with gas drainage being required.

The following table provides a general overview of the coal attributes from the five mines.

Mine	Coal-bearing System	Formation	Minable Coal Seams	Coal Thickness (m)	Dips (°)	Ash Ad (%)	Sulphur d (%)	Net Calorific Value (MJ/kg)
Tiechong	Late Permian	Wujiaping	K2	1.53 – 2.10	12 - 20	15.00 -36.00	1.60 - 2.94	12.67 -15.99
Xinghe	Early Carboniferous	Xiangbai	A7 & A9	1.10 – 1.60	4 -28	18.38 -19.65	1.25 - 1.35	26.71 -27.86
Shuishan	Late Permian	Wujiaping	M1 & M2	0.50 – 1.55	27 - 30	22.72 - 30.66	2.56 - 2.91	12.63 -20.35
Lushan	Early Permian	Liangshan	1	0.80 – 1.80	3 - 10	19.41	2.53	21.00
Dayan	Late Permian	Longtan	M6, M7, M16 & M24	1.80 – 4.20	3 -42	1.00 -12.00	0.10 - 1.30	25.12 -35.59

The general coal characteristics in the above table were derived from reports made available to SRK Consulting China, as well as measurements during site inspections.

Coal Resource and Reserve

The exploration standard differs from mine to mine substantially. The best explored resource is at Dayan and Lushan coal mine. The exploration stage, number of observation point and its type is given in following table.

Mine	Boreholes	Channel Samples	Exploration Stage
Tiechong		11	general
Xinghe		11	general
Shuishan		11	general
Lushan	2	12	preliminary
Dayan	10		detailed

The exploration grid at Tiechong, Xinghe and Shueshan mines is irregular and depends on accessibility of abandoned mine faces. The spacing of grid lines at Lushan mine is 750m. At the grid line No. 1 two boreholes were drilled with spacing 750m. The rest of samples were located at underground faces near to the grid lines. The Dayan exploration has been conducted along grid lines spaced 500m apart. Boreholes on the grid line are spaced at 250 to 300m.

The resource and reserve estimates for the bituminous coal deposits at Tiechong, Xinghe, Shuishan, Lushan and Dayan as at 31 March 2008 are shown in the following table.

Mine	Resource (Mt)						TOTAL
	111b	121b	122b	332	333	334	
Tiechong			0.09		0.80	5.07	5.96
Xinghe				1.45	2.87	4.92	9.23
Shuishan					0.91	7.55	8.47
Lushan		3.83			2.79		6.62
Dayan	30.92						30.92
Total	30.92	3.83	0.09	1.45	7.37	17.54	61.19

SRK has reviewed the resource input data, resource maps, resource estimate procedure. SRK is of opinion that resource estimate for each individual mine is meeting Chinese Standard.

SRK assessed the mining plans and made mining dilution and mining loss assumptions based on site inspection findings, geology and mining method. Since no feasibility study and mine design has been available to SRK to review, the reserve is considered to be probable category. The resource categories 333 and 334 were not used for reserve estimate, because of low geological assurance. Once the resource reported in categories 333 and 334 undergone detailed exploration the reserve would be increased substantially.

Mine	Reserve (Mt)
Tiechong	0.04
Xinghe	0.68
Shuishan	0.00
Lushan	2.82
Dayan	18.98
Total	22.52

Mining

Tiechong Coal Mine

The Tiechong mine is in the initial stage of development. The mining method presently conducted needs to be modified as per recommendations of mine plan prepared by Guizhou Chuangxin Mining and Metallurgical Engineering Co., Ltd in November 2007. The expansion plans for achieving licensed capacity of 90,000 tpa is possible provided construction as per mine plan starts early and other recommendations for improving safety standards of the mine is implemented.

Although the mine plan observes possible instability of hill slope due to subsidence, it recommends retreating longwall method with caving to be adopted for exploitation of the coal seam. SRK opines that to avoid widespread instability and consequent damage to environment, the geotechnical study is necessary to assess whether no-subsidence-method of extraction should be considered even with reduced percentage of recovery of coal seam. It would be convenient to conduct geotechnical study concurrently with detailed geological exploration.

No RMR of roof strata and coal seam has been evaluated. Observations of SRK during site visit are in the range of poor to very poor. This is also corroborated by experts from the Guizhou Chuangxin Mining and Metallurgical Engineering Co., Ltd. Stable strata can be seen 1-1.5m above coal seam. This calls for review of the support plan, as well as the cycle of operation to avoid miners to work under unsupported roof.

The mine plan has recommended necessary infrastructure for sustained achievement of designed capacity of production, as well as certain procedures to be put in place for meeting the dangers associated with mining. The recommendation appears to be sound and adequate.

Xinghe Coal Mine

The Xinghe mining company combines three mining leases (i.e. Zhongshan, Lasan and Zhenxin). Zhongshan is currently operating and Lasan under construction. Two mineable Early Carboniferous coal seams, M7 and M9, are available to mine. Presently the mining plan is for exploitation of the M7 seam. Development is on panel incline technique. The mining method is semi-mechanized retreating longwall with caving. Presently, the development plan is based on local experience. The development plan for the entire mine is under preparation. General mining parameters are favourable. However, the available infrastructure may need revamping.

The expansion plans for achieving the capacity of 300,000 t/pa is possible provided all the development works are properly planned and executed. Mining equipment is in good condition.

The safety standard in the mine is good. The safety records show no major accidents.

Low cover over caved goaf creates instability of the hills. This is evident by the landslide observed at the approach of the mine. SRK opines that geotechnical study is required to substantiate selection of mining method based on behaviour of hill slopes under strain of subsidence.

Shuishan Coal Mine

The Shuishan mine is located at an elevation of 850-1000 m. Two Late Permian coal seams, M1 and M2, are available for mining. Presently, mining is proposed to be done in the M1 seam by longwall retreating with caving method. The mine is to be developed with panel incline technique. The inclines have been under repair since 2006. The development plan is short term and based on local experience. No long term mine plan has been prepared. Roof and floor are stable and can be easily supported. Coal seam is unstable and prone to spillage of sides thus increasing the size of gallery.

The expansion plans for achieving designed capacity of 90,000 tpa in short term may be possible after technical reform is completed. Unless the mine is designed for the long term and support system is designed on sound scientific basis, sustenance or increase in production level may be difficult. The geotechnical study need to be conducted to assess extend of subsidence and its potential impact on hill slope. Mine safety requires attention particularly in view of unstable coal seam. The safety records show no major accidents. Infrastructure available may need revamping.

Lushan Coal Mine

The Lushan coal mine is in the initial stage of development. One Early Permian coal seam is available for mining. Development is currently within the main body of the seam with new inclines constructed at an elevation of 800m. A fault on the extreme southern side has caused poor roof condition of the old developed panel which had to be abandoned. The panel incline technique is followed for mine development. The mining method is semi-mechanized retreating longwall with caving. No long term mine plan has been prepared. General mining parameters are favourable.

The expansion plans for achieving a capacity of 150,000 tpa is possible, provided all the development works are properly planned and executed.

Mine safety requires attention although the safety records show no major accidents.

The infrastructure available may need to be revamped. A geological review indicates possibility of hill slope instability due to subsidence. SRK opines that selection of mining method should be based on subsidence study of the hill slopes.

Dayan Coal Mine

The mine has four mineable coal seams. Presently, it is proposed to mine the topmost M6 seam by semi-mechanised longwall retreating using the caving method. The mine is developed in panel incline technique. The development plan is short term and based on local experience. No long term mine plan has been prepared for exploitation of all four Late Permian coal seams. Roof and coal seam appears stable and can be easily supported.

The expansion plans for achieving the designed capacity of 450,000 t / yr during the short term may be possible given the favourable mining parameters and conveyor transport system. To maintain sustainable and reliable production level long term mine design based on sound engineering basis needs to be prepared.

Management is intent on maintaining high standard of safety and productivity. The safety records show no major accidents. In terms of available infrastructure, the approach road needs to be revamped for smooth dispatch of coal products.

Processing Plants

It is noted that SRK did not conduct reviews of coal processing plants at the Tiechong, Xinghe, Shuishan, Lushan and Dayan coal mines, as no such plants are currently developed.

Historical and Future Production Capacity

The Historical and Projected Future Production Capacity for each of the five coal mines is provided in the following table.

Historical and Future Production Capacity (tonnes)

	Tiechong	Xinghe	Shuishan	Lushan	Dayan
2006-2007	30,000	300,000*	70,000	30,000	150,000
2007-2008	80,000	150,000	100,000	80,000	350,000
2008-2009	90,000	200,000	90,000	120,000	450,000
2009-2010	NA	300,000	150,000	150,000	450,000
2009-2010	NA	NA	300,000	NA	NA

* Tonnage from 2005-2007.

Environmental

Current Status of Compliance

SRK's environmental technical review of the project identified a number of environmental issues as relate to the development and operation of the AAGC Operations Coal Mines not following all the conditions for operation, as would be stated within the project's EIA governmental approvals and Chinese National Environmental Protection directives (had they been completed). There are also aspects of the operation that could be improved to ensure compliance with Chinese Environmental laws and regulatory requirements for environmental protection. Positive aspects of the review relate to the AAGC detailing a fairly comprehensive strategy for protecting the surrounding environment and for making use of waste by-products from the operation.

Impact Assessment

SRK's site investigation of AAGC Operations found reasonable project site conditions with a number of environmental issues and aspects. AAGC's management team were reasonably aware of the issues at site, but as yet hadn't introduced the necessary environmental protection measures to combat the impacts of the below listed aspects / potential liabilities. The environmental technical review identified the following as the most significant environmental management liabilities that relate to the current AAGC Operations at the time of SRK's site visit:

- Surface water management and discharges (i.e. stormwater runoff & diversions).
- Groundwater management and discharges (i.e. mine dewatering not treated or collected).
- Rehabilitation of waste rock and coal stockpiles and other disturbed areas.
- Storage and handling of hazardous materials.
- Waste generation and management (industrial and domestic wastes).
- No characterization of process waste materials or gangue.
- No monitoring of waste water discharges
- ARD and Potential contaminated sites.
- Lack of a structured closure planning process.
- Lack of erosion control measures.

Status of Permitting

The AAGC Operations Coal Mines possesses the necessary Business License and Mining License for operation, but has not yet conducted their Environmental Impact Assessments or obtained their final acceptance for the projects environmental protection measures or their operating permit for beginning for full-scale operation.

Safety

Company records show that from January 2006 to 31 March 2008, the company had no fatalities and no major injuries in the five underground mines. However, in the same timeframe the company records show a total of 196 minor injuries for the 995 employees.

Social

Public participation assessment / investigation results found that the local residents have some understanding of this project and its consequences both positive and negative, the majority were in support of the project, but expressed the wish that the project not destroy the local environment.

The main social / community protection objectives as relate to adverse environmental influences are: No adverse effects caused by the construction and operation of the proposed project to the surrounding residential areas. There were no incidents noted or records sighted of public complaints in relation to the activities of AAGC Operations as part of this review.

In the assessment zone for the AAGC Operations Mines there are no heritage sites, protected relics or rare animal and plant resources.

Operating Cost

The major cost inputs to the project are salaries, management costs, electrical power, consumables and water. The present electrical power costs for the five mines varies from RMB 0.516 / kWhr (Shuishan) to RMB 0.553 / kWhr (Tiechong and Xinghe), with an average of RMB 0.5324 / kWhr. The cost of water for the five mines varies from RMB0.1 (Dayan) to 0.2 / m³ (Lushan) with an average of RMB 0.156 / m³. The salary for underground coal mine workers varies from RMB2700 / month (Shuishan) to RMB 4500 / month (Dayan) with an average of RMB 3440 / month.

Current Operating Costs / Tonne Coal

	Tiechong <i>RMB</i>	Xinghe <i>RMB</i>	Shuishan <i>RMB</i>	Lushan <i>RMB</i>	Dayan <i>RMB</i>
Wage costs	28	30	30	32	25
Consumables	5	5	9	10	11
Electricity	5	5	6	5	5
Water	1	1	NA	NA	NA
Transport	2	3	NA	NA	NA
Management	10	10	10	10	10
Safety	5	5	5	6	NA
Tax	47	46	47	47	51
Other	5	5	5	5	3
Total	108	110	112	115	105

Capital Cost

The expansion project and production ramp up at will require accumulative capital investment of RMB240 million at the Tiechong, Xinghe, Shuishan, Lushan and Dayan underground coal mines. Of these amounts RMB45 million will be spent at the Tiechong mine, RMB50 million at the Xinghe mine, RMB45 million at the coal mine at Shuishan, RMB50 million at the Lushan mine and RMB50 million at the Dayan mine. Total capital investment is forecast at RMB240 million. SRK is of the opinion that the capital expenditure is likely to achieve the aims of the company and result in the forecast production ramp-up from the 5 coal mines in Guizhou.

DISCLAIMER

The opinions expressed in this report have been based on the information supplied to SRK by Asset Appraisal Ltd. The opinions in this report are provided in response to a specific request from Asset Appraisal Ltd. to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1 INTRODUCTION AND SCOPE OF REPORT

Asset Appraisal Limited (“Asset Appraisal” or “the company”) commissioned SRK Consulting China (“SRK”) to review the underground coal operations at Tiechong, Xinghe, Shuishan, Lushan and Dayan (“the Project”), which the company is looking at buying and to provide an Independent Expert Report.

2 PROGRAM OBJECTIVES AND WORK PROGRAM**2.1 Program Objectives**

The objectives of the program were to review the data available, participating in site visits to the underground coal operations at Tiechong, Xinghe, Shuishan, Lushan and Dayan and to provide Asset Appraisal with both verbal feedback and a written report.

2.2 Purpose of the Report

The purpose of the report was to provide potential shareholders and The Stock Exchange of Hong Kong Limited (“HKSE”) with an Independent Expert Report suitable for inclusion in documents that Asset Appraisal plans to submit to HKSE in relation to a proposed listing of the shares of the company on HKSE.

2.3 Reporting Standard

This report has been prepared to the standard of and is considered by SRK to be, a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserve and is binding upon all AusIMM members.

This report is not a Valuation Report and does not express an opinion as to the value of mineral assets. Aspects reviewed in this report do include product prices, socio-political issues and environmental considerations; however SRK does not express an opinion regarding the specific value of the assets and tenements involved.

2.4 Work Program

The work program consisted of a review of data provided by the company, travel to the Guizhou province, inspection of the underground coal operations at Tiechong, Xinghe, Shuishan, Lushan and Dayan and review of the documents provided. Subsequent to discussions with staff of the company, SRK analysed the data provided and prepared the present report, which was provided to the company as a draft for review of factual content.

2.5 Project Team

The SRK project team and their duties are shown in Table 2-1 below.

Table 2-1: SRK Consultants, Title and Responsibility

Consultant	Title and Responsibility
Dr Yonglian Sun	Principal Consultant, Peer-Review
Dr Per Michaelsen	Senior Coal Consultant, Team Leader and Compilation of Report
Petr Osvald	Senior Coal Consultant, Resource Estimates
Arabinda Basu	Principal Mining Engineer and Safety Issues
Andrew Lewis	Environmental Review and Approvals
Technical Translators	SRK employed several translators with university degrees in the relevant technical area required

Per Michaelsen, PhD, Senior Coal Consultant, MAusIMM, is a senior consultant with SRK China with a specialty in coal-bearing deposits. He completed a doctoral study at James Cook University in Australia in 1999 on the development of Permian coal deposits and basinal dynamics. Per has more than 14 years experience in the field of coal and coal seam gas with work conducted in Australia, China and Mongolia. Per's essential skills include: JORC compliant exploration program management, evaluation of coal deposits, integrated image and map interpretation; field mapping and structural analysis, due diligence studies and technical reviews. Per has worked with a large number of clients including BHP Billiton, Anglo Coal, Xstrata Coal, Bayfield Ventures and Asia Gold. Dr Michaelsen was the project manager on this project.

Petr Osvald, MSc, Senior Coal Consultant, MAusIMM, is an experienced geologist with 20 years experience in resource estimation, mine geology, mine planning and scheduling and has worked on commodities ranging from tin, tungsten, copper, kaolin, basalt, feldspar, coal to iron. He is specialized in resource management, resource modeling and grade control. Petr had been working as mine manager responsible for exploration, data collection, data interpretation, resource estimate; mine planning, mine management and coal quality control up to end user in the biggest coal mine- Merit Pila in Malaysia for 9 years.

Arabinda Basu, BSc (Mining), an Associate Consultant to SRK based in Calcutta. Arabinda specializes in coal with over 30 years of experience in underground and open pit coal operation. Before being associated with SRK, Arabinda worked 24 years with Tata Steel, the largest private steel maker in India with multiple underground and open pit coal mines in Eastern India. In his last 6 years in Tata, Arabinda was heading the mine planning division. Arabinda reviewed the mining section of this project.

Andrew Lewis, B.Sc. MAusIMM, is an Environmental Engineer SRK Consulting China. He has worked extensively in China and Asia for nearly a decade. He has worked on a wide variety of different projects ranging from technology transfer to environmental health and safety.

Dr Yonglian Sun, Managing Director of SRK China, B Eng, PhD (Mining Eng), MAusIMM, MIEAust, CPEng, is a Principal Consultant with over 18 years experience in geotechnical engineering, rock mechanics and mining engineering in five countries across four continents. He has considerable international mining experience with an emphasis in site investigation, analysis and modelling of geotechnical issues in open pits, underground mines, tunnels, as well as project management. Dr Sun peer-reviewed this report.

2.6 Warranty

Asset Appraisal has represented to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true. SRK has no reason to doubt this representation.

2.7 Statement of SRK Independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Asset Appraisal in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report.

2.8 SRK Experience

The SRK group employs approximately 500 professionals internationally and has 25 permanently staffed offices in eight countries on six continents. SRK China has an office in Beijing with 15 staff. SRK has provided Independent Expert Reports for the companies and The Stock Exchange of Hong Kong Limited as shown in the table below.

Table 2-2: Recent Reports to HKSE by SRK

Company	Year	Nature of Transaction
Yanzhou Coal Limited	2000	Sale of Jining III coal mine by parent company to the listed operating company
Chalco (Aluminium Corporation of China)	2001	Listing on HKSE and New York Stock Exchange
Fujian Zijin Gold Mining Company	2004	Listing on HKSE
Lingbao Gold Limited	2005	Listing on HKSE
Yue Da Holdings Limited	2006	Acquisition of shareholding in mining projects
China Coal Energy Company Limited	2006	Listing on HKSE
Sino Gold Mining Limited	2007	Dual listing on HKSE
Kiu Hung	2008	Acquisition of two Inner Mongolian coal projects

2.9 Forward-Looking Statements

Estimates of mineral resources, ore reserves and mine and processing plant production are inherently forward-looking statements, which being projections of future performance will necessarily differ from the actual performance. The errors in such projections result from the inherent uncertainties in the interpretation of geologic data, in variations in the execution of mining and processing plans, in the ability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, fluctuating coal prices and changes in regulations. The possible sources of error in the forward-looking statements are addressed in more detail in the appropriate sections of this report. Also provided in the report are comments on the areas of concern inherent in the different areas of the mining and processing operations.

3 PROPERTY DESCRIPTION AND LOCATION

3.1 The Mining Assets

The Guizhou Coal Project is located within a radius of approximately 125 km from Guiyang, the capital city of the Guizhou Province. A general map of China showing the Guizhou region in the southeastern part of China, combined with a more detailed location map, is provided in Figure 3-1.



Figure 3-1: General Guizhou Coal Project Location Map

3.2 Mining Tenements

The Guizhou Land and Resources Bureau have issued 5 mining licenses for the underground coal mines covered by this study. A summary is shown in Table 3-1 and details attached in Appendix 3.

Table 3-1: Mining License Details

Mine	Mining License No.	Mining Area (km ²)	Mining Capacity (tpa)	Issue Date	Date for renewal
Tiechong	5200000540313	1.4000	30,000	Dec-05	Dec-10
Xinghe	5200000711403	8.5818	90,000	Aug-07	Aug-08
Shuishan	5200000540312	1.2800	30,000	Dec-05	Dec-10
Lushan	5200000730035	3.9310	90,000	Dec-07	Dec-16
Dayan	5200000711044	1.7630	90,000	May-07	May-08

The 5 mining tenements cover a total area of 16.9558 square km (km²). The mining tenements are delineated by the coordinates shown in Tables 3-2 to 3-6.

Table 3-2: Tenement Coordinates for Tiechong Coal Mine

Vertex ID	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	NA	NA	2,917,600.00	36,451,500.00
2	NA	NA	2,917,600.00	36,452,200.00
3	NA	NA	2,919,600.00	36,452,200.00
4	NA	NA	2,919,600.00	36,451,500.00

Table 3-3: Tenement Coordinates for Xinghe Coal Mine

Vertex ID	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	NA	NA	2,903,860.00	36,426,540.00
2	NA	NA	2,903,860.00	36,427,630.00
3	NA	NA	2,902,170.00	36,427,430.00
4	NA	NA	2,902,170.00	36,427,220.00
5	NA	NA	2,901,110.00	36,427,220.00
6	NA	NA	2,901,110.00	36,425,370.00
7	NA	NA	2,900,271.00	36,425,370.00
8	NA	NA	2,900,271.00	36,428,870.00
9	NA	NA	2,899,240.00	36,428,870.00
10	NA	NA	2,899,240.00	36,426,710.00
11	NA	NA	2,899,720.00	36,426,710.00
12	NA	NA	2,899,720.00	36,425,880.00
13	NA	NA	2,899,240.00	36,425,880.00
14	NA	NA	2,901,700.00	36,424,870.00
15	NA	NA	2,901,700.00	36,484,870.00
16	NA	NA	2,901,700.00	36,425,950.00
17	NA	NA	2,902,770.00	36,425,950.00

Table 3-4: Tenement Coordinates for Shuishan Coal Mine

Vertex ID	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	NA	NA	2,942,497.60	36,461,399.90
2	NA	NA	2,942,493.80	36,462,645.10
3	NA	NA	2,940,185.50	36,462,638.30
4	NA	NA	2,940,189.20	36,461,392.90

Table 3-5: Tenement Coordinates for Lushan Coal Mine

Vertex ID	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	NA	NA	2,952,750.00	36,488,150.00
2	NA	NA	2,951,450.00	36,488,150.00
3	NA	NA	2,950,650.00	36,486,500.00
4	NA	NA	2,951,150.00	36,485,860.00
5	NA	NA	2,951,860.00	36,486,200.00
6	NA	NA	2,952,760.00	36,486,700.00
7	NA	NA	2,952,760.00	36,487,240.00
8	NA	NA	2,953,730.00	36,488,310.00
9	NA	NA	2,953,470.00	36,488,530.00

Table 3-6: Tenement Coordinates for Dayan Coal Mine

Vertex ID	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	NA	NA	2,935,594.00	35,558,208.00
2	NA	NA	2,935,359.00	35,557,261.00
3	NA	NA	2,934,838.00	35,557,043.80
4	NA	NA	2,934,448.00	35,556,648.00
5	NA	NA	2,934,071.00	35,556,706.00
6	NA	NA	2,933,530.00	35,556,868.00
7	NA	NA	2,933,778.00	35,557,372.00
8	NA	NA	2,933,931.00	35,557,678.00
9	NA	NA	2,934,784.00	35,557,997.00

3.3 Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Lushan, Shuishan, Tiechong and Xinghe coal mines are distributed about 70 - 120 km east - southeast of Guiyang the provincial capital (Figure 3-1), whereas the Dayan mine is located approximately 120 km west of Guiyang. The coal field infrastructure is good, with an extensive network of provincial and national roads as well as six lane freeways. Railway access is particular good for Shuishan, Tiechong and Lushan, and fair for Dayan and Xinghe (Figure 3-1). Table 3-7 is providing some characteristics of the five coal mining tenements (e.g. proximity to infrastructure, elevation and annual rainfall).

The topography of the mining tenements is rather undulating (Table 3-7), with elevation differences up to 438.0 m. The Permo-Carboniferous coal measures are thin, with little topographical expression in the landscape. However the coal measures are bounded by massive limestone deposits which are rather resistant to weathering, and as such forms steep mountains in the landscape.

Table 3-7: Characteristics of the Five Coal Mine Tenements

Coal Mine	Elevation (m)	Annual Rainfall (mm)	Highway distance (km)	Railway distance (km)	Electrical Power Supply
Tiechong	850 - 1100	NA	2	1	Good
Xinghe	1059 - 1497	1445	7	25	Good
Shuishan	850 - 1000	NA	9	11	Good
Lushan	NA	NA	29	37	Good
Dayan	1550 - 1780	NA	2.5	30	Good

The climate of the coal mining area is subtropical plateau monsoonal, characterized by damp, heavy rainfall, with an average humidity content of 84%. The mean annual temperature is 13°C. It is somewhat cold during the winter months, with the lowest temperature recorded at -3°C. Snowfall and frost occur during the winter months. The highest rainfall is between June and September. The mean annual rainfall for Xinghe is 1200 mm, and is considered to be very similar in the four other mining areas which are located in the same area.

The majority of residents of the mine areas are of Han origin, with some Miao and Yi minority groups. Most of the residents are occupied with farming and livestock. The main food crops are corn, wheat and dasheen, with minor rice.

The electrical power supply to the five coal mine areas is good. The power is supplied by the South China Power Grid.

Based on the Earthquake Intensity document from the Guizhou Province and the China Earthquake Parameter Planning Map (GB18 - 2001), the earthquake intensity of the coal mine area is characterized by VI degree, as such, it is a stable area.

4 COAL GEOLOGICAL ASSESSMENT

4.1 Regional Geological Framework

The Tiechong, Xinghe, Shuishan, Lushan and Dayan coal mines are all located within the southeastern sector of the extensive, coal-bearing Sichuan Basin, which in turn forms part of the Yangtze Platform. The Sichuan foreland Basin occupies a total area of approximately 180,000 km², and is the most important morphotectonic unit of the western Yangzi Platform. The Yangtze crustal structure is approximately 44-46 km thick and experienced clockwise rotation throughout the Mesozoic (Meng et al, 2005; Li et al., 2006).

Large portions of the Yangzi Platform (along with the Tarim and Sino-Korea Platforms, one of the three large Precambrian cratons of China which was accreted to Paleo-Eurasia during the Paleozoic) were part of the northern continental shelf of the Upper Paleozoic Tethyan Ocean.

The facies of the Yangzi Platform sedimentary cover (thickness exceeding 10,000 m) was largely controlled by basement tectonics and eustatic sea-level changes (Reinhardt, 1988). Paleontological, sedimentological and paleomagnetic data suggest a subtropical position of the area during Permian times, and as such identical to the present conditions in Guizhou.

Reinhardt (1988) studied the Permo-Triassic succession of marine carbonates and siliciclastic sequences within the western Yangzi Platform in southern China. Reinhardt noted a large-scale, gradual transition from epicontinental marine conditions, which prevailed during most of the Paleozoic, to continental red beds in the Upper Triassic.



Figure 4-4-1: Late Permian Palaeogeographic Reconstruction of the Earth

4.2 Depositional Model

The Late Paleozoic facies succession preserved in Guizhou is largely dominated by carbonates. However, carbonate deposition was punctuated by sporadic regressive events, which exposed much of the Yangzi carbonate platform. These events are expressed in the stratigraphic record as the inter-digitation of shallow marine and coal-bearing coastal plain deposits. The preservation potential for coals in such a depositional setting is high. However, coastal plain coals are often associated with high sulphur levels, which is indeed the case in four of the five coal mines in Guizhou.

The shallow marine system prevailed over much of Indochina, extended into Mongolia, and onto the Russian platform. It is highlighted here that the facies succession preserved in Guizhou is similar to the Russian platform, where extensive coal measures also developed during the late Paleozoic.

The carbonate depositional system might well represent a time span of more than 200 million years. The system initiated during the Devonian, extended uninterrupted across the Permian-Triassic boundary and finally terminated during the Late Triassic. Importantly, it is considered here to represent a prolonged period of somewhat tectonic calm, where substantial tracts of carbonates accumulated on an extensive subsiding platform.

The magnificent exposures of shallow marine and paralic deposits in Guizhou show little evidence of structural disturbance. Significantly, the Late Permian deposits accumulated during a time where the North and South China Blocks apparently collided, hence, a time of major structural upheaval.

The coal-bearing facies succession in Guizhou, provide a window into the coastal dynamics along the eastern margin of Tethys during the Late Paleozoic. Furthermore, it provides an aperture into Permo-Carboniferous floral biodiversity along the Yangzi Platform. The wetlands along the margin of South China consisted largely of peat-forming lycopsids, cordiates and tree ferns. In order to support such a diverse peat-forming flora, relatively wet sub-tropical conditions must have prevailed. The relatively wet conditions were probably coupled to the proximity of oceanic moisture sources. However, well developed Late Permian red beds in North China strongly suggest arid conditions prevailed to the north. The arid conditions extended further east into Russia (red beds) and Europe (Zechstein evaporates and red beds).

Peat-forming wetlands were very widespread during the Late Paleozoic (e.g. Australia, Antarctica, Americas, India, China, Mongolia, Europe, Russia and Southern Africa), but virtually disappeared following the end-Permian mass extinction (e.g., Michaelsen, 2002). The vast majority (approximately 95%) of peat-producing plants became extinct at the Permo-Triassic Boundary (PTB). The ensuing 10 million year coal gap in the Early Triassic clearly shows a prolonged recovery phase of peat-forming plants.

The traditional scientific view is that a great worldwide regression occurred at the end of the Middle Permian, and ended by the terminal Permian, followed by renewed transgression in earliest Triassic (e.g. Hallam, 1989). However, more recent work by Wu et al. (1993) indicates that the end-Permian regression concluded up to several meters below the PTB, and was followed by a phase of rapid transgression. Indeed, the lithostratigraphic data from this study is consistent with the findings of Wu et al. (1993), as the coal-bearing Longtan and Wujiaping Formations are both overlain by Late Permian limestone deposits (i.e. Dalong Formation).

The Permo-Carboniferous coal seams documented in this report developed in direct response to forced sea-level regressions, and as such represent event beds. The two Early Carboniferous coal seams preserved at Xinghe, and the Early Permian coal seam at Lushan might well have developed as a result of glacio-induced sea-level changes. Indeed, glaciogene deposits during this period are well documented. However, the development of the Late Permian coals at Dayan, Shuishan and Tiechong are not readily explained in terms of glacio-induced sea-level changes as no glaciogene deposits from this period have been documented anywhere in the world.

4.3 Tiechong Coal Mine

The Tiechong coal mine is located proximal to the Xiping village within Majiang County, some 15 km south of Majiang City (Figure 3-1). The Tiechong coal mine was constructed in 2005, and commenced production of anthracite coal in 2007. The Guizhou Land and Resources Bureau initially issued a coal production license of 30,000 tonnes / pa in December 2005. Recently, the current mine owners applied for a production license of 90,000 tonnes / pa in order to ramp up production.

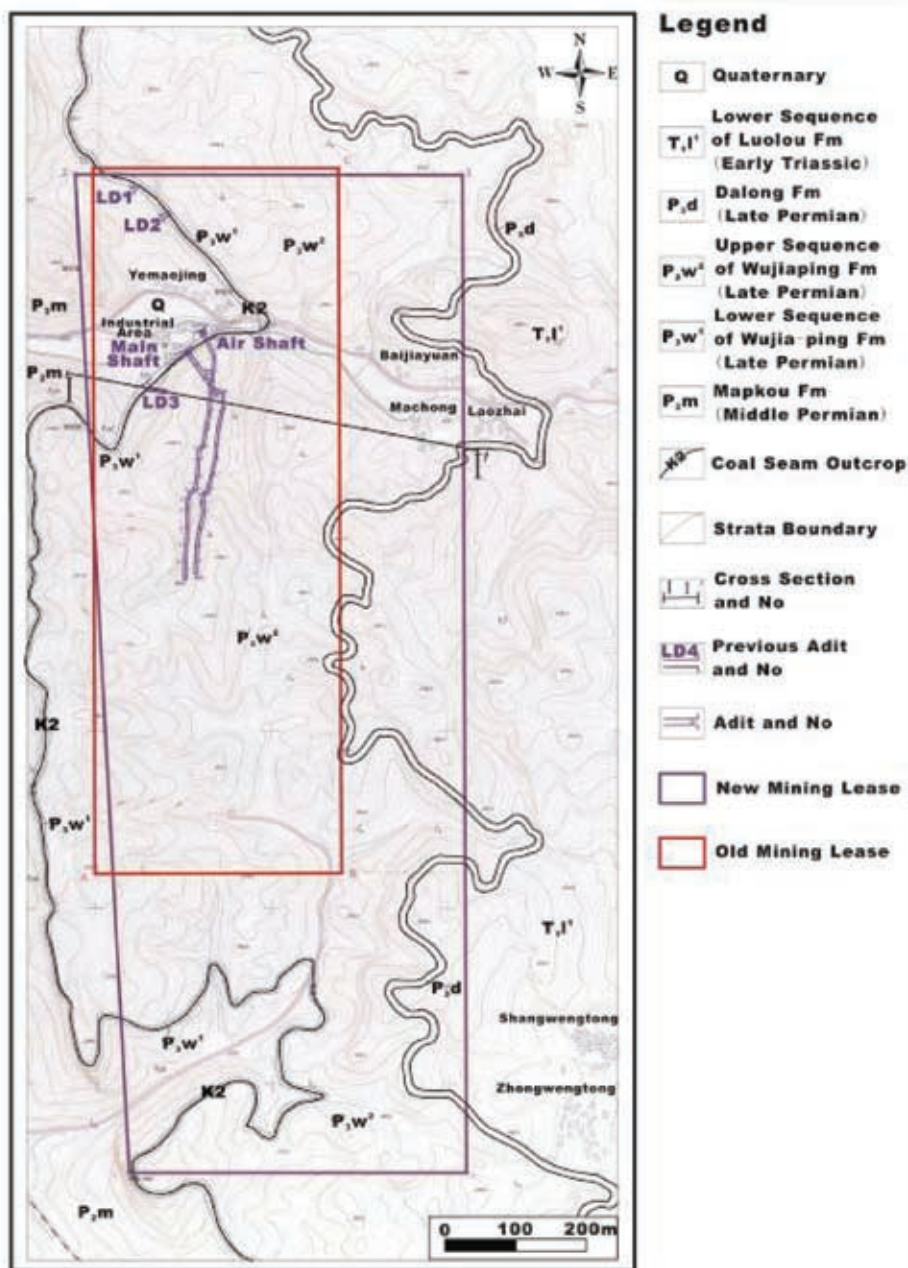


Figure 4-2: Location Map of Tiechong Coal Mine

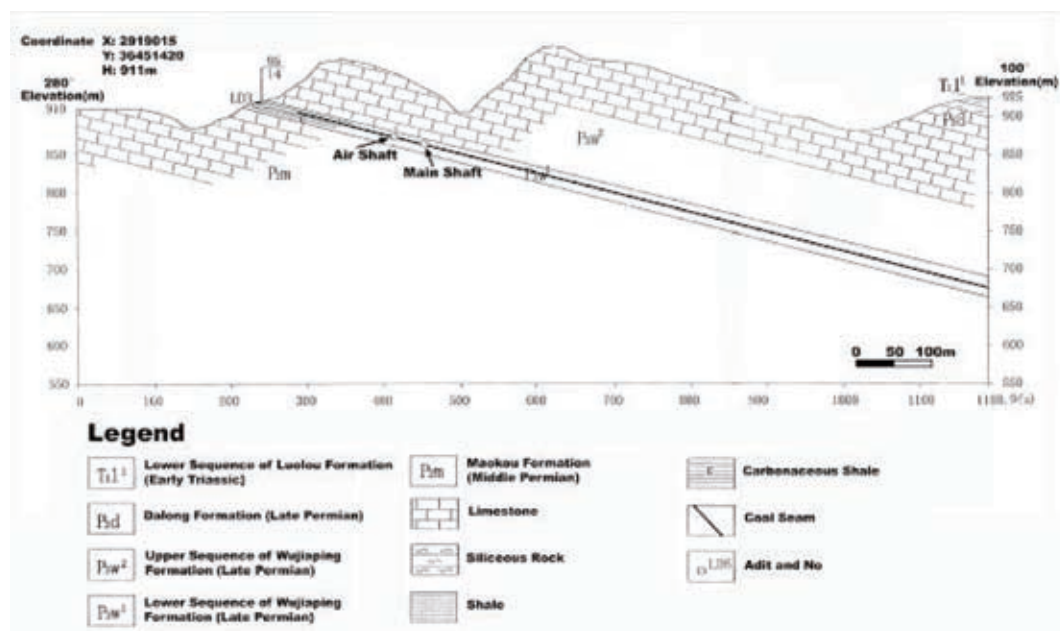


Figure 4-3: Schematic East - West Cross-Section at Tiechong

4.3.1 Litho-Stratigraphic Framework

The Tiechong mining district is characterized by well exposed outcrops of the Late Permian coal-bearing Wujiaping Formation, as well as the underlying Early Permian Maokou Formation and quaternary deposits. A brief overview of the stratigraphic succession is provided here. Furthermore, a schematic cross-section is provided in Figure 4-3 and a litho-stratigraphic section in Figure 4-4.

The Early Permian Maokou Formation is characterized by grey to dark grey bioclastic limestone with common chert inclusions (i.e. ichno fossil infill). The Maokou Formation is > 120m thick in the Tiechong district. It is underlain by the Early Permian Quixia Formation (limestone) and overlain by the Wujiaping Formation.

The lower section of the Wujiaping Formation (P_3W^1) is coal-bearing. The section is 50-59 m thick in the Tiechong mining area. It contains tuffaceous, greyish-black carbonaceous shale, silty tonstein beds, argillaceous shale, marlstone and coal. This section contains the K2 coal seam which is currently mined at Tiechong. The gross thickness of the coal seam varies from 1.53 - 2.10m. The seam includes a clastic parting, a black carbonaceous shale bed with a thickness of 0.05 -0.10 m. The K2 coal seam is distributed throughout the mining area. The immediate seam roof and floor consists of black carbonaceous shale.

One of the tonstein beds is probably the Wampoo Tuff Bed (WTB), a key stratigraphic tuff marker which apparently can be traced over a distance of >3000 km (Isozaki & Ota, 2001). The WTB has a rhyolitic-dacitic composition, and represent a most significant volcanic eruption. The upper section of the Wujiaping Formation (P_3W^2) is mainly distributed in the eastern part of the mining area. The thickness of this section is approximately 390 m. It is composed of grey to dark grey and bioclastic limestone with chert nodules (probably ichno fossil infill as observed at Shuishan), carbonaceous shale and thin-layers of inferior coal beds or coaly streaks.

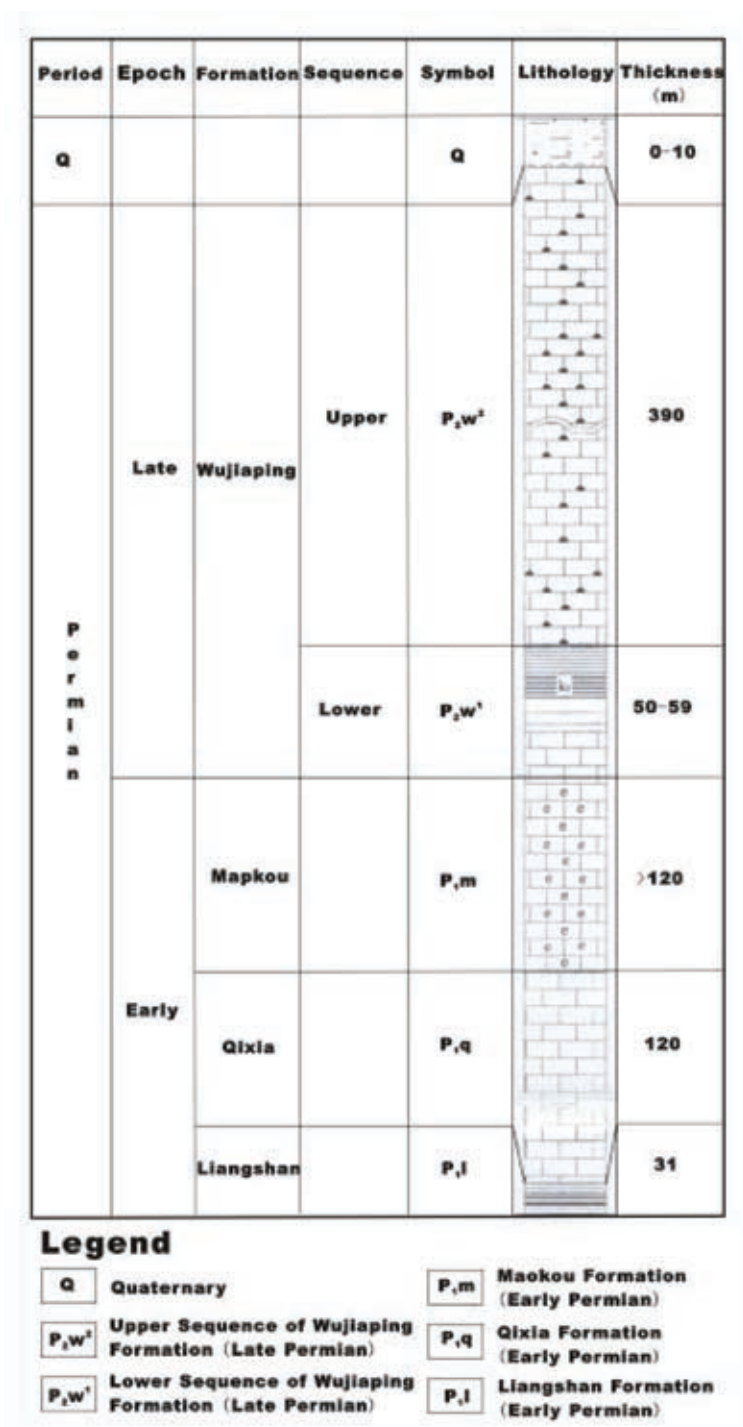


Figure 4-4: Schematic Litho-Stratigraphic Section, Tiechong Mining District

The Late Permian Dalong Formation (P_3d) consists of grey to dark grey lithic-rich sediments with tuffs (with montmorillonite and vitric fragments). The thickness of this stratigraphic unit is approximately 30 m within the mining area.

The lower section of the early Triassic Luolou Formation (T_1) is characterized by yellow-grey and grey-green shale. The middle part is grey thin-layer and contains pelsparite and yellow-grey and grey coal-containing hydromica tonstein rhythmite; the thickness of monoclinical stratum limestone is 5-20 cm; it has horizontal seam and laminated structure. The upper part of the Luolou Formation comprises grey-green and yellow-green shale and coaly shale with a greyish thin shaly seam (phacoid).

Quaternary deposits occur within topographic lows in the mining district, and formed with grey-yellow and brown-yellow tenacious clay and loam, gravely sand and gravel. The thickness varies from 0-5 m.

4.3.2 Structural Context

In a structural assessment of the Tiechong Coal Mine area, the 101st Geological Brigade of Guizhou concluded that the structure of the mining area is comparatively simple. The Late Permian coal-bearing deposits strike approximately north-south, and dip towards the east at 12-20°; with an average of 14°. SRK measured dips of 14° within the development section of the mine, during the site inspection.

The 101st Geological Brigade highlighted that no geological structures influences the coal seam in the mining district. Indeed, the magnificent Late Paleozoic outcrops surrounding the coal mine suggest that these deposits have been little affected by structural activity. However, during the site visit SRK observed abundant slickensided structures within the K2 coal seam as well as the immediate seam roof (Figure 4-4). In fact, the K2 coal seam has a mylonite appearance. The mylonite fabric and slickenside structures reveal deformation by progressive shear deformation induced by bedding slip of less competent beds between two competent limestone units.

The coal-bearing lower section of the Wujiaping Formation is enclosed by two competent limestone units as disclosed in Figure 4-3. During post-depositional deformation, horizontal stress was released in the less competent coal-bearing strata. Clearly, the abundant horizontal structures observed in the immediate seam roof have implication in terms of roof stability, and will need special attention during mine planning, development and production.



Figure 4-5: Evidence of Extensive Structural Deformation in the K2 Seam

4.3.3 Coal Seam Gas

According to article 133 of the Safety Regulations of Chinese Coal Mines, gas and carbon dioxide levels must be examined on an annual basis. In this context Hetian Coal Mine Engineering Company Limited conducted an investigation of the gas levels in the Tiechong underground coal mine in September 2006. The absolute gas outflow was measured at $0.71\text{m}^3 / \text{min}$; and relative gas outflow was $9.18\text{m}^3 / \text{t}$. As such the Tiechong coal mine can be characterized as a low gas mine.

4.3.4 General Coal Characteristics

The Late Permian K2 coal seam from the Tiechong coal mine is considered to have the following characteristics based on the data made available to SRK:

- The coal is strongly deformed (mylonite to semi-mylonite fabric)
- Gross seam thickness varies from 1.53 - 2.10m
- The average Moisture (M_{ad}) is 1.18%
- The average Ash content (A_d) is 28.9%

- The Sulphur (S_{td}) content fluctuate from 1.60-2.94%
- Density of 1.42 t / m³
- Volatile matter (V_{daf}) varies from 12.79 -31.10% (average 19.30%)
- Calorific Values fluctuate from 12.67MJ/kg to 15.99MJ/kg (average 13.55MJ/kg)

The Late Permian K2 coal seam produce a medium - high ash, medium - high sulphur, and low-medium volatile coal, with rather low gross calorific value (average 13.55 MJ/kg). As such, the coal is mainly suitable for the domestic thermal energy market. The current buyers of the Tiechong coal are the Kaili power station, the Duyun Chemical Plant and the Duyun Cement Plant.

The ash content within the K2 seam varies significantly from 15.49% to 35.79% (ad). Limited spatial ash data is available. However, the limited data shows a significant variation of the ash content over a short distance. As an example, over a distance of just 30 m within the development heading, the ash content increases towards the south from 16.39% to 33.44%. In general, the ash content appears to be highest in the central part of the mining lease.

The sulphur level varies from 1.60 - 2.94% (td) within the seam. Comparable to the ash content, the sulphur content appears to be highest in the central part of the mining lease. Pyrite appears to be very common within the seam, and much of the sulphur is considered here to be derived from pyrite.

4.3.5 Coal Resource Estimation

The Tiechong mine area was explored in the course of general geological mapping and prospecting for minerals and coal during the period 1958 - 1959 and later in 1961. The old results were updated by the 101st Brigade for the Tiechong mine tenement in 2004. Coal resource estimates has been conducted on the basis of 11 observation points - channel samples collected from old underground workings and from the Tiechong mine development faces. Significantly the samples and coal seam geological logs are located either at near the outcrop or along the developing roadway. Such spacing does not allow for classification of resource to higher category. Indeed only small block enclosed by development adits has been classified as category 122b.

Sample collection has been conducted in accordance with Chinese standard and sample coordinates has been determined by GPS on the surface and by underground survey techniques in old and developing faces. The channel samples has been collected from 10 x 5 cm groove cut across the seam, the sample length has depended on the seam thickness. Samples were also used for specific gravity tests.

The samples were analysed by the Non-Ferrous Analytical Centre of Guizhou Province using the methods prescribed by the Chinese standards GB/T1212001, GB/T214-1996 and GBT213-1996).

The geological block method has been used for Tiechong mine using Chinese Standard DZ/T0215-2002, which was modified with respect of coal shortage in the region. The following modified Industrial Standard was used for Tiechong:

Max. Ad: no requirement

Max. St.d: $\leq 4\%$

Min. Qnet.d: 12.5 MJ/kg

Minimum thickness: ≥ 0.5 m

Considering the dip of strata is less than 60° the horizontal projection method has been adopted for resource block area determination.

Resource was then calculated using formula:

$$Q = S / \cos(\beta) \times h \times D$$

Where

Q resource (t)

S Horizontal projection area (m^2)

β dip of seam

h true thickness (m)

D specific gravity (t/m^3)

The resource block has been delineated by the boundary of the weathering zone near the surface, which has been drawn 30 m from the outcrop along the dip of the seam. The 122b category block is confined between two development adits. The 333 category is assigned to the resource block between upper development adit (panel return airway) and weathered boundary. The rest of the resource is classified as 334 category.

The resource estimation results are indicated in following Table:

Table 4-1: Resource Estimate of the Tiechong Mine

Block ID	Category	Area (m ²)	Dip (°)	Thickness (m)	Specific Gravity (t/m ³)	Volume (m ³)	Tonnage (t)	Tonnage (Mt)
I	122b	39,405	14	1.58	1.42	64,166	91,116	0.09
II	333	328,594	14	1.67	1.42	565,551	803,083	0.80
III-1	334	595,475	14	1.65	1.42	1,012,613	1,437,910	1.44
III-2	334	995,305	14	1.65	1.42	1,692,529	2,403,391	2.40
III-3	334	156,437	14	1.76	1.42	283,758	402,936	0.40
III-4	334	318,768	14	1.76	1.42	578,207	821,054	0.82
Subtotal	122b						91,116	0.09
Subtotal	333						803,083	0.80
Subtotal	334						5,065,291	5.07
TOTAL							5,959,489	5.96

SRK is of opinion that the Tiechong mining tenement is in the general stage of exploration, and detailed exploration is required to convert resources into category 121, verify hydrogeological and geotechnical characteristic of the coal and adjacent rocks before mine design and planning can be prepared.

4.3.6 Coal Reserve Estimation

The coal reserve/resource classification system as defined by Chinese Standard DZ/T0215-2002 is derived from UN ECE Framework Classification for Fossil Energy and Mineral Resources. As such category 111 is considered proved mineral resource and categories 121 and 122 belongs to probable mineral reserve. This requires conversion of resource using modifying factors (mining recovery, coal yield in processing etc.) into reserve. The resource verification report of Tiechong mine states resource of block I as category 122b. Chinese standard introduces categories 111b, 121b and 122b, which address resource block for which feasibility study and economical evaluation is completed, but modifying factors determined by feasibility study were not applied to convert resource into reserve. As such the categories 111b, 121b and 122b are treated as measured resource.

Feasibility study has not been provided to SRK team. Therefore modifying factors presented here are estimated based on site inspection, deposit geology and mining method of coal extraction. Since no coal processing takes place or is planned to, only assumed mining recovery and dilution by adjacent rocks has been taken into account.

SRK estimated mining recovery factor considering the observed seam thickness, panel size and technological pillars size as 70 %. The dilution by adjacent rocks, especially immediate roof is considerably high and SRK estimates that average dilution is 30%. The specific gravity of diluting shale is assumed 2.1 t/m³.

According to Client new mine plans are being prepared and it is possible that measures would be adopted to prevent dilution from immediate roof.

The block I reserve tonnage is 0.10 Mt. The reserve is of probable reserve category. In period 2005 - 2007 about 60000 t has been extracted out of this block till March 2008 according to record provided by the Client. The remaining reserve of the block is 0.07 Mt.

Table 4-2: Tiechong Reserve Estimate

Block ID	Resource (t)	Recovery (%)	Dilution (%)	Reserve (t)	Reserve (Mt)
I	91,116	70	30	104,783	0.10
Depleted				60,000	0.06
TOTAL				44,783	0.04

The resource blocks II, III-1, III-2, III-3 and III-4 cannot be converted into reserve, because category and geological assurance is too low to allow the conversion.

4.4 Xinghe Coal Mine

The Xinghe Coal Mine is located in a rugged karst landscape (Figure 4-6), proximal to the township of Baimang, and approximately 25 km west of Duyun City (Figure 3-1). Xinghe is a new mine which incorporates Lashan (to the north), Zhongshan (central) and Zhengxin (to the south), which all mine the same Early Carboniferous coal seam (i.e. A7). During the SRK site inspection, only access to Zhongshan was available. The current production capacity is 90,000 tons per year. A planned production ramp-up, is aiming at increasing the output to 150,000 tons per year. The mine was constructed in 2002, with upgrades conducted in 2005 and recommencement of production in 2007. Longwall retreat mining along strike is the planned mining method.



Figure 4 6: Stockpiling of Early Carboniferous Coal at the Xinghe Mine

4.4.1 Litho-Stratigraphic Framework

The Xinghe mining area is characterized by grand exposures of Devonian limestone sequences and coal-bearing Carboniferous deposits (Figure 4-6). A brief overview of the stratigraphic succession, from youngest to oldest, is provided here. A schematic cross-section is provided in Figure 4-7. The Quaternary deposits are preserved in topographic lows, and consist of alluvial and aeolian deposits which reach up to 16.65m in thickness within the mining area.

The Early Carboniferous Xiangbai Group (C_1x) is coal-bearing, and contains the coal seams mined at Xinghe. Only the lower sequence has been preserved for the rock record in the mining area. This stratigraphic section is dominated by thick, grey to redish, quartz-rich sandstone units with subordinate coal. The coal seams mainly occur in the lower and middle part of the section. A total of 1-12 coal seams with a thickness of 0.02 - 3.1m outcrop within the mining area. However, only two seams are economical: A7 and A9 (i.e. partly). Pyrite nodules are common within the Carboniferous coal seams, and fossil plant impressions within fine -grained deposits.

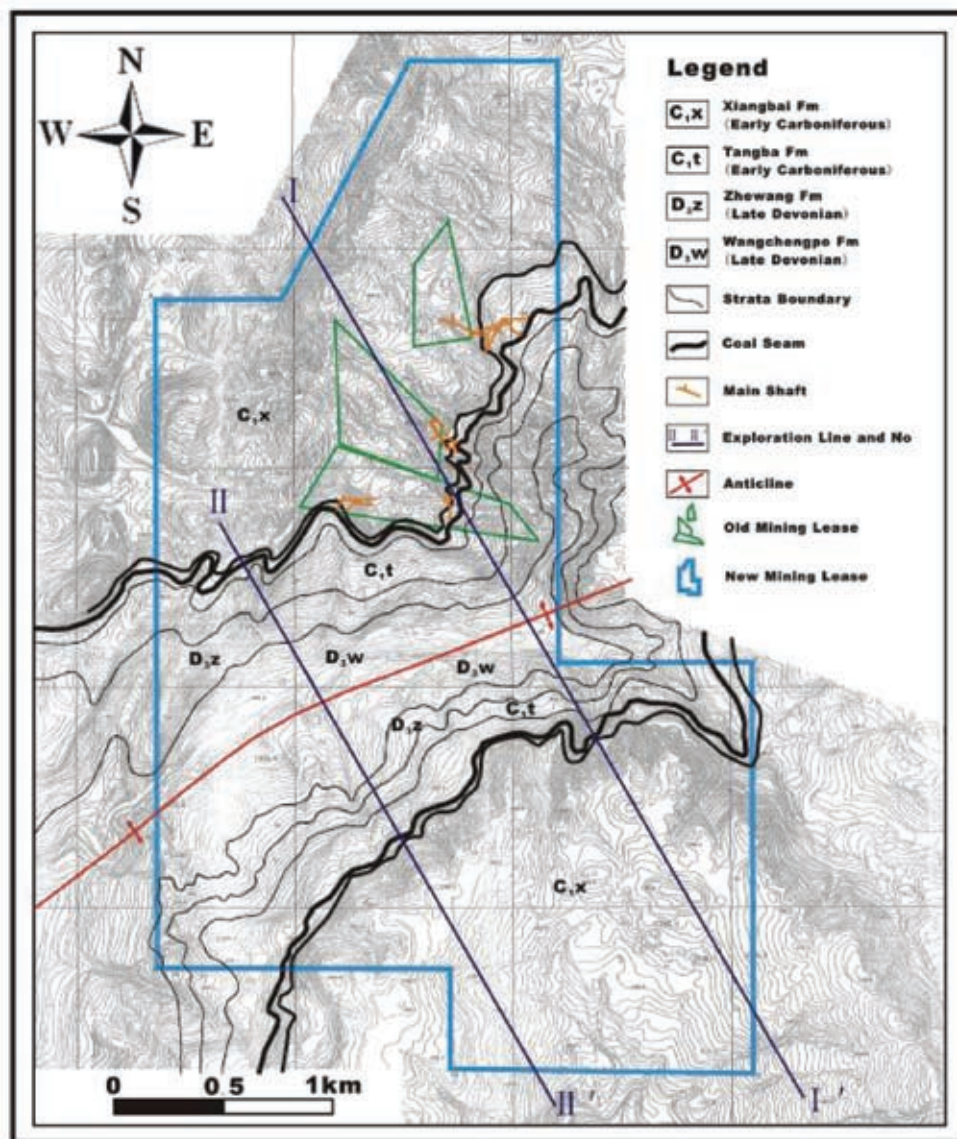


Figure 4-7: Map of Xinghe Coal Mine

Period	Epoch	Formation	Symbol	Lithology	Thickness (m)
Q			Q		0-6
Carboniferous	Early	Xiangbai	C,x		6-186
		Tangba	C,t		186-266
Devonian	Late	Zhewang	D,z		266-310
		Wangchenpo	D,w		>600

Figure 4-8: Stratigraphic Succession at Xinghe Coal Mine



Figure 4-9: Stratigraphic Cross-Section from Xinghe

The A7 seam is the main coal seam at Xinghe, with an average thickness of 1.6m. The A9 coal seam is only partial economical generated by its lateral distribution. The A9 seam varies in thickness from 1.1 to 1.3 m. The coal seams dips towards northeast at 4-12 degrees, with an average of 8. Depth of weathering of the coal seams was estimated at approximately 40m. by the Geological Brigade.

The Lower Carboniferous Tangbagou Group (C_1t) can be subdivided into three sequences. The upper part consists of biomicrite with common chert inclusions (i.e. ichno fossil infill). The middle part is made up of dark grey to greyish green marlstone, claystone, dark grey nodular limestone, and fine-grained quartz-rich sandstone. The basal sequence is characterized by grey to dark grey, thinly bedded nodular limestone units. The thickness of this group ranged from 42 to 124m within the mining district.

The Upper Devonian Zhewang Group (D_3z) consist of medium bedded greyish micritic limestone, marl and argillaceous limestone. Sporadic shell fragments occur within the Zhewang Group. The thickness of this stratigraphic unit varies from 30 - 42m within the mining district.

The Upper Devonian Wangchengpo Group (D_3w): consists of medium bedded, greyish dolomite. Mirolitic cavity structures occur within these deposits. The thickness of this group is over 156m within the mining district.

4.4.2 Structure

The main structure within the Xinghe coal field is an open anticline, with the underground mine being located along the eastern limb of this structure. The Carboniferous strata strike from 245 to 340 degree, with a dip of 4-28 degree (generally 5-12 degrees). The structural framework of the Xinghe coal mine is considered rather simple based on the available data and field observations.

4.4.3 General Coal Characteristics

The Early Carboniferous coal seams from the Xinghe coal mine is considered to have the following characteristics based on very limited data made available to SRK (i.e. two sample results), as well as observations during site inspection:

- The coal is semi-bright with numerous dull bands
- Gross seam thickness varies from 1.10 - 1.60m
- The Moisture (M_{ad}) content varies from 1.71 - 1.81%
- The Ash content (A_d) ranges from 18.38 - 19.65%



Figure 4 10: Gas Data exposed on Blackboard in the Xinghe Underground Coal Mine

- The Sulphur (S_{td}) content varies from 1.25 - 1.35%
- Density of 1.50 t / m³
- Volatile matter (V_{daf}) varies from 7.37 - 8.24%
- Calorific Value varies from 26.71 MJ/kg to 27.86 MJ/kg

The Early Carboniferous coal seams produce a medium ash, medium sulphur and low volatile coal, with medium gross calorific value. As such, the coal is mainly suitable for the domestic thermal energy market. The current buyers of the Xinghe coal are the Kaili power station and the Duyun Cement Plant.

4.4.4 Coal Seam Gas

According to article 133 of the Safety Regulations of Chinese Coal Mines, gas and carbon dioxide levels have to be examined on an annual basis. In this context Hetian Coal Mine Engineering Company Limited conducted an investigation of the gas levels in the Xinghe underground coal mine in September 2006. The absolute gas outflow was measured at $0.71\text{m}^3 / \text{min}$; and relative gas outflow was $9.18\text{m}^3 / \text{t}$. As such the Xinghe coal mine can be characterized as a low gas mine. Indeed, during the SRK inspection of the mine, very low levels of gas were detected (Figure 4-7).

4.4.5 Coal Resource Estimation

The Xinghe mine area was explored by the 104th Brigade in 1970 in the course of general geological mapping and prospecting for minerals and coal. In the end of the 1990's the 104th Brigade updated the work and carried out verification of resources in the area. In September 2002 104th Brigade submitted resource estimates for Zhengxin and evaluation of Fuxi Coal Mines. In October 2004 Mengte Resource Exploitation Company Ltd. submitted the resource report for Zhongshan and Xinshan coal mine, and also for Lashan Coal Mine. Coal resource estimate has been conducted on the basis of 11 observation points - 9 channel samples collected from old underground faces and 2 from mine entry. Typically the samples and coal seam log are not regularly distributed and they are rather grouped near the old mining areas or near the outcrop. Such spacing provide for only small area to be evaluated to higher resource category. The majority of the resource falls under 333 or 334 resource category. Since 2005 mine resumed operation and till now produced 300,000 t of coal.

Sample collection has been conducted in accordance with Chinese standard. Sample coordinates has been by underground survey techniques. The channel samples has been collected from 10 x 5 cm groove cut across the seam, the sample length has depended on the seam thickness. In the course of sampling the two to four representative coal samples for specific gravity has been collected from each sampling point as well.

Samples has been analysed by Western Coal Rock and Mineral Analysis Center, Guizhou Bureau of Geology and Mineral Resources using methods prescribed in Chinese standards GB/T1212001, GB/T214-1996 and GBT213-1996).

The geological block method has been used for Xinghe mine using Chinese Standard DZ/T0215-2002, which was modified with respect of coal shortage in the region. The modified Industrial Standard is following:

Max. Ad	25%
Max. St.d	$\leq 2\%$
Min. Qnet.d	25.1 MJ/kg
Minimum thickness	≥ 1.6 m

Considering the dip of strata less than 60° the horizontal projection method has been adopted for resource block area determination.

Resource was than calculated using formula:

$$Q = S \times h \times D$$

Where

Q resource (t)

S Area of the block (m^2)

h true thickness (m)

D specific gravity (t/m^3)

Resource block has been delineated by the boundary of weathering zone near the surface, which has been drawn 30 m from the outcrop along the dip of seam, by the boundary of goaf. The 332 category block is extends from weathered zone up to the reach of old mine faces. It is confined to coal blocks left between old mines. The 333 category is extrapolated 250 m out from 332 block limit. The rest of the resource extrapolated further 850 m is classified as 334 categories.

The resource map provided by Client indicates discrepancy between individual block description in the resource map and summary table of the verification report. SRK ran check resource estimate on the data set and found out that result match well with tonnages indicated in the following Table. SRK has collected one measurement of the coal thickness at the main gate of developing panel. The reading was 1.8 m of coal, which indicates that coal probably thickens in toward northwest. Also measurement of strike and dip has been undertaken and dip direction is 140° and dip 11°. This finding is in total disagreement with structure interpretation of anticline. The generally structure of the deposit is very little known. From impression given by underground inspection the deposit is rather a monocline or a syncline with very gently dipping limbs and as such mining condition and especially pressure distribution should be more favourable.

Table 4-3: Resource Estimate of Coal Xinghe Mine

Location	Block ID	Category	Area (m ²)	Dip (°)	Thickness (m)	Specific			
						Gravity (t/m ³)	Volume (m ³)	Tonnage (t)	Tonnage (Mt)
North	1	332	308,035	8	1.6	1.4	497,700	696,779	0.70
	2	332	42,857	8	1.6	1.4	69,245	96,943	0.10
	3	333	727,678	8	1.6	1.4	1,175,727	1,646,018	1.65
	4	334	1,169,642	8	1.6	1.4	1,889,819	2,645,746	2.65
	5	334	379,463	8	1.6	1.4	613,108	858,351	0.86
South	6	332	289,062	8	1.6	1.4	467,044	653,862	0.65
	7	333	540,178	8	1.6	1.4	872,779	1,221,890	1.22
	8	334	625,000	8	1.6	1.4	1,009,828	1,413,759	1.41
2007	Subtotal	332						1,447,585	1.45
summary	Subtotal	333						2,867,908	2.87
	Subtotal	334						4,917,855	4.92
	TOTAL							9,233,348	9.23

SRK is of opinion that mine tenement is in general stage of exploration and will need detailed drilling exploration to define resource in the entire tenement area. The exploration should cover not only the existing resource area, but must focus beyond the boundary of 334 blocks. The resource could subsequently be converted to higher category and based on that reliable detailed mine plan prepared. SRK is of the opinion that there is great potential for the resource to be increase substantially after well designed and detailed drilling exploration.

4.4.6 Coal Reserve Estimation

SRK has not been provided with the Feasibility Study to inspect modifying factors for conversion of resource into reserve and reserve estimate. Based on geology, coal seam development and mine plan and mine inspection the mining recovery is assumed to be 70%. Dilution is estimated 5% and specific gravity of diluting rock 2.4 t / m³.

Blocks No. 1, 2 and 6 are reported in 332 category, which allow conversion into probable reserve. The reserve estimate is indicated in Table 4-4. According to the Client's record the 460,000 t has been extracted till March 2008.

Table 4-4: Reserve Estimate of Xinghe Mine

Block ID	Resource (t)	Recovery (%)	Dilution (%)	Reserve (t)	Reserve (Mt)
1	696,779	70	5	547,470	0.55
2	96,943	70	5	76,053	0.08
6	653,862	70	5	512,960	0.51
Depleted				460,000	0.46
TOTAL				676,482	0.68

The resource blocks 3, 4, 5, 7 and 8 are of lower category and geological assurance does not provide for conversion into reserve.

4.5 Shuishan Coal Mine

The Shuishan coal mine is located in Majiang County in the southeastern part of the Guizhou Province (Figure 4-8). The mine is situated about 9.5 km northeast of Majiang City. The geographic coordinates are 107° 36' 45"- 107° 37' 30" (longitude) and 26° 34' 15" - 26° 35' 30" (northern latitude).

The mine is positioned some 11 km to the east of Baiyangping railway station on the Guizhou-Guangxi Railway, some 13 km from the Kaili-Majiang Highway, and 9 km from the National Highway 320. The Shuishan coal mine currently employs 110 workers, and mine the 0.8 - 1.2 m thick M1 seam from the Late Permian Wujiangping Formation.

Construction of the Shuishan coal mine commenced in March 2003. The Guizhou Land and Resources Bureau initially issued a 1.28 km² mining license with a total coal production permit of 30,000 tonnes / pa in December 2005.

Technical overhauls were carried out from June 2007, and the mine is still in the early phase of development. The current mine owners recently applied for a new mining license with an annual production permit of 90,000 tonnes in order to ramp-up production.



Figure 4-11: View of Shuishan Coal Mine

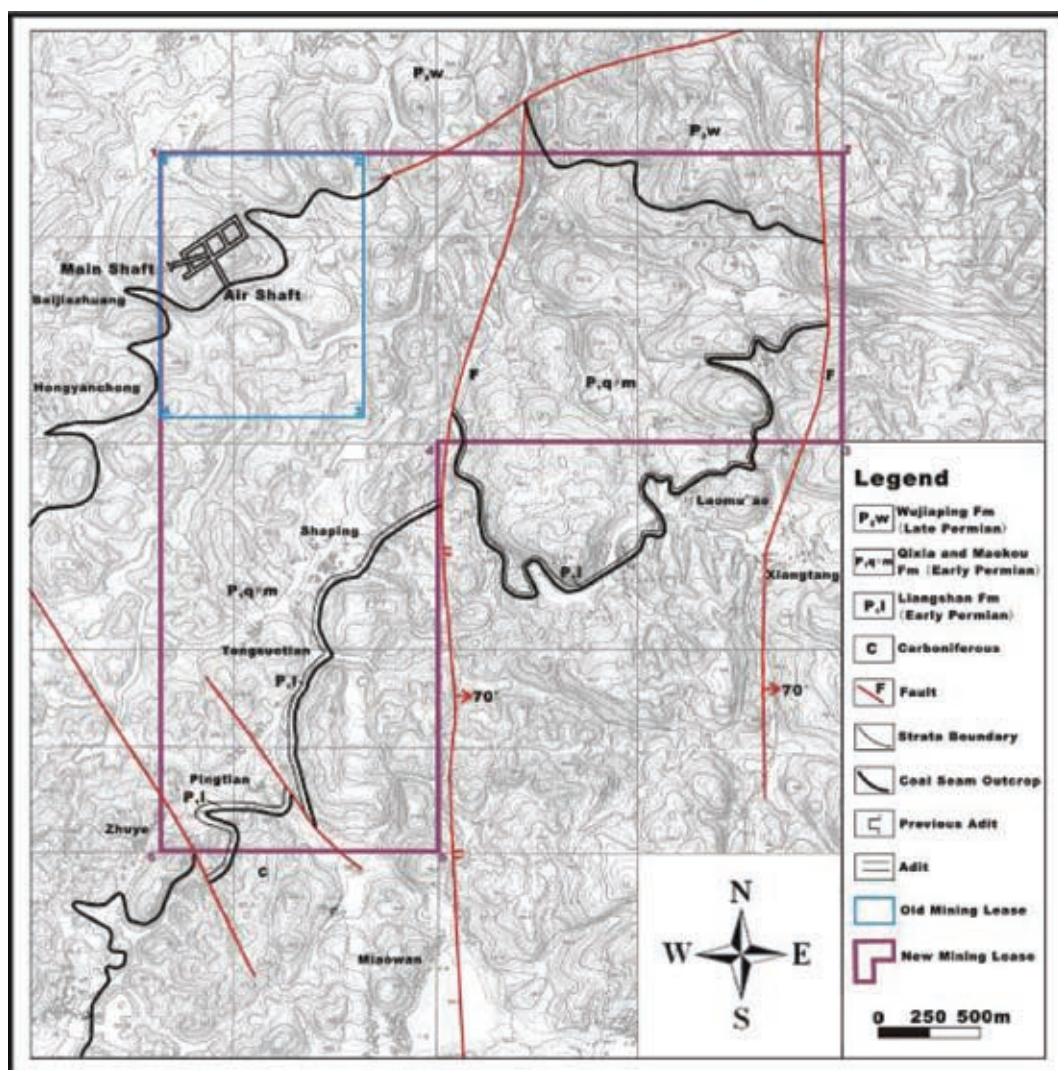


Figure 4-12: Geology map of the Shuishan Coal Mine area

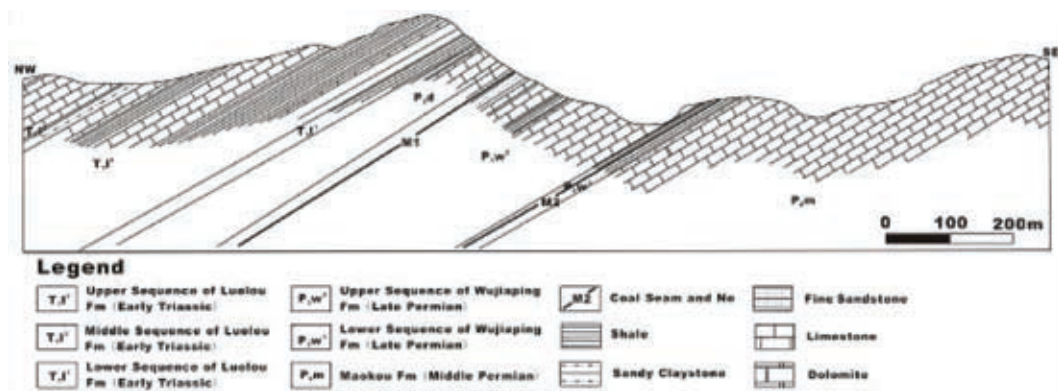


Figure 4-13: Schematic NW - SE Cross-Section at Shuishan

4.5.1 Litho-Stratigraphic Framework

The Shuishan mining district is characterized by the following stratigraphic succession: Devonian strata (Dushan, Wangchengpo, Zhewang and Gelaohe Formations), Carboniferous strata (Xiangbai, Jiujialu, Baizuo and Huanglong Formations), Permian strata (Liangshan, Qixia, Maokou, Wujiaping and Dalong Formations), Triassic strata (Luolou and Xinyuan Formation) and Quaternary strata. The coal-bearing formations are the Carboniferous Xiangbai Formation, The Early Permian Liangshan Formation and the Late Permian Wujiaping Formation.

A brief overview of the Quaternary to Permian stratigraphic succession, which occurs within the mining area, is provided here from (youngest to oldest). A schematic cross-section of the mine area is provided in Figure 4-10.

Quaternary deposits are only erratically preserved within topographical lows in the mining area. The deposits are made up of grey to yellow clay, sand and gravel.

The Middle Triassic (T_2X) strata are confined to the northwestern sector of the mine, and can be subdivided into three sequences:

1. The lower part is composed of heterolithic units of grey to dark grey, thin-medium bedded dolomite, and grey to greyish green shale, grey to light-grey, medium bedded muddy biocalcitite, muddy biocalcarene and greyish green to yellowish green marl. The heterolithic units are characterized by lenticular architecture.
2. The middle part is composed of grey green to purple red shale, with grey, thinly bedded, marls. The architecture of these deposits is occasionally lenticular.
3. The upper part is composed of grey green shale.

The thickness of the Triassic (T_2X) strata is in general over 60m. It is conformable with the underlying T_1L deposits.

The lower Triassic (T_1L) strata can be divided into three lithological sections, which are all confined to the northwestern sector of the mine:

1. The lower section of T_1L_3 is composed of dark grey, thinly bedded, sandy claystones; the upper part is composed of purple red and grey green blade-shaped and thinly bedded rhythmic sedimentation including powder sand biocalcitite and millimetre-level limestone in which bioturbation structures are often developed. This section is about 130m thick.

2. T_1L^2 is composed of rhythmic beds of thin beds of greyish limestone and grey green shale with undulating thickness. The limestones are developed in thin layers with bioturbation structure. They are 180m in thickness.
3. The basal part of T_1L^1 is composed of yellow green to greyish green shale; the middle part is composed of heterolithic deposits composed of grey, thinly bedded, muddy limestone and yellow green to grey carbonaceous claystone. A single bed of limestone is typically 5-20 cm thick, with horizontal seaming lines and lamellar structures. The upper part is composed of greyish green to yellowish green shale, carbonaceous shale with thinly bedded, greyish limestone showing lenticular architecture. This unit is approximately 30 m thick. The bounding surface to the underlying Permian deposits is conformable.

The Permian sequences in the mining area includes P_3D , P_3W ; P_2Q , P_2M and P_1L .

The Late Permian Dalong Formation (P_3D) is only preserved in the northwestern sector of the mine. It is generally composed of grey to dark grey and greyish black, medium-thickly bedded biocalculutite, with greyish black silica, dark grey and greyish black thin beds of quartz-rich sandstones with greyish white tuff. The combined thickness of this formation is about 50 m.

The Late Permian coal-bearing Wujiaping Formation (P_3W) is divided into two sections which have been preserved for the rock record in the middle part of the Shuishan mining area. The two coal seams will be described following the overview.

1. The upper sequence (P_3W^2) is very well developed in the Shuishan mining area, with a total thickness of 460 m. The top part is composed of undulating, cyclic sediments composed of dark grey, medium-thickly bedded biocalculutite and grey to yellowish grey shale. The upper part is composed of grey to dark grey thinly-medium bedded silica-rich biocalculutite, limestone, biocalcarenite with chert, calcium claystone, marl with carbonaceous shale and a coal seam. The M1 coal seam is 0.4 - 1.4 m thick. The lower part is composed of grey to dark grey, thin-medium bedded, resistant dolomite biocalcarenite, thick chert-rich limestone units, thick biocalcarenite with calcium shale and thin beds of silicon shale.
2. The lower sequence (P_3W^1) is composed of brown to yellow shale, thin-medium bedded shale with carbonaceous shale and a thin coal seam (i.e. M2). Part of the 0.1 - 1.1 m thick coal seam can be mined. The contact to the underlying P_2M deposits is characterized by an unconformity. This sequence is about 20 m thick (Figure 4-14).

The middle Permian Maokou Formation (P_2M) has only been preserved in the southeastern part of the mine. It is composed of grey to dark grey, thickly bedded to massive biocalculite, with sporadic medium-thickly bedded, micritic limestone units with sandy shale and chert. The Permian Maokou Formation is approximately 180 m thick within the mining area.

P_2Q is distributed in the southern and eastern part of the mine, the upper part is composed of grey to dark grey, medium-thickly bedded micrite, with minor chert. The middle part is composed of medium-bedded limestone units with chert. The bottom part is composed of grey black medium layer carbon and muddy limestones with shale stones. This sequence is approximately 108m thick.

The Early Permian P_1L strata are preserved in the southeastern sector of the mine. The lower part is composed of quartz-rich sandstone with shale and grey to black carbonaceous shale. The upper part is composed of yellowish grey and grey to black carbonaceous shale, sandy claystone with coal stringers. The thickness of these deposits is about 17m.

The Carboniferous strata within the mining area are composed of two units (i.e. C_1B and C_2H) which are only preserved in the southeastern part of the mine. The lithology of C_2H consists of dolomite and biocalcarenite. It is about 30m thick. C_1B consists of yellow to grey, medium bedded, sandy dolomite, with a total thickness of approximately 40m.

The Late Permian coal-bearing Wujiaping Formation (P_3W) contains two relatively thin coal seams, the M1 (upper) and M2 (lower). Stratigraphically, the coal seams are separated by approximately 200m of predominately limestone and marl deposits (Figure 4-14). The seams are described briefly in the following:

1. The M1 coal seam is the main exploitation target in the Shuishan mine (Figure 4-15). The seam is developed in the upper part of P_3W^2 , and seam splitting is common. The coal seam outcrops in a northeast-southwesterly direction and dips 27-30° towards the southeast. The thickness of the seam varies from 0.60-1.55 m. In places, the M1 seam contains a 0.10-0.40 m thick limestone parting. As such, the net coal thickness varies between 0.50 and 1.15m. The immediate roof consists of mudstone and shale, and the intermediate roof of argillaceous limestone and biocalculite. The floor strata consist of carbonaceous claystone and marl.

2. The M2 coal is developed in the upper part of P_3W^1 (Figure 4-14). The M2 seam outcrops in a northeast-southwest direction and dips 28 - 30° towards the southeast. The seam is 0.55-1.09 m thick. In places the seam includes an up to 0.15m thick carbonaceous shale. The net thickness of the M2 seam varies from 0.55 - 0.94m. The immediate roof is characterized by shale, whereas the floor consists of carbonaceous shale and silicious sediments.



Figure 4-14: Seam M1 Exposed in Shuishan Development Face

4.5.2 Structural

The general structural framework at Shuishan is relatively simple. The main feature within the old Shuishan mining lease is a monocline, which strikes northeast-southwest and dips 27 - 30° towards the northwest. In a broader sense, the Shuishan coal mine is located in the northeastern section of the Yangzi deformation area which is characterized by north-south to northwest-southeast trending structures. These regional structures are relatively common in the mining area (Figure 4-13). The Majiang syncline and Youshi syncline occur within the northeastern Yangzi section. The Shuishan coal mine is located on the eastern side of Majingao thrust fault zone, and on the western side of the Fengshan counter-thrust fault, as well as the eastern limb of the Youshi regional syncline.

The north-south trending faults within the mining area are characterized by steep, subvertical dips (i.e. 70°) towards the east. Furthermore, the Yangzi deformation area include some open-style folding, with the axis oriented approximately north-south. Sporadic, small-scale, folding were also observed by SRK during the inspection of the Shuishan mine (Figure 4-16). Furthermore, abundant slickenslide structures within the M1 seam and small-scale faults (<1m displacement) associated with the seam were also observed during the mine inspection.

The two coal-bearing sections of the Late Permian Wujiaping Formation are enclosed by more competent limestone units as disclosed in Figure 4-14. During post-depositional deformation (i.e. compression), horizontal stress was released in the less competent coal-bearing strata, with a subsequent development of faulting, disharmonic folding, shears and cleavage.



Figure 4-15: Structural Deformation Associated with M1 Lower Split



Figure 4-16: Exposure of Structures Associated with M1 Split

4.5.3 Coal Quality

The Late Permian coal seams from the Wujiangping Formation is considered to have the following characteristics based on the limited data made available to SRK, as well as observations during site inspection:

- The coal is semi-bright with dull bands
- Gross seam thickness varies from 0.55 - 1.55m
- Average Moisture (M_{ad}) content from 0.77 (M1 seam) - 0.99% (M2 seam)
- The Ash content (A_d) ranges from 22.72 - 30.66% (M1 average 25.53% and M2 29.93%)
- The Sulphur (S_{td}) content varies from 2.56 - 2.91% (M1 average 2.76% and M2 2.81%)
- Density of 1.42 t / m³
- Volatile matter (V_{daf}) varies from 18.24 -22.28% (M1 average 20.03% and M2 21.90%)
- Calorific Value varies from 12.63 MJ/kg to 20.35 MJ/kg (M1 average 13.01 and M2 12.92)

The Late Permian coal seams at Shuishan (Figure 4-11) produce a medium-high ash, medium-high sulphur and medium volatile coal, with low-medium gross calorific value. As such, the coal is mainly suitable for the domestic thermal energy market. The current buyers of the Shuishan coal are the Kaili power station and the Duyun Ruian Cement Plant.

4.5.4 Coal Seam Gas

In accordance with paragraph 133 of the Security Rules for Chinese Coal Mines, the total gas content and carbon dioxide levels must be detected annually. In this context, the Guizhou Hetian Coal Engineering Co Ltd identified the gas content in the Shuishan Coal Mine during ten days in September 2007. The analytical data for the Shuishan Coal Mine shows an absolute gas discharge rate of 0.21m³ / min, and a relative gas discharge rate of 8.47m³ / t; as such the Shuishan mine can be classified as a low-gas pit.

4.5.5 Coal Resource Estimation

Regional mapping was completed during the period 1990 - 1994 by the 101st Exploration Brigade in the Wanma area and by the 104th Exploration Brigade in the Majiang area. Prospecting for various minerals and coal has been carried out during 1958 - 1989. The report covering coal exploration aspects in area of Shuishan mine was submitted in 1961. The geological report on Shuishan Coal Mine was delivered to authorities in January 2005. In 2007 the 101st Exploration Brigade was commissioned to evaluate coal resources of Shuishan Coal Mine in order to provide the basis for mine planning.

Coal resource estimates of the M1 seam has been conducted on the basis of 7 points of observation: 6 channel samples collected from outcrops and 1 channel sample from underground face. Coal resource estimate for the M2 seam has been conducted on the basis of 11 observation points: channel samples collected from outcrops. Given the nature of the sampling points it is obvious that the samples and coal seam geological logs are not regularly distributed and they are giving detailed information about outcrop course rather than resource. The majority of the coal resource falls under 333 or 334 resource categories.

Sample collection was conducted in accordance with Chinese standards. Sample coordinates were acquired by GPS at the surface and one sample by underground survey techniques. The channel samples were collected from 10 x 5 cm groove cut across the seam, the sample length has depended on the seam thickness. In the course of sampling the two to four representative coal samples for specific gravity has been collected from each sampling point as well.

Samples were analysed by Guizhou Non-ferrous Geological Test and Monitor Center using methods prescribed in the Chinese standards GB/T1212001, GB/T214-1996 and GBT213-1996).

The geological block method was used for the Shuishan mine using Chinese Standard DZ/T0215-2002, which was modified with respect of coal shortage in the region. The modified Industrial Standard is following:

Max. Ad:	no limit
Max. St.d:	$\leq 4\%$
Min. Qnet.d:	12.5 MJ/kg
Minimum thickness:	≥ 0.5 m

Considering the dip of strata less than 60° the horizontal projection method has been adopted for resource block area determination.

The coal resource was then calculated using the following formula:

$$Q = S / \cos \beta \times h \times D$$

Where

Q resource (t)

S Horizontal Projection of the Area of the block (m²)

β dip of seam

h true thickness (m)

D specific gravity (t/m³)

The resource block has been delineated by the boundary of the weathering zone near the surface, and drawn 30m from the outcrop line along the dip of the seam, by the boundary of goaf. The 332 category block is extends from the weathered zone up to the reach of old mine faces. It is confined to coal blocks left between old mines. The 333 category is extrapolated 250m out from 332 block limits. The rest of the resource extrapolated a further 850m and classified as category 334.

The resource map (2006) provided by the client indicates different resources and resource categories than the resource table stated in the 2007 verification report SRK was provided with. SRK conducted resource check estimates on a northern subset of data and found that the results match well with tonnages indicated in the following Table

Table 4-5: Resource Estimate of Shuishan Mine

Block ID	Category	Area (m ²)	Dip (°)	Thickness (m)	Specific Gravity (t/m ³)	Volume (m ³)	Tonnage (t)	Tonnage (Mt)
I-1	333	439,418	27	0.98	1.42	483,307	686,296	0.69
I-2	334	1,402,115	27	0.78	1.42	1,227,432	1,742,953	1.74
I-3	334	3,159,933	27	0.98	1.42	3,475,546	4,935,276	4.94
II-1	333	131,447	27	1.08	1.42	159,329	226,247	0.23
II-2	334	323,904	27	1.08	1.42	392,608	557,503	0.56
II-3	334	272,546	27	0.73	1.42	223,296	317,081	0.32
Subtotal	333						912,542	0.91
Subtotal	334						7,552,813	7.55
TOTAL							8,465,355	8.47

SRK is of the opinion that the mine tenement is in a general stage of exploration and will need detailed drilling exploration to well define resources in the entire tenement area. The resource would convert to higher categories and based on that reliable detailed mine plan can be prepared.

4.5.6 Coal Reserve Estimation

SRK has not undertaken reserve estimate considering existing resource category and geological assurance too low. Based on mine inspection the mining recovery is assumed to be 65 % and dilution factor 5%. SRK noticed that seam M1 increase in thickness and limestone parting in the middle of seam thins out toward northwest. It is likely that the same pattern applies for seam M2. SRK highly recommend to conduct detailed exploration by drilling, which (based on observed increase in thickness) can contribute to significant increase of resource of seam M2 and at the same time will transfer resource of the mine to 331 category. Such resource would provide sound base to prepare feasibility study and convert resource into reserve.

4.6 Lushan Coal Mine

The Lushan Coal Mine occupies an area of 3.93 km², in an undulating karst landscape, in the southeastern part of the Guizhou Province. The geographic coordinates are longitude E 107° 51' 28" - 107°53' 05" and latitude N 26° 39' 56" - 26° 41' 36". The mine is situated proximal to Dafengdong Town, and some 35km from Kaili City.

In terms of intra structure, the mine is situated some 37 km away from the Kaili Railway Station on the Hu'nan - Guizhou Railway line; some 39km from National Highway 320 and 29 km from the Kaili - Majiang Highway (Figure 3-1).

The Lushan coal mine currently employs 160 people including 135 underground mine workers, and mine a 0.8 - 1.8m thick coal seam from the Early Permian Liangshan Formation.

Construction of the Lushan coal mine commenced in March 2003. The Guizhou Land and Resources Bureau initially issued a 3.93km² mining license with a total coal production permit of 30,000 tonnes / pa in December 2005. Technical overhauls were carried out from August 2006.



Figure 4-17: View of Operations at the Lushan Coal Mine with Incline in Background

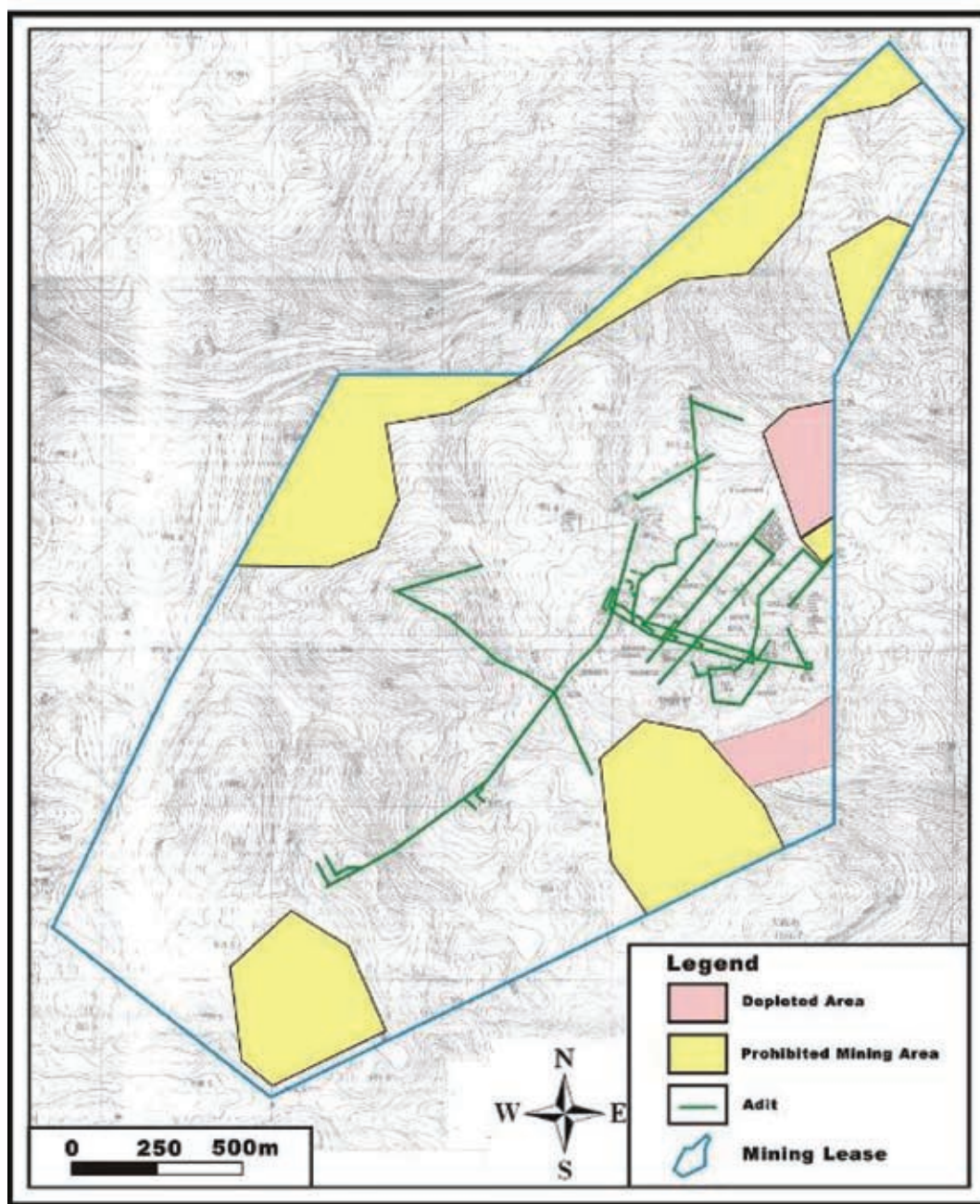


Figure 4-18: Map of Lushan Coal Mine Showing Mine Workings

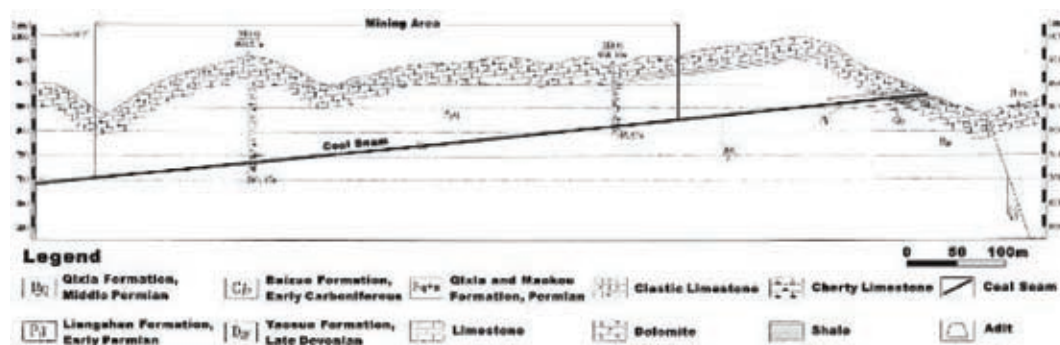


Figure 4-19: Stratigraphic Cross-Section from the Lushan Mining Area

4.6.1 Litho-Stratigraphic Framework

The Lushan mining district is characterized by the following stratigraphic succession: Devonian, Carboniferous, coal-bearing Permian, Triassic and Quaternary strata. The Early Permian Qixia and the Liangshan Formation outcrop within the mining lease. A brief overview of these two formations is provided here.

The Qixia Formation (P1q) contains grey to dark grey, medium bedded, biosparry micrite. The limestone is characterized by urano-organic as well as chert inclusions. The thickness of the Qixia Formation varies from 80-100m within the mining lease.

The Liangshan Formation (P1l) can be subdivided into two sequences (i.e. upper and lower). The lower sequence consists of grey to yellowish grey claystone, hematite, aluminium-rich clay as well as sandstone. The upper sequence consists of greyish claystone, carbonaceous shale and a 0.80-1.80m thick coal seam. The thickness of this formation ranges from 15 to 30m within the mining area.

The coal-bearing Liangshan Formation strikes 300-350° and dips from 3-10° (generally around 7°). The immediate roof consists of carbonaceous claystone and light grey claystone with abundant fossil plant imprints (i.e. stems). The immediate floor is made up of aluminium-rich claystone. Base of weathering varies from 10 - 20m within the Lushan mining area.

4.6.2 Structural

There are two main geological structures within the Lushan coal mining area; gentle folding and the F7 fault:

1. The Lushan coal mine is located within the southeastern part of a major syncline which strikes approximately 300-350° with a gentle dip of 3-10°.

2. The F7 district-scale fault is located in the south-eastern part of the mine. The F7 fault is a growth fault, which strikes approximately east-west (110°), showing a subvertical dip (i.e. 75°). A 0.8 - 2.0m thick brecciated zone is developed on each side of the F7 fault. No F7 displacement data has been made available to SRK.

4.6.3 Coal Quality

The sedimentary succession at the Lushan coal mine is characterized by only one relatively thin coal seam, from the Early Permian Liangshan Formation. The Early Permian coal seam is considered to have the following characteristics based on the limited data made available to SRK, as well as general observations made during site inspection:

- The coal is mainly dull with bright bands
- Common pyrite nodules and bands up to xx cm in thickness
- Gross seam thickness varies from 0.80 - 1.80m
- Average Moisture (M_{ad}) content of 1.18%
- The average Ash content (A_d) is 19.41%
- The Sulphur (S_{id}) content varies from 2.53 - 2.76%
- Density of 1.42 t / m³
- Volatile matter (V_{daf}) varies from 42.20 -62.00%
- Coking rate of 49.68%
- The average Calorific Value is apparently 21 MJ/kg

The Early Permian coal seam at Lushan would produce a medium ash, medium-high sulphur and high volatile coal, with medium gross calorific value. As such, the coal is mainly suitable for the domestic thermal energy market. The current buyers of the Shuishan coal are the Kaili Power Station, Kaili Cement Plant, Yangguang Aluminium Plant and the Kaili Fertilizer Plant.

4.6.4 Coal Seam Gas

In September 2002 the Mining Science Consultancy Co. Ltd of Guizhou Industrial University conducted gas tests at six coal mines in Majiang County. The results showed that the absolute gas inflow average 0.28m³ / min, the absolute CO₂ inflow average 0.16m³ / min, relative gas inflow average 6.79m³ / min, and relative CO₂ inflow average 3.78m³ / min.

In summary, these results indicate that the Lushan mine is a low gas mine. Results from the nearby Longtoushan mine (also from 2002), shows that the coal dust is explosive. It is recommended here to adopt the international practise of stone dusting at Lushan, in order to reduce the risk of a coal dust explosions.

Table 4-6: Gas Data from Lushan Coal Mine (March, 2006)

	Prior to Production		During Production		Before Charging		Before Explosion		After Explosion	
	CH ₄ %	C0 ₂ %	CH ₄ %	C0 ₀ %	CH ₄ %	C0 ₂ %	CH ₄ %	C0 ₂ %	CH ₄ %	C0 ₂ %
Heading Face 1	0.06	0.1	0.12	0.14	0.16	0.18	0.16	0.18	0.2	0.18
Heading Face 2	0.08	0.12	0.12	0.14	0.16	0.16	0.16	0.14	0.18	0.16
Coal Face 1	0.04	0.08	0.1	0.12	0.14	0.08	0.14	0.08	0.16	0.14
Coal Face 2	0.06	0.08	0.08	0.1	0.12	0.14	0.14	0.14	0.18	0.18
Total Air Return Way	0.02	0.04	0.02	0.02	0.06	0.08	0.06	0.08	NA	NA

4.6.5 Coal Resource Estimation

The geological exploration of the Lushan mine area was conducted by the Chinese government in 1960, where a number of exploration holes were drilled.

The geological block method has been used for Lushan mine using Chinese Standard DZ/T0215-2002, which was modified with respect of the coal shortage in the region. The modified Industrial Standard is as follows:

Max. Ad	20%
Max. St.d	≤ 2%
Min. Qnet.d	21 MJ/kg
Minimum thickness	≥ 1.2 m

Considering the dip of strata less than 60° the horizontal projection method has been adopted for resource block area determination.

Resource was than calculated using formula:

$$Q = S/\cos\beta \times h \times D$$

Where:

Q resource (t)

S Horizontal Projection of the Area of the block (m²)

β dip of seam

h true thickness (m)

D specific gravity (t/m³)

Resource block has been delineated by the boundary of weathering zone near the surface, which has been drawn 30m from the outcrop along the dip of seam, by the boundary of goaf. The 332 category block is extends from weathered zone up to the reach of old mine faces. It is confined to coal blocks left between old mines. The 333 category is extrapolated 250m out from 332 block limit. The rest of the resource extrapolated further 850m is classified as 334 category.

The Resource Estimate results based on available verification report are as indicated in following Table. No drilling and analytical data to check and verify the tonnage were made available to SRK. During SRK visit the two measurements of the seam thickness were taken in the underground. One at the chute on main cross cut, where thickness reading was 0.8m and one about 70m from development face, near main gate of developing panel. The reading was 1.2m. According to mine provided by Client readings corresponds with mine plan isopaches.

Table 4-7: Resource Estimate of Lushan Mine

Block ID	Category	Area (m ²)	Dip (°)	Thickness (m)	Specific Gravity (t/m ³)	Volume (m ³)	Tonnage (t)	Tonnage (Mt)
I	121b	1,911,146	7	1.4	1.42	2,695,698	3,827,891	3.83
II-1	333	478,541	7	1.4	1.42	674,988	958,483	0.96
II-2	333	913,346	7	1.4	1.42	1,288,287	1,829,367	1.83
Subtotal	121b						3,827,891	3.83
Subtotal	333						2,787,851	2.79
TOTAL							6,615,742	6.62

SRK is of opinion that mine tenement is in preliminary stage of exploration and will need detailed drilling exploration to well define resource in whole tenement area. The resource would converted to higher category and based on that reliable detailed mine plan prepared.

4.6.6 Coal Reserve Estimation

SRK thoroughly checked the resource estimate procedure found out that tonnage of block No. 1 (121b category) is resource. Based on geology, mine inspection, mine plan, size of technological pillars protecting roadway and return airways, SRK assume mining recovery factor 70% and dilution factor 5%. Specific gravity of diluting rock is assumed 2.4 t/m³.

Using above factors and after deduction of depleted reserves till march 2008, SRK estimates reserve of block No. I is 2.82 Mt. The remaining resource is not converted into reserve, because geologic assurance is too low.

Table 4-8: Resource Estimate of Lushan Mine

Block ID	Resource (t)	Recovery (%)	Dilution (%)	Reserve (t)	Reserve (Mt)
I	3,827,891	70	5	3,007,628	3.01
Depleted				190,000	0.19
TOTAL				2,817,628	2.82

4.7 Dayan Coal Mine

The Dayan Coal Mine occupies an area of 1.76 km² in an undulating karst-type landscape, in Zhijin County in the southwestern part of Guizhou Province (Figure 4-20). The geographic coordinates are 105° 34' 05" -105° 34' 32" longitude and 26°30' 36" - 26°31' 10" northern latitude. The Dayan Coal Mine is a newly-built coal mine which combines three small-scale mines: the Dazhai, Linshan and Dayan Coal Mines. The new mine focuses on the development and utilization of coal in order to become a modern, high-yield and safe coal mine with the designed productive capacity of 450,000 tonnes per annum. The Dayan Coal Mine was founded in February 2007.

The Dayan Coal Mine is located approximately 5 kilometers from the local government of Shaopu Town, some 48 kilometers from the Zhijin county seat and the main shaft of the mine is located about 2.5 kilometers from the provincial highway S017 (Figure 4-8).

The Dayan coal mine currently employs 380 workers; including 189 underground miners and 96 development personnel. The Dayan mine is presently mining the 1.8 - 2.56m thick M6 coal seam from the Late Permian Longtan Formation, using manual longwall retreat methods.

The geological exploration work in the Dayan region commenced in the 1950s, with units from metallurgy, coal and petroleum departments as well as Guizhou Geology and Mineral Bureau conducting general exploration and assessment on coal and other minerals in the region. The regional investigation team from the Guizhou Geology and Mineral Bureau carried out a 1:200,000 scale mineral survey in the region from 1965 to 1976. Subsequently, the 115th Geological Brigade from the Guizhou Geology and Mineral Bureau conducted a 1:50,000 geologic survey in the region and systematically investigated the coal-bearing stratigraphy, structures and minerals from 1992 to 1995. Later the 174th and the 113th Geological Brigades from the Guizhou Coalfields Geology Bureau carried out a general exploration program which included the Dayan coal mine from 1977 to 1979. The 174th and the 113th Geological Brigades accumulated relatively abundant geologic data concerning the characteristics of the Late Permian coal seams and the coal quality, and as such dramatically improved the understanding of the coal measures in this area.



Figure 4-20: Overview of Dayan Coal Mine Surface Operations

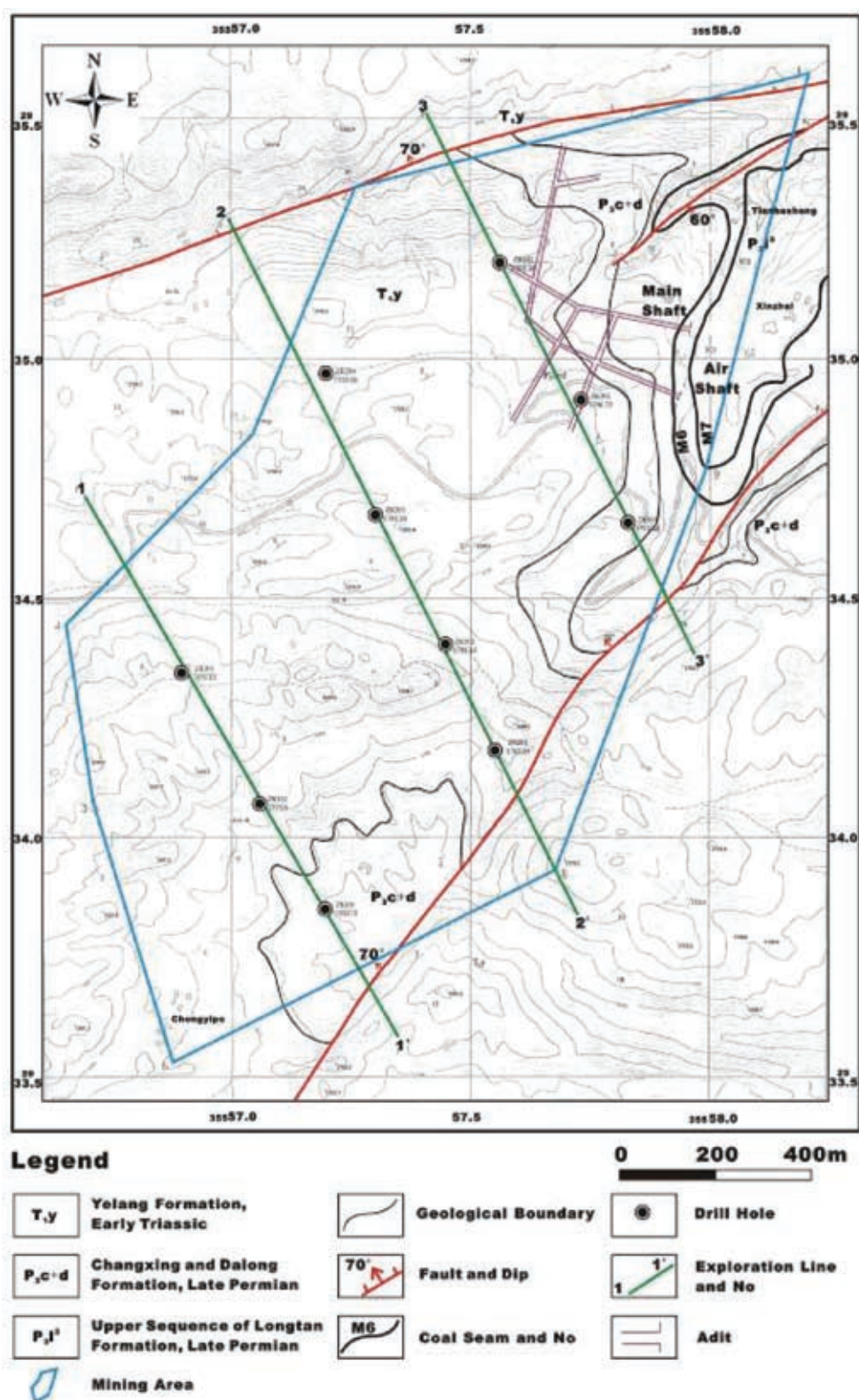


Figure 4-21: Location Map of Dayan Coal Mine area

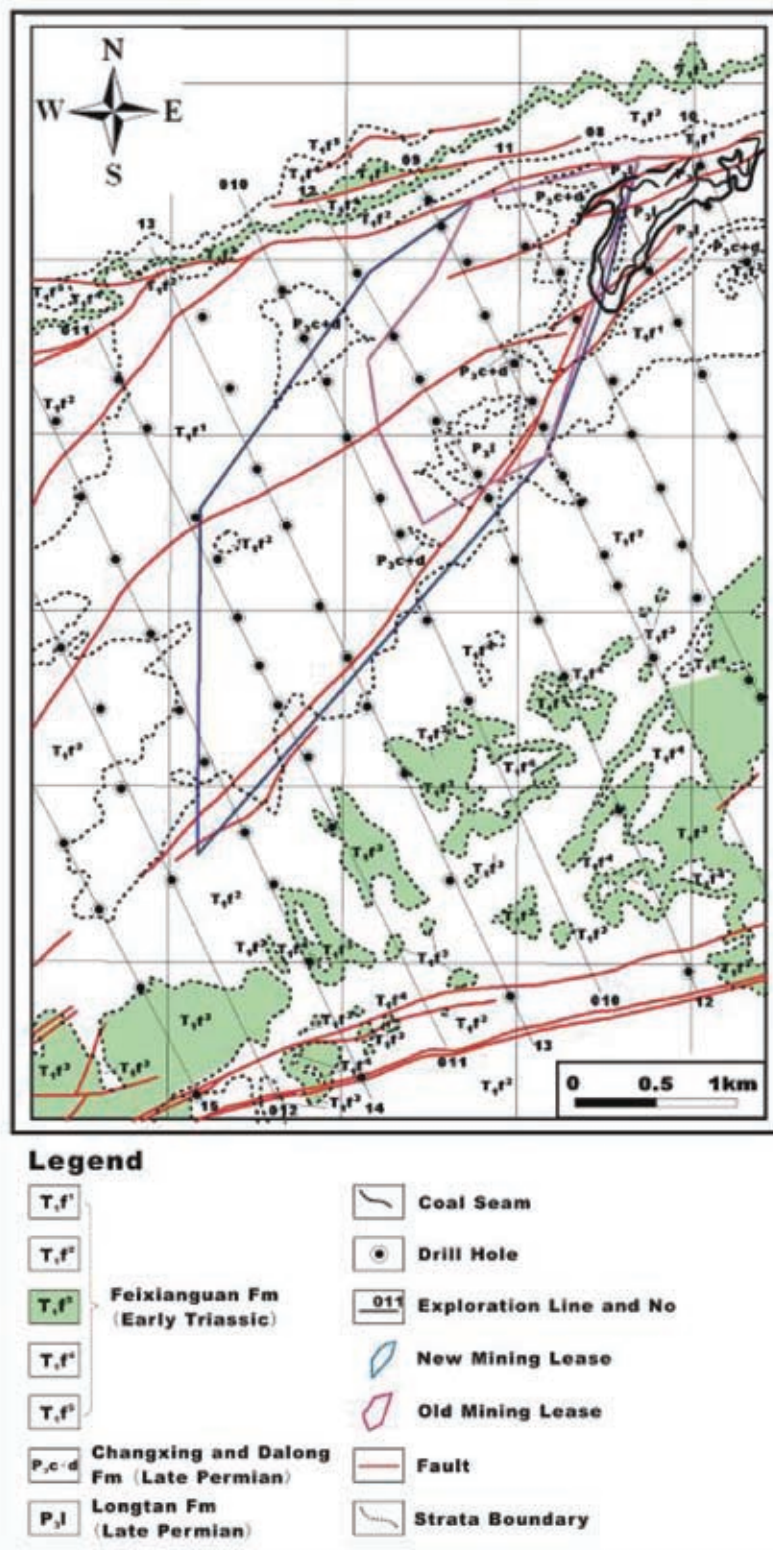


Figure 4-22: Geology map of the Dayan Coal Mine Area

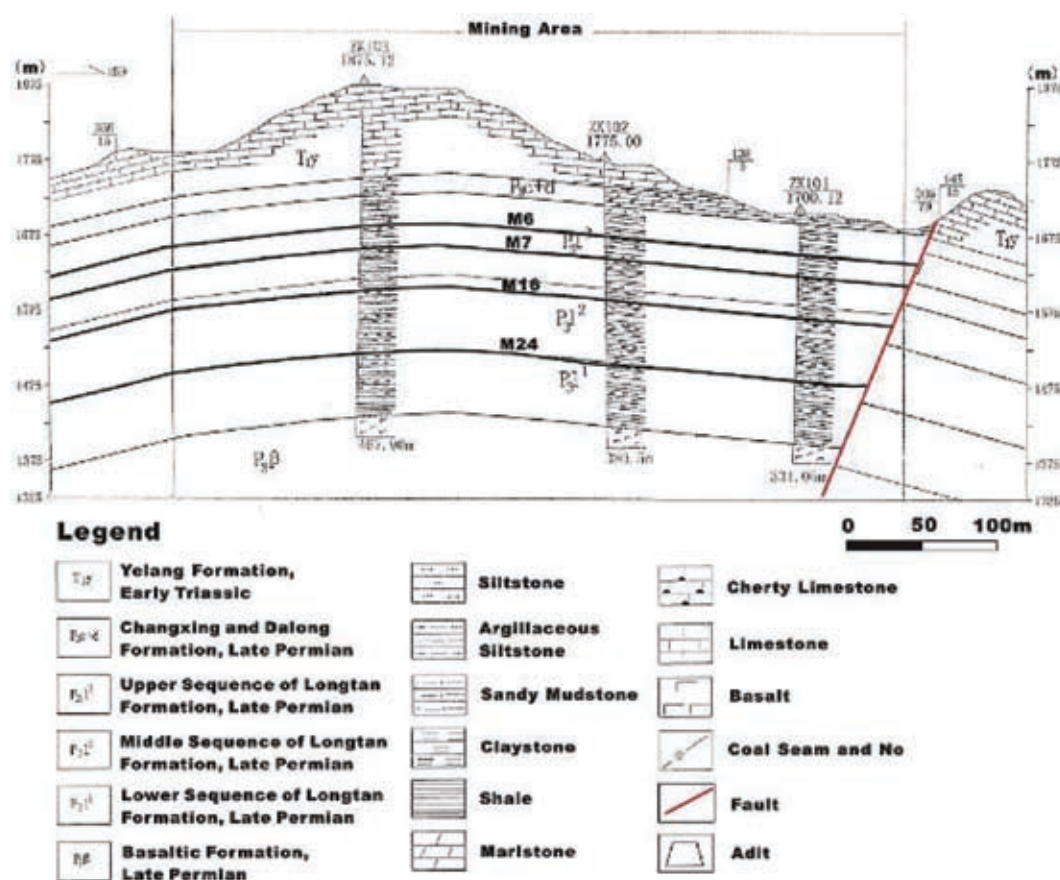


Figure 4-23: Stratigraphic Cross-Section at Dayan Coal Mine

4.7.1 Litho-Stratigraphic Framework

The Dayan coal mining district is characterized by the following stratigraphic succession: coal-bearing Late Permian, Early Triassic and Quarternary strata. A brief overview of the geological formations is provided here (i.e. from youngest to oldest):

The Quarternary System (Q) in the Dayan mining area consists of alluvial deposits, including clay, loam, gravel and artificial fill. These deposits are sporadically distributed in the topographically lows. The thickness of this package varies from 0 to 3.5m.

The Early Triassic Yelang Formation (T_{1y}) is characterized by marine limestone, calcareous sandstone, claystone and marl. The formation can be subdivided into 3 sequences based on facies associations. The Yelang Formation is comfortable with the underlying Late Permian Dalong Formation.

- The lower sequence (T_1Y^3) is composed of thinly bedded calcareous claystone, and thin-medium bedded, grey to light grey argillaceous limestone. This sequence is approximately 112m thick within the Dayan mining area.

Stratigraphic System				Symbol	Coal Seam	Lithology	Thickness	Descriptions
Period	Epoch	Formation	Sequence					
Q				Q			0-20	Clay soil, gravel and rubble.
Tertiary	Early	Yelang		T ₁ y			350-420	Gray to green-gray thin-medium bedded marl; gray limestone; purple-red, yellow-green, gray sandy mudstone, with abundant <i>clavala wangi</i> (Patte) <i>Eumorphotis multiformis</i> (Bittner).
	Late	Changxing and Dalong		P ₂ c+d			20-49	Gray to dark-gray thickly bedded cherty limestone with mudstone, siltstone, sandy shale and coal bedded; the roof is gray medium-thick chert limestone with bright green montmorillonite claystone: <i>Palaeofulva</i> , <i>grabauffes flui Sun fossils</i> .
		Longtan	Upper	P ₂ j'	M6 M7		95-104	Gray-yellow, yellow-brown mudstone, mudstone with siltstone, fine sandstone, thickly bedded sideritic claystone and 2-3 coal seams. M6 is minable in the whole region. The thickness of M6 is between 1.60-2.56m, and the structure is simple. M7 is between 2.60-3.40m thick. Plant fossils: <i>Giantopretoris</i> and <i>nicotianesefolia schenk</i> .
			Middle	P ₂ j'	M16		90-100	Gray-yellow, brown-yellow mudstone, fine sandstone, claystone, thickly bedded limestone and calcareous mudstone and 5-6 coal seams. M16 is whole region; thickness 3.00-3.40m; average thickness 3.20m. M16 is about 55 m from M7. There are abundant plants fossils in this section.
Permian	Middle	Basaltic	Lower	P ₂ j'	M24			Gray-yellow, brown-yellow mudstone with siltstone, mudstone and claystone. 5-6 coal bearing sequences. M27 can be mined in the whole region. M27 is located in the upper section, approximately 80m from M16. The coal thickness is between 3.60-4.20m. The structure is simple.
				P ₂ i				Dark-green, gray-black dense basalts.

Figure 4-24: Schematic Stratigraphic Section, Dayan Mining District

2. The middle sequence (T_1Y^2) can be further subdivided into three subunits. The lower unit is characterized by thinly bedded grey limestone and marl, which is mixed with glauconitic, purplish grey calcareous sandstone and calcareous siltstone. The middle and upper units are characterized by thickly bedded grey to light grey micrite and massive micrite. It is characterized by lenticular architecture. Oolitic structures are developed at the top of the unit. The thickness of the middle sequence varies significantly from 182 to 2351m within the Dayan mining area.
3. The upper sequence (T_1Y^1) is made up of thinly bedded, dark red greenish yellow and brownish yellow silty claystone mixed with calcareous claystone and marl. Within the middle-lower part it includes one to two, approximately 3.5m thick, beds of marl, which is characterized by well developed cross-stratification. This sequence is approximately 100m thick within the mining area.

The Late Permian Dalong Formation (P_3d) is composed of dark grey to greyish black, thinly-medium bedded, siliceous deposits interbedded with yellowish green vitric tuff which is up to 4m thick in places.

The Late Permian Changxing Formation (P_3c) is dominated by dark grey, well bedded, cherty limestone, with subordinate thin beds of grey silty claystone, siltstone and coal. It is approximately 6m thick.

The Late Permian Longtan Formation (P_3l) can be subdivided into 3 lithological sequences. However, only the lower sequence (P_3l^3) outcrops in the mining area. P_3l^3 is composed of the thinly-medium bedded, grey - dark grey and greyish black fine-grained sandstone, siltstone, limestone, coal and claystone. Importantly, it includes between 4 and 7 coal seams (typically 6), among which 4 are minable. These seams are distributed in the lower part of the Longtan Formation which does not outcrop in the mining area. The Longtan Formation is about 80m thick within the Dayan district.

A brief overview of the 4 economical coal seams from the Longtan Formation is provided here (i.e. youngest to oldest):

- Seam M6 is developed in the upper part of the 3rd sequence of the Longtan Formation. The immediate roof is characterized by grey to greyish black claystone, sandy mudstone and argillaceous sandstone, whereas the immediate floor is made up of grey to greyish black silty claystone, mudstone and sandy mudstone. The coal-seam is 1.8 - 2.56m thick (average 2.18m). The structural context appears rather simple, with northeast strike and dips of 3 - 10°. SRK observed an up to 7 cm thick, laterally consistent, claystone parting within the upper section of the M6 seam (Figure 4-22).

- Seam M7 is developed in the middle part of the coal-bearing Longtan Formation. It is 2.60 - 3.4m thick (average 3.0m). It is apparently structurally stable, with dips ranging significantly from 7 - 42° (5 - 7° on average).
- Seam M16 is developed in the lower part of the Longtan coal-bearing formation. It is 3.0 - 3.40m thick (3.2m on average). The seam is apparently stable. The seam generally strikes NW-SE, with a dip of 10 - 20°.
- Seam M24 is 3.6 - 4.2m thick (3.8m on average), it is apparently stable. The seam shows somewhat gentle dips of 3 - 10°.



Figure 4-25: Seam M6 Exposed in the Incline at Dayan Coal Mine

4.7.2 Structural

The general structural context at Dayan appears somewhat simple. The Longtan Formation strikes northeast-southwest and bedding planes dip gently at 3 - 10° within the M6 coal seam. However, bedding plane dips apparently increase down section. The M16 seam is characterized by dips of 10 - 20° and the M7 seam by 7 - 42°. Sub-vertical (c. 70°) slickenside structures were sporadically well developed within seam M6 (Figure 4-23).

The Dayan coal mine is located along the southeaster limb of the Jiaozi Anticline. The sedimentary deposits in this area are generally characterized by gentle dips of 3° - 10° towards the northwest. There is only one documented fault within the coal mining area, a northeast trending fault, situated in the southern part of the mine. This subvertical fault dips towards the northwest at approximately 69°. However, these structures have only relatively little impact on the coal seams.

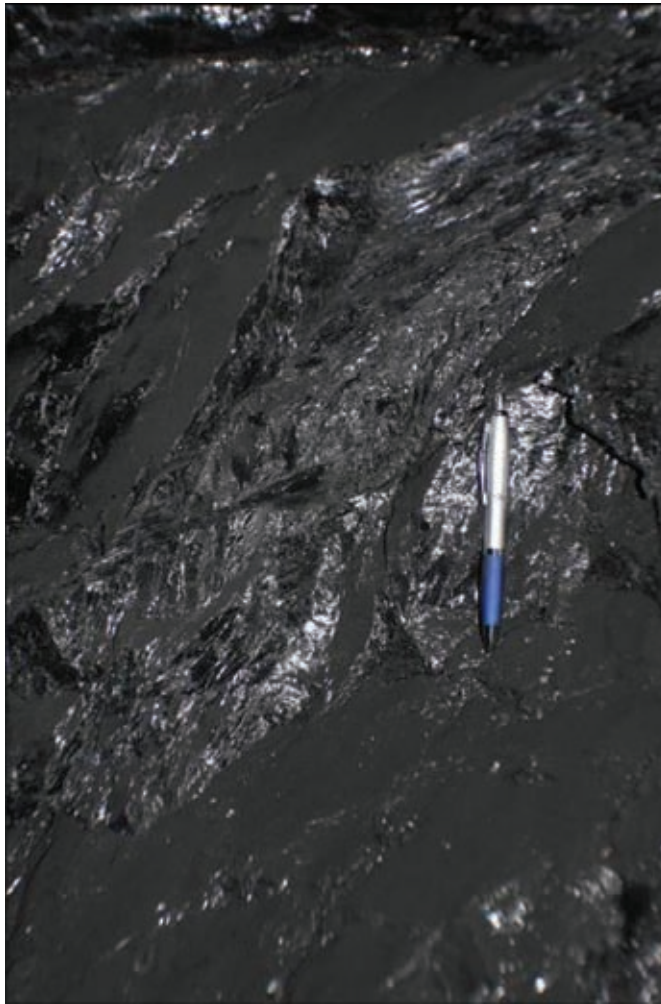


Figure 4-26: Well developed Sub-Vertical Slickenside Structures in Seam M6

4.7.3 Coal Quality

The sedimentary succession at the Dayan coal mine is characterized by four coal seam, from the Late Permian Longtan Formation. The Late Permian coal seam is considered to have the following characteristics based on the limited data made available to SRK, as well as general observations made during site inspection:

- The coal is dull with bright bands
- Gross seam thickness varies from 1.80 - 4.20m
- The Ash content (A_d) varies from 1 - 12%
- Phosphor content generally < 0.01%

- The Sulphur (S_{td}) content varies from 0.10 - 1.30%
- Density of 1.50 t / m³
- The Calorific Value varies from 6,000 - 8,500 kcal/kg

In general, the Late Permian coal seams at Dayan produce a low ash, low sulphur anthracite coal, with high gross calorific value. As such, the coal is mainly suitable for the domestic thermal energy market. The current buyers of the Dayan coal are the Anshun Power Station, Dafang Power Station, and the Anshun Fertilizer Plant.

The very limited data provided to SRK clearly shows that the coal quality varies significantly from seam to seam. Table 4-2 is providing a general overview of the seam characteristics. The table clearly shows an increase in the sulphur and ash contents, as well as a decrease in seam thickness and calorific value up section.

Table 4-9: General Seam Characteristics at Dayan

	M6	M7	M16	M24
Thickness (m)	1.80 - 2.56	2.60 - 3.40	3.00 - 3.40	3.60 - 4.20
Ash (%)	10 - 12	5 - 6	2 - 4	1 - 3
Sulphur (%)	1.3	0.8 - 1	0.3 - 0.6	0.1 - 0.3
Calorific Value	6000	7500	8200	8500

4.7.4 Coal Seam Gas

According to article 133 of the Safety Regulations of Chinese Coal Mines, gas and carbon dioxide levels must be examined on an annual basis. However, no gas data from the Dayan coal mine were made available for SRK for this report.

4.7.5 Coal Resource Estimation

The geological exploration commenced in the 1950's with regional assessment of various resources. In the 1965 - 1976 has been completed geological mapping into 1:200,000 scale. In 1992 to 1995 Brigade 115 undertook detailed mapping into 1:50,000 scale with focus on mineral and coal resources of Zhucang region. Targeted exploration on coal has been carried out by 113th and 174th Brigades in 1977 to 1979. The Dayan mine area has undergone detailed exploration by exploratory drilling in 2007 with summary findings and resource estimate compiled by 115th Brigade.

The geological block method has been used for Dayan mine using Chinese Standard DZ/T0215-2002, which was modified with respect of coal shortage in the region. The modified Industrial Standard is following:

Max. Ad	40%
Max. St.d	$\leq 3\%$
Min. Qnet.d	22.1 MJ/kg
Minimum thickness	≤ 0.8 m

Considering the dip of strata less than 60° the horizontal projection method has been adopted for resource block area determination.

Resource was then calculated using formula:

$$Q = S / \cos \beta \times h \times D$$

Where

Q resource (t)

S Horizontal Projection of the Area of the block (m²)

β dip of seam

h true thickness (m)

D specific gravity (t/m³)

Resource block has been delineated in accordance with Chinese Standard DZ/T0215-2002 by spacing of the boreholes and its confirmation by the underground working. The detailed drilling, developed mine and density of coal exposures in underground allows for category 111b.

The Resource Estimate results based on available verification report are as indicated in following Table. No data to check and verify the tonnage were made available to SRK.

Table 4-10: Resource Estimate of Dayan Mine

Seam ID	Block ID	Category	Area (m ²)	Dip (°)	Thickness (m)	Specific	Volume (m ³)	Tonnage (t)	Tonnage (Mt)
						Gravity (t/m ³)			
M6	111b-1	111b	139,751	6	2.18	1.5	306,335	459,503	0.46
	111b-3	111b	1,561,960	6	2.18	1.5	3,423,829	5,135,743	5.14
M6 Subtotal		111b	1,701,711	6	2.18	1.5	3,730,164	5,595,246	5.60
M7		111b	1,761,008	7	2.70	1.5	4,790,429	7,185,643	7.19
M16		111b	1,761,008	10	3.00	1.5	5,364,523	8,046,785	8.05
M24		111b	1,761,008	6	3.80	1.5	6,728,691	10,093,036	10.09
TOTAL								30,920,710	30.92

SRK is of opinion that mine tenement is in detailed stage of exploration and has an excellent prospect to be developed into productive and profitable mine.

4.7.6 Coal Reserve Estimation

The resource is reported in category 111b, which implies that no modifying factors has been applied to convert resource into reserve. No feasibility study and mine design has been available to SRK.

Based on geology, mine inspection findings, panel size and pillar size SRK assume that mining recovery factor for Dayan mine is ranging from 43% to 67%. The dilution factor is estimated as high as 5%. The specific gravity of diluting rock is assumed 2.4 t/m³.

Using above factors SRK estimated reserve as indicated in Table 4-11:

Table 4-11: Reserve Estimate of Dayan Coal Mine

Seam ID	Block ID	Resource (t)	Recovery (%)	Dilution (%)	Reserve (t)	Reserve (Mt)
M6	111b-1	459,503	67	5	347,253	0.35
	111b-3	5,135,743	67	5	3,881,155	3.88
M6 Subtotal		5,595,246			4,228,408	4.23
M7		7,185,643	62	5	5,071,011	5.07
M16		8,046,785	50	5	4,713,117	4.71
M24		10,093,036	43	5	5,205,123	5.21
Depleted					240,000	0.24
TOTAL		30,920,710			18,977,658	18.98

4.7.7 Sampling Quality Assurance and Quality Control

China has its own system and requirements for quality assurance and quality control (QA/QC) for different stages of exploration on various types of mineral deposits. The geological brigades and the mine staff, who have the qualifications for conducting exploration, followed the proscribed procedures for QA/QC, and complied with Chinese regulations. However as current Chinese mineral reserve codes or regulations are still not recognized in Western countries, the QA/QC procedures used for this project are not necessary compliant with the JORC Code. The main differences between Chinese resource standards and the JORC Code are in the areas of sampling and assaying. The JORC Code is stricter on drill core recovery, the qualification of the assaying laboratory and insertions of control samples into assaying programs.

5 MINING ASSESSMENT

5.1 Tiechong coal mine

The Tiechong coal mine is located approximately 15 km from southwest from Maijiong (Figure 3-1). The mining area is situated proximal to the town of Xianchang. National road no. 321 as well as the Guiyang - Xinzhai highway is located proximal to the Tiechong mine. The mine office can be reached through a 3m wide dirt road from Guixin highway. The present production is through one incline acting as transport incline and one Adit acting as ventilation incline. Production is about 30,000 T / yr.

The mine is in the early stage of development. A mine plan has been prepared to achieve a production target of 90,000 t / year within validity period of exploitation certificate till 2010, after necessary revamping of the facilities available in the mine.

5.1.1 Mining Layout

Present mine layout consists of one transport incline (Figure 5-1) which also acts as intake and one Adit which acts as return and is equipped with an exhaust fan. The mine development is based on two main dips acting as ventilation airways and transport roadways. Longwall panels will branch off from main dips.

During the mine visit of SRK, one such longwall panel was being developed. SRK observed that the mine galleries all over the mine are in poor condition of repair and not adequately safe. The layout of the mine plan prepared by Guizhou Chuangxin Mining and Metallurgical Engineering Co., Ltd, envisages construction of three new inclines to act as transport, ventilation and auxiliary inclines. The ventilation system will be two intake and one return system for the whole mine.



Figure 5-1: Incline at Tiechong Coal Mine

5.1.2 Mining method

The Tiechong mine is planning to develop retreating longwall panels along strike. The gate roads will branch off from main roadways by 90°. The face inclination will be true dip of the seam at respective place. A protection barrier 20m wide will be left against the main roadway. The panel size will be about 80 x 600m. The face will be supported by steel supports. Longwall caving method will be practiced.

Due to low cover over the longwall panels subsidence over caved out area will reach the surface, and may cause widespread instability of the hill slope and result in landslides. SRK opines that mining method may be reviewed considering the environmental damage due to mining. One option may be selection of No Subsidence mining methods or partial extraction methods which will allow adequate size of pillars to be left in the goaf to prevent main fall and subsidence.

5.1.3 Mechanical properties of Coal seam and roof and floor strata

No study of rock mass rating (RMR) of overlying and underlying rocks has been undertaken by the management. However, SRK observed that the coal seam is flaky and shows slickensides. The immediate roof is unstable. This is evident from the broken coal and rocks resting on wooden supports. Spillage of sides is also common. It is difficult to maintain the size of galleries even though pick mining is being done for breaking coal. Guizhou engineering experts observe that “the structure of this coal seam is complex with the thickness greatly varied the stability of the coal seam belongs to an unstable type.”

Although no data is available of the caving characteristics of the roof strata from the mine, Local experience, as informed by mine officials, is that local fall occurs after 2-4-8 from the last row of supports in longwall face. Main fall occur after about 30-40m advance.

5.1.4 Water

A perennial river flows through north of the mine area but with average flow rate of 0.1m³/s. The surface water will have no impact on the mining activity.

The underground water is mainly due to rain water seeping through fissures and cracks. Ground water: Ground water tends to flow from NW to SN. Till the mine is above ground water level it will have no impact from water table but in the areas below water table some flow is expected. In general, the complexity of hydrogeologic conditions belongs to medium type

5.1.5 Underground Support

No study of rock mass rating (RMR) of overlying and underlying rocks has been undertaken by the management. However, from the mine visit SRK observes that RMR of coal seam and immediate roof strata is mostly poor. Low amplitude faults and slips could be observed. More or less stable strata could be seen about 1-1.5m above the coal seam roof. Support type in different area are given in table 5.3

Table 5-1: Overview of Underground Support at Tiechong

Area	Type of Support	Material / Model	Support Density
Incline (weathered rock part)	Concrete arch	RCC	Continuous
Main and auxiliary dip	Half 'A' type	Wooden	0.8 - 1m interval
In seam galleries	Half 'A' type	Wooden	1.2m interval
Longwall face	4 rows of Hydraulic props with link bars	DZ-type, hinged link bars	0.8m between row and 1m between lines

Although supports have been erected even at much lesser interval than shown in table 5.3, in SRK's opinion the support of roof and sides is inadequate and workers are exposed to unsafe working area. This is due to low stability of immediate roof strata and coal seam

5.1.6 Subsidence

No subsidence monitoring is done in the mine. In view of the major disturbance to the surrounding hill slopes and its effect on the local environment, it is likely to be created due to subsidence.

SRK opines that the Mining Plan may be drawn up considering the effects of the subsidence, due to caved out area, on the hill slopes.

5.1.7 Mine development schedule

The mine development is being done by pick mining as the coal is soft and flaky. Productivity is about 3 tonnes / shift.

In longwall panels light blasting with manual drilling is proposed. It is anticipated that the Tiechong mine will achieve the designed production rate of 90,000 T / yr by 2009.

Table 5- 2: Historical and Future Coal Production at Tiechong

Year	2006 to 2007	2007-2008	2008-2009*
Production (t)	30000	80000	90000

5.1.8 Mine services

A brief over view of mine services observed during the site visit include Mine transport, Ventilation, Water management, preparation to meet dangers associated with mining, mine safety. A description of present configuration and planned expansion of each service is summarized below.

Table 5-3: Overview of Mine Transport at Tiechong

Area	Men	Material	Coal / Stone	Loading / Unloading
Adit	By foot	Rope Haulage & trolleys	Rope haulage JT-100/800-40C at surface and 1T tubs.	Manual tramming
In seam	Do	Do	Haulage	Manual tramming
From development face	Do	Manual carrying from siding in tail gate of the panel.	Manual loading on to steel cute or Chain conveyor	Chain conveyor/chute discharging on to tubs, tubs hauled up to surface and manual tramming and unloading at depot
From longwall face	Do	Manual carrying	Chain conveyor DZM-40	Chain conveyor loading on to tubs at bottom gate road

5.1.9 Mine transport

Transport to surface is by means of haulage/winch installed at the top of transport incline. 0.75 T Self Tipping Tubs are manually trammed at underground sidings. Details of transport system is provided in the Table 5-4.

5.1.10 Ventilation

Two 30 KW exhaust fans has been installed at the mouth of ventilation Adit. Intake is through main transport incline. The capacity of fans has been derived from ventilation requirement in most difficult scenario of the mine. SRK confirmed the working environment at faces to be reasonably comfortable. Development faces are ventilated by auxiliary ventilators with 450mm canvas ducts. No evidence of regular monitoring of ventilation quantity, temperature or gas emission was found during visit to the mine.

5.1.11 Water management

Mine drainage: Normal water make is about 2-3m³/h, in monsoon it is about 4-5m³/h. At present, a pump 10m³/h capacity is adequate to deal with the water. Mine plan has designed the water handling system with maximum water inrush rate of 40m³/h, in view of spreading of mine in future.

SRK is of the opinion that water handling may pose a serious problem if cracks and fissures develop on the hill slope, due to caving of panels which may allow water flow into the mine during rainy season. It is therefore important to observe the hill slopes over caved area and maintain the drainage properly while maintaining additional pumping capacity to be deployed in case of emergency.

5.1.12 Other Possible Dangers during mining

Gas emission

As per geological review, the mine is of low gas category. Relative gas rate is 8.74m³/t, so ventilation was designed according to that for low gas mine. However, to ensure safety regular gas monitoring of return air is required to be done and leakages to be attended..

Dust explosion

Geological data categorized the coal dust from K2 seam as prone to explosion. This means that all systems of dust suppression e.g. water spraying, stone dusting; dust sampling etc should be maintained for safety. SRK during site visit did not find any evidence of such systems

Spontaneous combustion

Spontaneous fire at Tiechong is classified as class I according to Chinese standards. As such, regular measures should be taken to monitor the undue heating of any area. Presence of CO gas in the closed / abandoned mining areas should be monitored.

Water inrush

Geological Review predicts maximum water make of 4-5m³ / hr. However, natural drainage may get affected in the subsided area. Mine management has to maintain the drainage by canalizing the rain water around the subsided area. It is also noted that there are few old abandoned tunnels along the outcrop. These may contain significant amounts of accumulated water. The management has to take care to identify them and if possible seal them after dewatering the same. This will prevent the possibility of water inrush in case of inadvertent joining of galleries with old tunnels

Mine plan has provided for pumping system to deal with maximum 40m³ / hr which appears to be adequate to deal with emergency.

5.1.13 Mine safety

As informed by the mine officials, there is no serious injury or fatal accident since the present company has started operation. SRK was not presented with any safety records confirming the statement. Safety procedures and performance statistics are discussed in section 7 of this report

5.2 Xinghe Coal Mine

The Xinghe mine comprises three separate coal mining leases namely, Zhongshan, Lashan and Zhenxin. All the leases are located about 21 km southwest of Duyun city and 7 km from Beimang town where it connects to the 207th provincial road.

At present only the Zhongshan mining lease is under exploitation. Lashan mine is under construction, and mining in the Zhenxin lease is temporarily suspended. In Zhongshan mine, the A7 coal seam is approached by two adits viz. transport and ventilation adit. Longwall retreating with caving method of extraction is planned for the mine to achieve 300,000 t / pa in 2009-10. No mine plan for the service life of the mine has been prepared. Production from development was about 150,000 t / pa in 2007-08.

5.2.1 Mining Layout

Zhongshan mine layout consists of two mildly rising adits on the hill side. One is transport adit which also acts as intake and one adit which acts as return and is equipped with an exhaust fan. After reaching coal seam transport and ventilation adits are extended in seam up to the boundary of the lease. Longwall panels are formed by branching off gate roads on strike direction, from transport and ventilation galleries, at intervals 60m. A pair of gate roads is then joined to form longwall panels of 60X400m approximately.

Three panels on the north of transport gallery has been worked out. Panels on the south of ventilation gallery are being formed. A mine plan for the total Xinghe lease area is currently under preparation.

5.2.2 Mining method

Mining method is Semi-mechanized Retreating longwall panels with caving. The face will be drilled and blasted for advance. Individual hydraulic props with link bars at 1m between row and 0.8m between lines will be used for support. At a time, 20m length of face will be blasted. Coal will be loaded on to Chain conveyor laid along the face discharging on to tubs at tailgate road. Supports will be advanced along with face. The

sequence will be repeated till full face length is advanced by 2m i.e advance per round of blast. A protection barrier 20m wide will be left against the main roadway. Development is also by drilling and blasting and loading onto tubs.



Figure 5-2: Construction of new Incline at Xinghe in Progress

5.2.3 Geotechnical and ground support

Zhongsan, Lashan and Zhenxin mine leases are located at elevation of 1410m to 1080m above MSL. The topography is hilly and covered by sparse vegetation. The main structure of terrain in the district is monocline structure, cline direction ranging from 245 degree to 340 degree, with the normal cline angle being 4 degree to 28 degree, the cline angle being 4-28 degree and the normal value being 5-12 degree. The structure is considered as simple.

5.2.4 Mechanical properties of Coal seam and roof and floor strata

No study of rock mass rating (RMR) of overlying and underlying rocks has been undertaken by the management. However, SRK observed that the roof and floor strata is more or less stable. Coal seam is medium hard and does not spill normally. Generally, simple prop support holds the roof well. RMR of roof and coal seam may be termed as fair to good.

From the experience of three longwall panels, as informed by mine officials, local fall occurs after 6m behind last row of supports of longwall face. Main fall occur after about 50-60m advance.

5.2.5 Water

In terms of surface water, the Xinghe Coal Mine locates in the watershed of the Chang and Zhu rivers. West part of mine is mainly in the area of Zhu river, with the ground water flowing into the Bailang river. The eastern part belongs to the Chang River, which in turn flow into the Caidi River. Annual average rainfall 1445mm. Surface runoff changes dramatically with the season change. The mine zone locates at a high elevation of mountain therefore with little runoff.

In terms of ground water, the ground water table gets charged from this surface water and rainfall. Mine being in higher elevation level of water table is very deep and has minimal impact on the mining activity. In general, the complexity of the hydrogeological conditions is somewhat simple.

5.2.6 Underground Support

In absence of RMR of overlying and underlying rocks support adequacy cannot be ascertained. From the mine visit, SRK observes that roof and floor strata is more or less stable and holding with erected supports. Working areas are reasonably supported. Support type in different area are given in Table 5-2

Table 5-4: Overview of Underground Support at Xinghe

Area	Type of support	Material/model	Support density
Adit (weathered rock part)	Concrete arch	RCC	Continuous
Main & auxiliary dip	Half 'A' type	Wooden	0.8-1m interval
In seam galleries	Half 'A' type	Wooden	1.2m interval
Longwall face	4 rows of Hydraulic props with link bars	DZ-type, hinged link bars	0.8m between row and 1m between lines

5.2.7 Subsidence

So far three longwall panel has been worked and caved in the mine Subsidence has caused slope failure of the hills over caved goaf. No regular subsidence monitoring is done in the mine.

In view of the major disturbance to the hill slope and its effect on the local environment, likely to be created due to subsidence, SRK recommends regular monitoring of the already subsided area and initiate immediate necessary action for protecting the villages and other infrastructure on the lower elevation along the hill slope. Mining plan may be drawn up considering the effects of the mining on the hill slopes.

5.2.8 Mine development schedule

Mine development is on panel incline technique. Development is being done by drilling and blasting. Electric drills are used for drilling in coal and Compressed air operated jackhammers are used for drilling in rock. Presently, longwall panels are being developed on the south of ventilation gallery. Longwall face will also be worked by drilling and blasting. It is scheduled to start next longwall panel by early 2008-09. It appears that no concrete development schedule is maintained at the mine. For sustained production of 300,000T/yr one longwall panel has to be worked continuously. Therefore, detailed development schedule has to be drawn up and complied with on regular basis so that at all times one longwall panel is ready for extraction.

Table 5-5: Historical and Future Coal Production at Xinghe

	2005 to 2007	2007-2008	2008-2009	2009-2010
Production (t)	300,000	150,000	200,000	300,000

5.2.9 Mine services

A brief over view of mine services observed during the site visit include Mine transport, Ventilation, Water management, preparation to meet dangers associated with mining, mine safety. A description of present configuration and planned expansion of each service is summarized below.

5.2.10 Mine transport

Table 5 -6: Overview of Mine Transport at Xinghe

Area	Men	Material	Coal / Stone	Loading / Unloading
Adit	By foot	Rope Haulage & trolleys	Rope haulage JT-100/800-40C at surface and 1t tubs	Manual tramming
In seam	Do	Do	YBJ-11.4 haulage	Manual tramming
From development face	Do	Manual carrying from siding in tail gate of the panel	Manual loading on to chain conveyor or into tubs	Chain conveyor discharging on to tubs, coal tubs hauled up to surface
From longwall face	Do	Manual carrying	Chain conveyor DZM-40	Chain conveyor loading on to tubs at bottom gate road

5.2.11 Ventilation

Two YBF-N90 type exhaust fans have been installed at the mouth of ventilation incline. Intake is through main transport incline and Auxiliary incline. No ventilation calculation was available in the mine but from the visit to the mine SRK confirmed the working environment at faces to be reasonably comfortable. Development faces are ventilated by auxiliary ventilators with 450mm canvas ducts. Regular monitoring of ventilation quantity, temperature or gas emission was found during visit to the mine.

In view of possible amalgamation of Zhongshan, Lasan and Zhengxin mining leases, SRK suggests that proper ventilation network be drawn up including all three leases on the basis of mine projections.

5.2.12 Water management

No projection of Mine water make was available. SRK during their visit confirmed that water make is about 3-4 m³ /hr at present configuration of the mine.

A main sump of 87.2 m³ has been constructed at bottom level of main incline, main pumps of model D12-25 X 6 and QS30-100/S-15X2 is programmed to be installed at pit bottom sump and panels.

SRK is of the opinion that if surface drainage is maintained properly during the life of the mine, water handling may not create any problem provided surface drainage is duly maintained once the caving of panel starts.

5.2.13 Other Possible Dangers during mining

Gas emission

As per geological review, the mine is of low gas category. The relative gas emission rate is 6.79 m³ / min. However, to ensure safety regular gas monitoring of return air is required to be done.

Dust explosion

The mine is categorized as low dust explosibility. But should not absolve mine management from maintaining dust suppression measures. SRK could not find any evidence of dust suppression measures e.g. water spraying in the development face or outside.

Spontaneous combustion

The characteristics of coal seam is termed apyrous coal seam. However, regular measures should be taken to monitor the undue heating of any area. Presence of CO in the closed/abandoned area should be monitored

Water inrush

Geological Review observes possibility of water inrush is remote if surface drainage is maintained properly particularly over caved goaf.

5.2.14 Mine safety

Safety standard of the mine appeared to be good. Management is keen to implement safety procedures in the mine. Support of the galleries is adequate and is in good repair. Mine is kept reasonably free of coal spillage. But no evidence of dust suppression measures were found. Regular monitoring of environmental condition of working areas were evident. Ventilation condition was comfortable. Personal protective gears are in use but quality may need improvement.

Safety procedures and performance statistics are discussed in section 7 of this report

5.3 Shuishan Coal Mine

The Shuishan coal mine is located in Majiang County; southeast Guizhou Province. It is situated 13 km from the Kaili - Majiang highway. The pit head is approachable through a 3 to 5 m wide unsealed road. At present the mine is under development. The lease area is 2.8745 km² with resource of 8.47 million tones. The area is hilly with medium dense vegetation. A perennial brook flows through the lease area. Mining by locals has been in existence before mine construction. The annual raw coal production in the (original) mine was designed to be 30,000 tons / pa.

The Late Permian coal seam M1 is approached by two inclines. The transport incline equipped with a winch and track serves as intake roadway. The ventilation incline act as return airway equipped with a pair of exhaust fans. Longwall retreating with caving method of extraction is planned for the mine. Present licensed capacity is 90,000 t/pa but management plans to increase to 300,000 t/pa after repair and development of the mine. No long term mine plan has been made available to SRK. Production from development faces is 70,000 t in 2006 and 50,000 t from September 2007 till March 2008.

5.3.1 Mining Layout

Shuishan mine layout is opened by two inclines. West transport incline equipped with 600mm gauge track and JT-100-800-40C single-pulley hoist descends at about 25° to the main mine level. At the bottom of the incline is main mine sump. This incline also acts as intake roadway. Capacity of haulage is 30T/hr. East incline is equipped with a pair of YBF-NO90-type propeller exhaust fans and acts as return airway. At the main mine level the crosscut leads to the north following the dip of strata until it reaches the coal seam M1. There it bifurcates and main level roadway follows the seam along strike to east-northeast. The development incline follows the dip of seam. The second and third inclines are driven along the dip at 100 m intervals. The mine plan for the entire Shuishan mining lease is presently under preparation in Hong Kong.



Figure 5-3: Coal tub at Shuishan Coal Mine Incline



Figure 5-4: Development Incline with Rope Hauling of Coal Tubs

5.3.2 Mining method

The mining method planned at Shuishan is semi-mechanized along strike retreating longwall panels with caving. The mine design and mine plan are currently in preparation and as such not available to SRK. The mine design will address details of mining method for the Shueshan mine. In general longwall face would be drilled and blasted and coal manually loaded onto tubs pulled by rope to the main mine level (Figure 5-4). Face will advance about 2 m with every blast. Support would be hydraulic props spaced one meter apart.

5.3.3 Geotechnical and ground support

No study of rock mass rating (RMR) of overlying and underlying rocks has been undertaken by management. However, SRK observed that the roof and floor strata are hard limestone and stable. The M1 coal seam is hard, but mylonitized as a result of deformation of the anisotropic complex of strata with different competence. Bedding slips deformation cause the development of cleavage with slickensides and disharmonic folding of partings in the coal seam. Generally, simple prop support should hold the roof well.

As no longwall panel has been worked till date, no data is available of caving characteristics of the roof strata. Considering competent roof made by competent limestone the main fall is expected to occur after about 50-60 m advance. First fall would be induced by blasting.

Youshi River is permanent water course south of the mine area. Annual flow capacity is about 400 million m³. River drains atmospheric precipitation and underground water from the catchment area of the mine tenement.

Atmospheric precipitation is the main form of supplementation of the ground water table. The run-off direction of underground water is from the northwest to southeast. Once the coal bed in the mine is located on the lowest erosive datum plane in the region, underground water will have little influence on the coal bed exploitation; once the coal bed in the mine is located below the lowest erosive datum plane in the region, underground water will have great influence on the coal bed exploitation.

5.3.4 Underground Support

SRK observed that roof and floor strata are stable and holding with supports erected locally where required. Working areas are reasonably supported. Support type in different area are given in table 5.3

Table 5-7: Underground Support at Shuishan Coal Mine

Area	Type of support	Material/model	Support density
Incline (weathered rock part)	Concrete arch	RCC	continuous
Main & auxiliary dip	Half 'A' type	Wooden	when required
In seam galleries	Half 'A' type	Wooden	when required
Longwall face	to be decided	to be decided	to be decided

5.3.5 Subsidence

So far no longwall panel has been worked and caved in the mine. Subsidence characteristics could not be ascertained. However, considering the seam thickness and geological setting it is not likely that subsidence will reach surface.

5.3.6 Mine development schedule

Mine development is being completed by drilling and blasting. Electric drills are used for drilling in coal and compressed air operated jackhammers are used for drilling in rock. The longwall face will also be worked by drilling and blasting. It is scheduled to commence longwall panel mining by early 2008-09. To maintain sustained production of 150,000 t/pa one longwall panel has to be worked continuously. Therefore, detailed development schedule has to be drawn up and complied with on a regular basis so that at all times one longwall panel is ready for extraction.

Table 5- 8: Mine Production Schedule

Year	2006	2007	2008-09*	2009-10*	2010-11
Production (t)	70,000	100,000	90,000	150,000	300,000

5.3.7 Mine services

Mine services observed during the site visit at Shuishan include mine transport, ventilation, water management, preparation to meet dangers associated with mining and mine safety. A description of the present configuration and planned expansion of each service is summarized below.

Table 5- 9: Overview of Mine Transport at Shuishan Coal Mine

Area	Men	Material	Coal/Stone	Loading /unloading
Transport Incline	By foot	Rope Haulage & trolleys	Rope haulage JT-100/800-40C at surface and 0.75T tubs	Manual tramming in seam
Main level	Do	Manual tramming from panel to landing	Manual tramming from panel to landing	Manual tramming from panel to landing
From development face	Do	Manual carrying	Manual loading to tubs, rope haulage	Tubs hauled up to main level by rope and winch.
From longwall face	Do	Manual carrying	Manual loading to tubs, rope haulage	Manual loading to tubs, rope haulage

5.3.8 Ventilation

Two YBF-NO90-type propeller exhaust fans are installed in the ventilation incline. One is for normal operation, while the other is for standby. The total air input is 739m³/m; the total air return is 768m³/m; and the air quantity at longwall face is 390m³/m. the YBT-5.5 and TK×K-32S portable blowers are used to supply the air to the development faces and the air quantities are 137m³/m and 142m³/m respectively. No evidence of regular monitoring of ventilation quantity, temperature or gas emission was found during visit to the mine. SRK confirmed the environmental conditions at working areas to be good during site visit.

SRK suggests that proper ventilation network to be drawn up on the basis of the life of mine projections and ventilation system to be determined accordingly.

5.3.9 Water management

Water make has been estimated to be 7m³ / hr maximum and 3m³ / hr minimum.

A main sump of 50m³ has been constructed at bottom level of main incline. Main pumps of model D12-25 X 6 at surface and 2 units QS30-100/S-15 of submersible pump are installed at the pit bottom sump. SRK is of the opinion that if surface drainage is maintained properly during the life of the mine, water handling may not create any problem

5.3.10 Other Possible Dangers during mining

As per geological review, the mine is of low gas category. Relative gas emission rate is 47 m³/t and total gas emission rate is 21 m³/min. However, to ensure safety regular gas monitoring of return air is required to be done.

There are recorded coal dust explosion in the area and the Shuishan coal dust is explosive. Therefore effective preventive measures as water spraying stone, stone dusting are to be adopted. SRK could not find any evidence of dust suppression measures e.g. water spraying in the development face or outside.

The tests conducted by Guizhou Coal Field Geological Bureau Lab 2004 have proved that Shueshan coal is prone to spontaneous combustion. Regular measures should be taken to monitor undue heating of any area. Presence of CO in the closed/abandoned area should be monitored.

Geological report considers possibility of water inrush is remote if surface drainage is maintained properly particularly over caved goaf.

During site visit SRK observed that general safety status of the mine requires attention.

Inclines are steep, but safety appliances in haulage track are not in use. Miners walk down the haulage incline which is muddy and slippery. Steps and handrails require repair & maintenance. Spillage of sides is common sight in underground galleries. They are also wide at places. Height of the in seam inclines is frequently less than 1.2m. No water spraying arrangements could be found in face Stone dusting system is not regular although coal dust is explosive in nature. Personal protective gears are in use but quality appears to be poor. Safety procedures and performance statistics are discussed in section 7 of this report

5.4 Lushan Coal Mine

The Lushan underground coal mine is located in the Lushan town of Kaili City of Qiandongnam Municipality. The area is situated some 25km from Kaili power plant on the road connecting Kaili city and Lushan town.

Presently the mine is in early development stage. Coal seam is approached by three inclines viz. transport incline, ventilation incline and Auxiliary incline. Mine is being developed in panel incline technique. Production from development is about 120,000 T/yr in 2007-08. One mineable seam of Early Permian age is available in the mine. Longwall retreating with caving method of extraction is planned for the mine to achieve 150,000 T/yr in 2008-09. No mine plan for the service life of the mine has been prepared.

5.4.1 Mining Layout

Present mine layout consists of one transport incline (Figure 5-3) which also acts as intake and one Adit which acts as return and is equipped with an exhaust fan. An old incline is being repaired and connected to transport gallery to act as Auxilliary incline which will be used as pedestrian way and also auxiliary intake. The mine development is based on formation of blocks by driving the arterial roadways. The blocks will then be divided into longwall panels of about 60X400-600 m.s



Figure 5-5: Incline at the Lushan Coal Mine

5.4.2 Mining method

Mine is planned to develop retreating longwall panels along strike to trending strike direction within the mining blocks. The gate roads will branch off from main roadways. The face inclination will be about true dip of the seam at respective place. A protection barrier 20m wide will be left against the main roadway. The panel size will be about 60 x 400 - 600m. The face will be supported by individual hydraulic props. Longwall caving method will be practiced.

Due to low cover over the longwall panels subsidence over caved out area will reach the surface. The area being hilly, it may cause widespread instability of the hill slope and result in landslides. SRK opines that mining method may be reviewed according to

the cover available in view of preventing subsidence to reach surface. One option may be selection of no subsidence mining methods or partial extraction methods which will allow adequate size of pillars to be left in the goaf to prevent mainfall and subsidence.

5.4.3 Geotechnical and ground support

This mine area locates at the southeast part of Fish whole syncline with 3-10° inclination in direction of 300-350°. A fault F7 with throw of 4-8m is present in southeast of the mine area which have impacted the coal seam to some extent.

Generally, it is a monocline structure; the formation strike is approximate to NE-SW; with the South westerly dip. The dip angle is 3-10°, and average dip of 8°. No fault structure within the mine area is observed. The structure complexity of this mine area belongs to simple type excepting in the southeast boundary. For mining, impact of fault on the south east is minimal.

5.4.4 Mechanical properties of Coal seam and roof and floor strata

No study of rock mass rating (RMR) of overlying and underlying rocks has been undertaken by the management. However, SRK observed that the roof and floor strata are more or less stable. Spillage of coal seam sides is common. Although the geological assessment by the 6th Geological Brigade assigns the floor as 'prone to heaving', SRK could not find any evidence during site visit.

As no longwall panel has been worked till date, no data is available of caving characteristics of the roof strata. Local experience, as informed by mine officials, is that local fall occurs after 6m advance of last row of supports of longwall face. Main fall occur after about 50-60m advance.

5.4.5 Water

In terms of surface water, perennial brook is the main drainage of the area and also source of surface water.

The ground water table gets charged from this surface water and rainfall. The part of coal seam is below water table some amount water may find its way to underground through cracks and fissures.

The strata above the coal seam are of low porosity and do not contain much water to cause appreciable water inflow into the mine. In general, the complexity of the hydrogeologic conditions belongs to the medium type.

5.4.6 Underground Support

No study of rock mass rating (RMR) of overlying and underlying rocks has been undertaken by the management. However, from the mine visit SRK observes that RMR of coal seam and immediate roof strata is mostly fair to good.

Table 5-10: Overview of Underground Support at Lushan

Area	Type of support	Material/model	Support Density
Adit (weathered rock part)	Concrete arch	RCC	Continuous
Main and auxiliary dip	Half 'A' type	Wooden	0.8 - 1m interval
In seam galleries	Half 'A' type	Wooden	1.2m interval
Longwall face	4 rows of hydraulic props with link bars	DZ-type, hinged link bars	0.8m between rows and 1m between lines

Although supports have been erected even at much lesser interval than shown in table 5.3, in SRK's opinion the support of roof and sides is inadequate and workers are exposed to unsafe working area. This is due to low stability of immediate roof strata and coal seam

5.4.7 Subsidence

So far no longwall panel has been worked in the mine. In view of the major disturbance to the hill slope and its effect on the local environment, likely to be created due to subsidence SRK opines that Mining plan may be drawn up considering the effects of the subsidence, due to caved out area, on the hill slopes.

5.4.8 Mine development schedule

Mine development is being done by drilling and blasting. Electric drills are used for drilling in coal and Compressed air operated jackhammers are used for drilling in rock. In long wall panels face will also be worked by drilling and blasting. It is scheduled to start along wall panel by early 2008-09.

Table 5-11: Historical and Future Coal Production at Tiechong

Year	2006-2007	2007-2008	2008-2009	2009-2010
Production (t)	30000	80000	120000	150000

5.4.9 Mine services

A brief over view of mine services observed during the site visit include mine transport, ventilation, Water management, preparation to meet dangers associated with mining, mine safety. A description of present configuration and planned expansion of each service is summarized below.

5.4.10 Mine transport

Transport to surface is by means of haulage/winch installed at the top of transport incline. 0.75 T Self Tipping Tubs are manually trammed at underground sidings. Details of transport system are given in table below.

Table 5-12: Overview of Mine Transport at Lushan

Area	Men	Material	Coal / Stone	Loading / Unloading
Incline	By foot	Rope Haulage and trolleys	Rope haulage JT-100/800-40C at surface and 1T tubs.	Loading from coal bins constructed underground
In seam	Do	Do	Single drum 30Kw winch and 0.75t tubs	Loading from wheeled basket
From development face	Do	Manual carrying from siding in tail gate of the panel	Manual loading on to rubber wheeled basket car trammed manually, tubs loaded directly from basket cars	Tubs unloading onto coal bins
From proposed longwall face	Do	Manual carrying	Chain conveyor DZM-40	Chain conveyor loading on to tubs at bottom gate road

5.4.11 Ventilation

Two YBF-N90 type exhaust fans have been installed at the mouth of ventilation incline. Intake is through main transport incline and Auxiliary incline. No ventilation calculation was available in the mine but from the visit to the mine SRK confirmed the working environment at faces to be reasonably comfortable. Development faces are ventilated by auxiliary ventilators with 450 mm canvas ducts. No evidence of regular monitoring of ventilation quantity, temperature or gas emission was found during visit to the mine.

SRK suggests that proper ventilation network to be drawn up on the basis of the life of mine projections and ventilation system to be determined accordingly.

5.4.12 Water management

No projection of Mine water make was available. SRK during their visit confirmed that water make is about 3-4 m³ /hr at present configuration of the mine.

A main sump of 87.2 m³ has been constructed at bottom level of main incline, main pumps of model D12-25 X 6 and QS30-100/S-15X2 is programmed to be installed at pit bottom sump and panels.

SRK is of the opinion that if surface drainage is maintained properly during the life of the mine, water handling may not create any problem provided surface drainage is duly maintained once the caving of panel starts.

*5.4.13 Other Possible Dangers during mining***Gas emission**

As per geological review, the mine is of low gas category. The relative gas emission rate is 6.79 m³ / min. However, to ensure safety regular gas monitoring of return air is required to be done.

Dust explosion

The mine is categorized as low dust explosibility. But should not absolve mine management from maintaining dust suppression measures. SRK could find any evidence of dust suppression measures e.g. water spraying in the development face or outside.

Spontaneous combustion

The mine is categorized as low dust explosibility. But should not absolve mine management from maintaining dust suppression measures. SRK could find any evidence of dust suppression measures e.g. water spraying in the development face or outside.

Water inrush

Geological Review observes possibility of water inrush is remote if surface drainage is maintained properly particularly over caved goaf.

5.4.14 Mine safety

During site visit SRK observed that general safety status of the mine requires attention. Inclines are steeply inclined but safety appliances in haulage track are not in use. Miners walk down the haulage incline which is muddy and slippery. Steps and handrails require repair and maintenance.

Spillage of sides is common sight in underground galleries. They are also wide at places. No travelling road with walkable height is maintained. Height frequently is less than 1.2 m.

No water spraying arrangements could be found in face. Stone dusting system is not regular although coal dust is explosive in nature.

Personal protective gear is in use but quality appears to be poor. Safety procedures and performance statistics are discussed in section 7 of this report.

5.5 Dayan Coal Mine

The Dayan Coal Mine in Zhijin County (Figure 3-1) was founded in February 2007, and comprises the Dazhai, Linshan and Dayan coal mines. The mine area is located approximately 2.5 km from the provincial highway (S017) with a 5-6 m wide unsealed access road from the provincial highway. The mining lease area is presently 1.763 km² with a resource of 35.26 Mt from four Late Permian coal seams (i.e. M6, M7, M16 and M24). The reserve is estimated to be 19.13 Mt. SRK is of the opinion that the reserve can be increased by adopting a mining method with a higher recovery factor. At present the height of hydraulic support is 2 m only, which reduces the recoverable coal thickness considerably.

The area is hilly with medium dense vegetation. Maximum and minimum elevation of the mine area is +1780 m and +1550 m respectively. The deposit was exploited by locals prior to 2006 when the mining leases were combined. However, the extent of the historical workings was very small and has virtually no impact on the present mining scheme. The present mine output is aimed at producing 450,000 t/pa. The present operation is focused on exploitation of the topmost coal seam (M6). Longwall retreating with caving method of extraction is planned for the mine.

5.5.1 Mining Layout

The Dayan mine layout is based on approach of the coal seam by three adits along the M6 coal seam outcrop line. The eastern adit is a coal transport adit equipped with a SBL200 belt conveyor. This adit also acts as intake roadway. The western incline is fitted with a pair of YBF-NO90-type propeller exhaust fans and acts as return airway. The third intake adit serves for transport of workers. The main galleries are driven in the true dip direction at NW. Gate roads of longwall panels branch off in strike direction on both sides at intervals of 80m. The end of gate roads is joined along true dip to form longwall panels. No mine plan for approaching and exploiting the other three mineable coal seams has been developed yet. The mining sequence will proceed from upper to lower seam, in order to prevent sterilisation of coal resources.

5.5.2 Mining method

The mining method at Dayan is semi-mechanized retreating longwall panels, of 600 m x 80 m size, with caving (Figure 5-1). The face will be drilled and blasted for advance. Individual hydraulic props at 1m between row and 0.8 m between lines and cogs spaced 10 m will be used for support. Blasting at the face is conducted in 20 m intervals. Coal is loaded on to chain conveyor laid along the face (Figures 5-4 and 5-7). Supports will be advanced along with the face. The sequence is repeated until the full face length is advanced by 2 m (i.e. advance per round of blast). A protection barrier 20 m wide is left against the main roadway.

5.5.3 Geotechnical and ground support

Geotechnical characteristic

No geotechnical study of rock mass rating (RMR), tensional and compressive strength, internal friction angle, cohesion and specific gravity of overlying and underlying rocks has been undertaken by management at Dayan. The angle of draw and angle of subsidence has not been determined. However, SRK observed that the roof and floor strata are stable. Simple prop support and cogs holds the roof well (Figure 5-5). SRK observed that the main fall occurs approximately 20 m after the last row of props and cogs. First fall may be induced by blasting.



Figure 5-6: Semi-Mechanized Longwall Panel at Dayan

Surface water

Youshi River is permanent water course south of the mine area. Annual flow capacity is about 400 million m³. River drains atmospheric precipitation and underground water from the catchment area of the mine tenement.

Ground water

The ground water table: the freatic aquifer is located in alluvial cover of the hill slopes. It is replenished by rainfall water. The run-off direction of underground water is from northwest to southeast. SRK observed that main water inflow to the mine is in entry adits, where they pass through alluvial deposits. The main roadway, gate roads and face is dry.

5.5.4 Underground Support

Working areas are reasonably supported. Support type in different area is given in the following table.

Table 5-13: Underground Support at Dayan Coal Mine

Area	Type of support	Material/model	Support density
Adit (weathered rock part)	Concrete arch	RCC	continuous
Main & auxiliary dip	Half 'A' type	Wooden	0.8-1m interval
In seam galleries	Half 'A' type	Wooden	1.2m interval
Longwall face	4 rows of Hydraulic props with link bars	DZ-type,hinged link bars	0.8m between row and 1m between lines, cogs 10 m spacing

5.5.5 Subsidence

So far no longwall panel has been totally depleted and caved in the mine. Character and extend of subsidence could not be assessed. However, from the low cover and multi seam exploitation, it is assumed that subsidence will reach surface. SRK assume the major disturbance to the hill slope and its impact on the local environment is likely to be caused by subsidence. SRK recommends that consideration should be given to the effects of the mining on the hill slopes.

5.5.6 Mine schedules

The gate roads of longwall panels will branch off from the main roadways at 80m intervals. At 600m gate roads will be joined to form longwall panel. Mine development is being done by drilling and blasting. Electric drills are used for drilling in coal and compressed air operated jackhammers are used for drilling in rock. Longwall face will also be worked by drilling and blasting. One longwall face is operating and one is being developed.

Table 5-14: Mine Production Schedule at Dayan

Year	2006	2007	2008-09*	2009-10*
Production (t)	150000	350000	450000	450000

5.5.7 Mine services

A brief over view of mine services observed during the site visit include mine transport, ventilation, water management, preparation to meet dangers associated with mining, mine safety. A description of present configuration and planned expansion of each service is summarized below.

Table 5-15: Mine Transport at Dayan Coal Mine

Area	Men	Material	Coal/Stone	Loading / unloading
Transport	By foot	Rope Haulage &	Belt conveyor.	Gate road belt
Incline		trolleys		conveyor
In seam	Do	Do	Belt conveyor in gate road	Face Chain conveyor
From development face	Do	Manual carrying from siding in tail gate of the panel.	Manual loading on to Chain conveyor	Chain conveyor discharging on to Belt conveyor.
From longwall face	Do	Manual carrying	Chain conveyor DZM-40	Chain conveyor loading on to belt conveyor

5.5.8 Ventilation

Two 30 KW propeller exhaust fans are installed in ventilation incline. One is for normal operation, while the other is for standby. The total air input is 739m³/m; the total air return is 768m³/m; and the air quantity at longwall face is 390m³/m. the YBT-5.5 and TK×K-32S portable blowers are used to supply the air to the development faces and the air quantities are 137m³/m and 142m³/m respectively. No evidence of regular monitoring of ventilation quantity, temperature or gas emission was found during visit to the mine. SRK confirmed the environmental conditions at working areas to be good during site visit. SRK suggests that proper ventilation network to be drawn up on the basis of the life of mine projections and ventilation system to be determined accordingly.



Figure 5-7: Hydraulic Props and Cog Support at the Operating Working Face



Figure 5-8: Gas Monitor Installed at Return Airway of Working Panel

5.5.9 Water management

Maximum water inflow to the mine estimated to be $10 \text{ m}^3 / \text{hr}$. The minimum inflow is assumed to be $1 \text{ m}^3 / \text{hr}$.

A main sump of 98.4 m^3 has been constructed at pit bottom level of main incline. At the surface main pump station six units of pump (model D12-25) shall be installed and 2 units of QS30-100/S-15 pumps is planned to be installed at the mine bottom sump.

SRK is of the opinion that if surface drainage is maintained properly during the life of the mine, water handling would not create any problem.

5.5.10 Other Possible Dangers during mining

As per geological review, the mine is of the low gas category. The relative gas emission rate is $6.79 \text{ m}^3 / \text{min}$. Regular gas monitoring of return air is required. SRK sighted installed gas monitors during site inspection (see figure below). The Dayan mine is categorized as of low dust explosiveness. The dust suppression measures were observed during the SRK inspection of the Dayan mine (Figure 5-7). The coal is not prone to spontaneous combustion.

To prevent water inrush it is necessary to prevent surface perimeter drainage to reduce water seepage through caved goaf.



Figure 5-9: Dust Suppression Measures at Dayan Coal Mine

5.5.11 Mine safety

Safety procedures and performance statistics are discussed in section 7 of this report

SRK assessment of areas of concern

Mining

The potential of the mine is very high considering the quality of coal and mining parameters. However, mine plan does not consider possibility of instability of hill slopes due to subsidence over caved goaf. Resulting environmental damage may create extremely adverse condition for sustained production from the mine. SRK suggests model study of hill slope behaviour under the strain induced by subsidence due to exploitation of all four seams. The method of work should be selected on the result of the study. If required, no subsidence methods of exploitation may be considered even with lower recovery coal.

No organization for survey work maintained in the mine. Survey work is done on contract basis in every half year. Mine plans are not updated. This may result in undesired developments endangering safety of the mine.

6 OCCUPATIONAL HEALTH AND SAFETY

6.1 Safety Procedures and Training

SRK did not conduct a full Occupational Health and Safety inspection at the five mine sites. However, it is pointed out here that sub-standard safety practices compared to other international operations existed at four of the mine sites. To illustrate this, a list of concerns is listed here:

- Very limited or no site inductions at the mine sites were conducted for SRK personnel;
- Usage of personal protective equipment (PPE) is comparatively sub-standard (e.g. safety glasses, ear protection, dust masks and safety boots are not worn);
- No protective clothing were issued to the underground miners at the Lushan mine;
- No sign-out was requested from SRK personnel at the five mines;
- Self-rescuers were only provided at the Xinghe and Dayan coal mines;
- Positive lock-out procedures were not applied;
- Only very limited hazard signs, posing possible risks to employees and visitors, were displayed at any of the five coal mines.

6.1.1 Tiechong

The Tiechong mine has a full time safety officer reporting directly to the general manager. A safety committee involving 7-8 persons, which includes the safety officer, shift supervisors and workers representatives, is currently in place at Tiechong. Inspection of the mine is carried out every fortnight and the safety status is discussed at fortnightly meetings. Before the start of the every shifts team leaders brief the shift workers at pit head about the work at hand and the safety requirements. Safety orientation of new entrants is conducted for 72 hours. However, no structured regular safety training programme is being pursued by the management.

6.1.2 Xinghe

A full time safety officer is reporting directly to the general manager at the Xinghe mine. A safety committee involving 10-12 persons, which includes safety officer, supervisors and representatives of the workers, is in place. Inspection of the mine is carried out every fortnight and safety status is discussed at fortnightly meetings.

System of penalizing the miners by deduction of part of their salary for violation of operating procedures is in place. As informed by mine officials there is no record of serious or fatal injury in the mine. Prior to the commencement of each shift, team leaders brief the shift workers at pit head about the job at hand and safety requirements. Safety orientation of new entrants is conducted for 72 hrs. No structured regular safety training programme is being perused by the management. Mine officials informed SRK that a general physician is engaged for rendering first-aid to the workers in general from a Medical service centre. In case of emergency, hospital in Beimang town is contacted and they provide medical assistance as required.

6.1.3 Shuishan

The safety organization at Shuishan is lead by a safety superintendent, and composed of engineers, technicians, safety officers, gas-checking officers and so on. The organisation is responsible for management and implementation of safety procedures. Before the start of the every shifts team leaders brief the shift workers at pit head about the job at hand and safety requirements. The mine will follow the training program. The new workers will receive 7-day safety production, education and skill improvement training, and will work with the training certificate. The training courses are taught by qualified specialized technical personnel and the trade union will appoint particular person to supervise the training. A system of penalizing the miners by deduction of part of their salary for violation of operating procedures is in place.

The Shuishan mine is equipped with health service. The health service provides first-aid medicine, employs specialized medical staff to work on shifts in turn, is lead by the vice-superintendent of logistics, and takes charge of wound treatment and rescue.

The mine is equipped with gas monitoring system and rescue appliances and the escape corridor is set up emergency escape. As informed by mine officials there is no record of serious or fatal injury in the mine.

6.1.4 Lushan

Prior to the commencement of each shift, team leaders brief the shift workers at pit head about the job at hand and the safety requirements. Safety orientation of new entrants is conducted for 72 hours. No structured regular safety training programme is being pursued by the management. The Lushan mine has one full time safety officer reporting directly to General Manager. It was informed that a safety committee involving 10-12 persons, which includes safety officer, supervisors and representative of workers, is in place. Inspection of the mine is carried out every fortnight and safety status is discussed at fortnightly meetings. A system of penalizing the miners by deduction of part of their salary for violation of operating procedures is in place. As informed by mine officials there is no record of serious or fatal injury in the mine.

6.1.5 Dayan

The safety organization at the Dayan coal mine is directed by a safety superintendent, and composed of engineers, technicians, safety officers, gas-checking officers and so on. The organisation is responsible for management and implementation of safety procedures.

Prior to the commencement of each shift the team leaders brief the shift workers at pit head about the job at hand and safety requirements. The mine will follow the training program. The fresh workers will receive a 7-day safety production, education and skill improvement training, and will work with the training certificate. The training courses are taught by qualified specialized technical personnel and the trade union will appoint particular person to supervise the training.

System of penalizing the miners by deduction of part of their salary for violation of operating procedures is in place. The Dayan mine is equipped with health service. The health service provides first-aid medicine, employs specialized medical staff to work on shifts in turn, is lead by the vice-superintendent of logistics, and takes charge of wound treatment and rescue.

The mine is equipped with gas monitoring system and rescue appliances and the escape corridor is set up emergency escape. As informed by mine officials there is no record of serious or fatal injury in the mine. Mine officials informed that a general physician is engaged for rendering first-aid to the workers in general from a Medical service centre. In case of emergency, hospitals in Bibo town are contacted and they provide all medical insurance is provided to all workers.

6.2 Present Situation

SRK is of the opinion that the management is strongly committed to achieve high productivity while striving to maintain high safety standards. However, SRK observed that focus on the safety of mine workers at Tiechong is less than desired. Particularly in development face. The pick miners at Tiechong work under unsupported roof when dressing is done. Due to coal spillage from overflowing chute, the outbye gallery is full of loose coal and escape will be difficult in case of roof disturbance. No organization for survey work is maintained in the mine. Survey work is conducted on contract basis every half year. Mine plans are not updated neither RL of important locations are written on the plan.

6.3 Historical Safety Records

The Tiechong, Xinghe, Shuishan, Lushan and Dayan underground coal mines have achieved the accident statistics as shown in Table 6-1. SRK notes that there were no fatalities and no serious accidents over the period from 2006 to 20 March 2008. New regulations introduced at the beginning of 2006 requires mining companies to pay a minimum of RMB 200,000 or a sum equivalent to 60 months salary as compensation to the bereaved family of employees but not contractors. No violations were recorded at the five underground coal mines from 2006 to 20 March 2008.

Table 6-1: Accident Statistics 2006 - March 20, 2008

	2006					2007					2008				
	T	X	S	L	D	T	X	S	L	D	T	X	S	L	D
Minor	16	18	10	20	25	19	23	8	15	21	3	5	2	6	4
Serious	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fatal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	16	18	10	20	25	19	23	8	15	21	3	5	2	6	4

T = Tiechong, X = Xinghe, S = Shuishan, L = Lushan, D = Dayan

SRK considers the above accident statistics to show that the company is somewhat committed to safety training, provision of safety equipment and safety monitoring. The statistics compare well with other mining companies in China and against international best practise.

6.4 Workforce Turnover

Workforce numbers were 995 at 31 March 2007 and included people from different ethnic groups. Table 6-2 provides an overview of the workforce in all five mines. Staff turnover is stated as very low at about 10 people per year, i.e. less than 1% of the workforce. The mining contractor may have an employee turnover of about 10% but there have been no problems with the provision of the skilled workers required.

Table 6-2: Overview of Work Force in Each Mine

	Tiechong	Xinghe	Shuishan	Lushan	Dayan
Management	25	26	14	16	47
Development	28	30	24	35	96
Mining	68	78	71	80	189
Other	14	66	13	20	48
Total	145	200	110	160	380

7 OPERATING AND CAPITAL COSTS

7.1 Operating Costs

7.1.1 Historical and Forecasting Operating Costs

The major cost inputs to the project are salaries, management costs, electrical power, consumables and water. Table 7-1 provides a breakdown in costs for each mine per tonne of coal. The production cost / tonne of coal varies from RMB105 at Dayan to RMB 115 at Lushan. Table 7-2 provides a breakdown in tax costs for each mine.

The present electrical power costs for the five mines varies from RMB0.516/kWhr (Shuishan) to RMB0.553/kWhr (Tiechong and Xinghe), with an average of RMB0.5324/kWhr.

The cost of water for the five mines varies from RMB0.1 (Dayan) to 0.2/m³ (Lushan) with an average of RMB0.156 /m³. Table 7-3 provides a breakdown of water and electricity costs for each mine.

Table 7-1: Current Operating Costs / Tonne Coal

	Tiechong RMB	Xinghe RMB	Shuishan RMB	Lushan RMB	Dayan RMB
Wage costs	28	30	30	32	25
Consumables	5	5	9	10	11
Electricity	5	5	6	5	5
Water	1	1	NA	NA	NA
Transport	2	3	NA	NA	NA
Management	10	10	10	10	10
Safety	5	5	5	6	NA
Tax	47	46	47	47	51
Other	5	5	5	5	3
Total	108	110	112	115	105

Table 7-2: Tax Break Down

	Tiechong RMB	Xinghe RMB	Shuishan RMB	Lushan RMB	Dayan RMB
VAT	23	22	23	23	25
Resource Tax	2.5	2.5	2.5	2.5	3
Resource compensation tax	2	2	2	2	3
Income tax	17	17	17	17	17
Other	2.5	2.5	2.5	2.5	3
Total Tax	47	46	47	47	51

Table 7-3: Overview of Water and Electricity Costs

	Tiechong RMB	Xinghe RMB	Shuishan RMB	Lushan RMB	Dayan RMB
Electricity (kWhr)	0.553	0.553	0.516	0.520	0.520
Water (m ³)	0.15	0.18	0.15	0.20	0.10

The salary for underground coal mine workers varies from RMB3000 / month (Shuishan) to RMB4600 / month (Dayan) with an average of RMB3660 / month. Table 7-4 provides a breakdown in wages costs for each mine.

Table 7-4: Overview of Wage Costs

	Tiechong RMB	Xinghe RMB	Shuishan RMB	Lushan RMB	Dayan RMB
Average wage / month	3000	3500	2700	3600	4500
Management / year	60-200k	60-200k	60-200k	60-200k	60-200k
Development / month	3300	3800	3200	4000	4800
Mine workers / month	3200	3700	3000	3800	4600
Others / month	3000	3500	2700	3500	4500

7.2 Capital Costs

The expansion project and production ramp up will require accumulative capital investment of RMB240 million at the Tiechong, Xinghe, Shuishan, Lushan and Dayan underground coal mines.

Of these amounts RMB45 million will be spent at the Tiechong mine, RMB50 million at the Xinghe mine, RMB45 million at the coal mine at Shuishan, RMB50 million at the Lushan mine and RMB50 million at the Dayan mine. Total capital investment is thus forecasted at RMB240 million.

The capital costs estimated by the company are shown in Table 7-5.

Table 7-5: Forecast Total Capital Investments

	Tiechong (RMB millions)	Xinghe (RMB millions)	Shuishan (RMB millions)	Lushan (RMB millions)	Dayan (RMB millions)
Equipment	18	18	18	18	17
Infrastructure	24	29	24	29	28
Other	3	3	3	3	5
Total	45	50	45	50	50

7.2.1 Sustaining Capital

International practise suggests that sustaining capital cost for a project will require in the range of 3% to 5% per annum of the initial capital expenditure. Therefore in the case of the Guizhou Coal Project, it is likely that sustaining capital requirements will be as shown in Table 7-6.

Table 7-6: Estimated Sustaining Capital Requirements

	Tiechong (RMB millions)	Xinghe (RMB millions)	Shuishan (RMB millions)	Lushan (RMB millions)	Dayan (RMB millions)
Sustaining Capital	3	3	3	3	5
Total	3	3	3	3	5

SRK is of the opinion that the proposed capital expenditure is likely to achieve the aims of the company and result in the forecast production from the five coal mines.

8 INFRASTRUCTURE

8.1 Road Access

The approach road to the Tiechong mine, from the 207 provincial Road, is unpaved and only about 3 m wide. Capacity of the road may be inadequate for the dispatch of 90.000 t / y.

The approach road from Beimang town to the Xinghe coal mine is unpaved and only about 3 m wide. In a few places landslides were observed. The road crosses a brook before entering the mining area.

The access road to Lushan from the nearby town is unsealed and only about 3m wide. Further the Kaili - Lushan road is passing through a few densely populated areas.

The access road to the Shuishan coal mine is unpaved and approximately 3-4 m wide.

The access road to the Dayan coal mine is also unpaved and approximately 5-6 m wide. During the site inspection SRK observed traffic jams of haul trucks proximal to the mine, generated partly by the steep and narrow nature of the road as well as a mechanical breakdown of a truck.

In general, SRK observes that increase in heavy traffic due to increased dispatch from the five coal mines may cause frequent traffic jams and may have adverse impact on the road safety of the area. A few strategically placed road shoulders may ease the traffic problems considerably. Levelling the road gradient (i.e. to 1:15) proximal to the mines should also improve access.

8.2 Electrical Power Supply

At the Tiechong coal mine a dual line 10KV power supply line has been drawn from provincial grid and rural electrification network. Substation is equipped with 2 no 200KVA transformers. The mine plan has provided for 2 Diesel Generator set as auxiliary power source.

At the Xinghe mine a dual line 10KV power supply line has been drawn from the Jiangzhou transformer substation and the rural electrification grid. Substation is equipped with KS9-100/10 transformers. SRK is in favour of provision of Diesel Generator set for ensuring power supply to essential equipments (e.g. main fan, surface).

Power supply at the Lushan coal mine is supplied by dual line 10KV power lines, drawn from the Lushan grid. The substation is equipped with KS9-100/10 transformers. Power supply is somewhat irregular. SRK is in favour of provision of Diesel Generator set for ensuring power supply to essential equipments (e.g. main fan and surface).

The power supply network at the Shuishan mine includes the 10kV dual-circuit rural electric power network from the Majiang and Bibo transformer stations. One 300kW transformer is used for the power supply all day long. One self-contained 3135AD-3 electric generator set is used for emergency. Two transformers KS9-100/10 are installed for stepping down the voltage for underground power supply. For the surface, the S9-80-70 transformer is used. The surface supply voltage classes are 380V and 220V, while the underground supply voltage classes are 160V and 127V. Every supply terminal is equipped with switch room for supplying the power. The total load capacity is 450kW.

The Dayan coal mine is located just 5 km from the Shaopu Distribution Station and 6 km from Agong Distribution station. There is a 10kV dual-circuit rural electric power network. Three 315kW transformers are used for the power supply. One self-contained 3135AD-3 electric generator set is used for underground KS9-100/10 transformation. For the surface, the S9-80-70 transformer is used for the power supply. The surface supply voltage classes are 380V and 220V, while the underground supply voltage classes are 160V and 127V. Every supply terminal is equipped with switch room for supplying the power. The total load capacity is 700kW.

8.3 Water Supply

Consumption of water has been estimated at approximately 15 tonnes / day for domestic use and 30 tonne / day for use in the coal mines. The mines does not have any source of filtered water supply. The workers use stream or brook water flowing through the hills for domestic use. However, mine water generated can be used for industrial consumption.

8.4 Industrial Buildings

Industrial building at the five coal mines include offices, lamp rooms, workshops, stores, fan houses, pit head baths, winch rooms. These buildings may require a face lift for a congenial working atmosphere.

8.5 Accommodation

There are no residential quarters at the Tiechong mine at present. The workers are presently located in the local villages. However, it is proposed to set up a few dormitories at the mine for workers in the future.

Eighty units of 3.6 x 6m dormitory is available for workers at the Xinghe mine. Common toilets are in use. The dormitory also may require facelift to improve the quality of life of workers.

There is a dormitory with 4800 m² area on west of the office at Lushan. Common toilets are in use. The dormitory will require modifications to improve the quality of life of workers.

No residential facilities are presently available at the Shuishan and Dayan coal mines.

8.6 Communication

Mining Telephones are in use for communication between underground and surface. Mobile phones are only communication facility for connecting to outside.

8.7 Medical Facilities

Mine officials informed SRK that a general physician is engaged for rendering medical first aid to the mine workers from a medical service centre. In case of emergency the nearby hospitals are contacted. The company provides all medical insurance to the entire work force.

It is noted that SRK did not observe first aid posts in the mine offices and underground mine areas of any of the five coal mines inspected for this report.

8.8 Workshops and Repair Facilities

A small workshop for small repairs is maintained at the Tiechong mine. In case of major repairs, equipment manufacturers are contracted.

Two workshop of 10 m x 5 m area equipped with gas cutting, welding facilities at Xinghe, for regular repairs and maintenance. In case of major repairs, equipment manufacturers are contracted.

Three workshop of 360 m² space area are maintained in the Lushan mine for regular repairs and maintenance. In case of major repairs, equipment manufacturers are contracted.

The Dayan and Shuishan mines are equipped with repair shops and has a long-term maintenance partnership with specialized maintenance units. The maintenance equipments include lathes, electric welding and gas welding.

9 ENVIRONMENTAL ASSESSMENT

9.1 Environmental Review Objective

The objective of this environmental review is to:

- Identify and/or verify the existing environmental liabilities and risks of Asset Appraisal Ltd.'s Guizhou Coal Operations (AAGC Operations), consisting of Tiechong (Majiang County), Xinghe (Duyun City), Shuishan (Majiang City), Lushan (Kaili City) and Dayan (Zhijin County) Coal Mines; Guizhou, China.
- Where appropriate, make comment and provide advice on potential prevention, management and remediation measures for the identified existing environmental liabilities.

9.2 Environmental Review Scope, Standards & Methodology

Environmental conformance for the AAGC Operations was determined through the review of the project's environmental management performance against:

- Chinese National environmental regulatory requirements.
- World Bank/International Finance Corporation (IFC) environmental standards and guidelines. See Appendix 4.
- Internationally recognised environmental management practices.

The methodology that was applied for this environmental review of the AAGC Operations comprised a combination of document review, site visit and interviews with Company technical representatives. The site visit was undertaken from the 14th to the 20th of March and the 19th to the 20th of April, 2008.

9.3 Environmental Aspects and Management

The AAGC Operations possess the necessary Mining Licenses for operation, but do not as yet have any Environmental Impact Assessments (EIA's), Soil and Water Conservation Plans, Water Resources Augmentation Reports, etc... Environmental, cleaner production, energy efficiency and pollution prevention requirements of the Chinese Government's "Green Development" policies and directives at the time of SRK's site visit did not appear to have been considered in the project design.

The environmental technical review identified a number of environmental issues and problems as relate to the current AAGC Operations not following conditions for construction and operation, as would generally be stated in the governmental approvals (in line with Chinese Environmental Legislation). The operations are also not yet in compliance with Chinese Environmental laws and regulatory requirements for environmental protection.

The environmental technical review identified the following as the most significant potential environmental management liabilities that relate to operation and development of the AAGC operations:

- Acid Rock Drainage (ARD) and metal leaching from stockpiles (waste rock and coal)
- Surface water management and discharges (i.e. stormwater runoff & diversions).
- Groundwater management and discharges (i.e. mine dewatering not treated or collected).
- Rehabilitation of waste rock and coal stockpiles and other disturbed areas.
- Storage and handling of hydrocarbons and explosives.
- Waste generation and management (industrial and domestic wastes).
- No characterization of process waste materials or gangue.
- No monitoring of waste water discharges

- Potential contaminated sites.
- Lack of a structured closure planning process.
- Lack of erosion control measures.

Of the above items, the most significant environmental risks / liabilities for the AAGC Operations are associated with storage and handling of coal and gangue stockpiles and the potential for the generation of ARD and associated metal leaching. Lushan especially was suffering from observed ARD coming from coal and gangue stockpiles and SRK noticed what appeared to be heavy metal leaching also occurring. In addition, the potential for generating contaminated sites and operational closure liabilities through management of hazardous materials and general waste; also presents high environmental risks. In particular, the AAGC Operations have no structured process in place for undertaking contaminated sites assessment and for broader closure planning. No monitoring of discharges or the environmental quality of the receiving waters. The lack of characterization of process wastes is also being of concern.

Appendix 3 summarises the environmental legislative background. The following sections summarise the compliance requirements, and the associated environmental management strategies, for the above significant environmental aspects.

9.4 Licenses, Environmental Impact Assessments and Approvals

Mine Licenses

The AAGC Operations consist of 5 separate underground coal mining projects, each of which operates under a separate mining license.

Tiechong Coal Mine operates under Mining License No. 5200000540313, which covers approximately 1.4km² in the jurisdiction of Majiang City, Guizhou, PRC. This License was issued by the Guizhou Land & Resources Bureau in December, 2005 and is valid until December, 2010. AAGC has stated that there are no environmental non-compliances and/or regulatory penalties issued against the above Mining Licence.

Xinghe Coal Mine operates under Mining License No. 5200000711403, which covers approximately 8.582km² in the jurisdiction of Duyun City, Guizhou, PRC. This License was issued by the Guizhou Land & Resources Bureau in August, 2007 and is valid until August, 2008. AAGC has stated that there are no environmental non-compliances and/or regulatory penalties issued against the above Mining Licence.

Shuishan Coal Mine operates under Mining License No. 5200000540312, which covers approximately 1.28km² in the jurisdiction of Majiang City, Guizhou, PRC. This License was issued by the Guizhou Land & Resources Bureau in December, 2005 and is valid until December, 2010. AAGC has stated that there are no environmental non-compliances and/or regulatory penalties issued against the above Mining Licence.

Lushan Coal Mine operates under Mining License No. 5200000730035, which covers approximately 3.931km² in the jurisdiction of Kaili City, Guizhou, PRC. This License was issued by the Guizhou Land & Resources Bureau in February, 2007 and is valid until December, 2016. AAGC has stated that there are no environmental non-compliances and/or regulatory penalties issued against the above Mining Licence.

Dayan Coal Mine operates under Mining Licence No. 5200000711044, which covers approximately 1.763km² in the jurisdiction of Zhijin County, Guizhou, PRC. This license was issued by the Guizhou Land & Resources Bureau in May, 2007 and is valid until May, 2008. AAGC has stated that there are no environmental non-compliances and/or regulatory penalties issued against the above Mining Licence.

Environmental Impact Assessments (EIA's)

None of the AAGC Operations 5 coal mines have as yet conducted an EIA for their projects and so do not have governmental approval and assigned conditions (Environmental protection and management) for legal operation under Chinese regulatory requirements. AAGC and the Guizhou provincial government are aware of this and assessments for preparation on the EIA report are underway at the behest and direction of the Guizhou Environmental Protection Bureau (EPB). AAGC stated these EIA reports along with their Guizhou EPB approvals shall be ready by August, 2008. Standard key approval conditions (as are normally stated within Chinese EPB approval documents) relate to projects being constructed as per location, nature, scale, construction mode and environmental protection measures stipulated in the EIA. The projects must follow the principle of implementing environmental protection measures concurrently with project construction and operation.

AAGC Operations are (at the time of this report) still in an expansion phase and have yet to complete their final check and acceptance for the project's environmental protection measures as will be stated in their EIA's (and the EIA governmental approval) to be able to begin compliant formal operation (i.e. yet to receive the formal final approval to operate from the Guizhou EPB).

The main environmental protection requirements that will need to be fulfilled (according to general Chinese standards are as follows;

- All preventive safety measures specified in the EIA reports of current safety situation of the project shall be seriously carried out.
- All environment control measures, water and soil conserving measurements and preventive safety measures shall be simultaneously designed, implemented and put in operation with the main works.

- Rehabilitation of the vegetative landscape of the mine area and dressing plant shall be properly carried out along with a greening program to build a beautiful working environment.

9.5 Land Disturbance and Rehabilitation

Mining operation of the coal mine will occupy some land in the assessment area. The elimination of surface vegetation will cause area of the land to be reduced, as well as cause degeneration of the steppe. After the mine reaches a certain service life, due to the impact of mining operation, the ground surface within the range of the coalfield will be subjected to subsidence and deformation of different degrees. Pits resulting from surface subsidence may hold a large amount of rainwater during rainy season. After a long time, these may become bogs. This type of change in the landscape will reduce the area of the land, eliminate vegetation on the ground surface and change the existing manner of land utilization.

AAGC was able to provide estimates detailing the areas of disturbance for the various facilities (mine, processing plant, roads, buildings, etc...) of their coal mining operations in Guizhou. The total area of all operations is 16.95km² (as defined by mining license areas). The areas of each operational section are listed below in Table 9-1.

Table 9-1: Land Disturbance Areas for AAGC Operations Coal Mines

Mines Areas	Tiechong	Xinghe	Shuishan	Lushan	Dayan
Mining License Area	1.40km ²	8.58km ²	1.28km ²	3.93km ²	1.76km ²
AAGC Stated					
Mining Area	2.91km ²	13.54km ²	2.87km ²	3.93km ²	1.76km ²
Total Land Occupied	9,980m ²	17,600m ²	11,240m ²	17,600m ²	32,000m ²
Coal Stockpile	6,900m ²	12,000m ²	6,000m ²	10,000m ²	21,000m ²
Waste Rock Stockpile	600m ²	1,000m ²	1,800m ²	2,200m ²	3,200m ²
Offices	800m ²	1,800m ²	640m ²	600m ²	3,000m ²
Accommodation	1,680m ²	2,800m ²	2,800m ²	4,800m ²	4,800m ²

AAGC have stated total areas for mining (Shuishan, Tiechong and Xinghe) that exceed current mine license areas. AAGC is planning to extend their operations and are in the process of obtaining new licenses to cover these areas, but cannot legally commence operations until they received the new mining licenses covering those areas. The predominant land use of the surrounding area is agriculture and the AAGC Operations are situated either beside this agricultural land or in mountains surrounding them. No estimation or calculation of land and vegetation disturbance has been investigated by AAGC.

There was no information regarding land rehabilitation provided for review and no basic commitments were stated by AAGC regarding rehabilitation. No actual assessment of the suitability of these final land uses has been conducted. No information has been provided

regarding rehabilitation of other disturbed areas. When AAGC receives their EIA's, these should provide a framework for conducting rehabilitation, developing progressive rehabilitation and final closure / rehabilitation plans. The EIA's governmental approvals should state legal compliance measures and rehabilitation requirements stipulated for each mine. SRK cannot at this stage comment on these measures and requirements without reviewing the EIA's and their approvals.

Since construction of this project will occupy a certain part of the land and result in a change to the land use configuration in the area, and the mining operations may cause ground subsidence, all these may degrade the productivity of the regional natural system. Therefore, SRK recommends that necessary ecosystem protection measures should be adopted, which mainly include the prevention of water loss and soil erosion as well as greening of the sites.

SRK recommends that management should be strengthened during construction and operation of the project mines and efforts should be made to minimise land and vegetation disturbance. Soil excavated during the construction should be properly stored in order to minimize disturbance to the land, thus, controlling water loss and soil erosion. General Chinese recommended site greening measures are:

- In the production area, shrubs and arbors should be planted to form isolating forest belts for minimising coal dust pollution and diffusion according to characteristics of the production facilities of the various types.
- The office and living quarters should focus on environment beautification, where hedgerows should be planted in addition to provision of flower beds and planting of lawns, etc.
- Greening of roads should focus on planting of arbors. Suitable tree species should be chosen for mixed planting of multiple tree species, in order to form green belts along the road.

9.6 Waste Rock / Gangue Management

Solid wastes produced during development and production of the AAGC Operations mainly include waste rock. During operation of these mines, gangue will be produced. Under the State's Solid Wastes Control and Planning Principle: a combination of comprehensive utilization with reasonable disposal, with comprehensive utilization prioritized; combination of prevention with control, with prevention prioritized; strengthened management in an effort to minimize the environmental and ecological problems brought about by solid wastes.

Coal gangue is an inevitable product in the process of coal mine production, and its damages to the environment include: spontaneous combustion of gangue, land occupancy due to storage of gangue as well as pollution to the soil and surface water after rain. Therefore, proper measures must be taken to deal with these problems.

1. Effective precautionary measures such as lime grouting and loess coverage, etc. shall be given to combustible gangue heaps.
2. Recovery of contaminated and unrated coal in order to reduce combustible substances in the gangue heaps, eliminating the possibility of spontaneous combustion of the gangue heaps.
3. Comprehensive utilization of gangue according to its chemical compositions. For example, the production of building materials such as gangue bricks and cement, etc., power generation or backfill of surface collapsed area or road construction by using low-calorific fuels.

AAGC had only a basic idea of the amounts of waste rock being produced at site, but was able to provide some rough estimates. AAGC stated, Dayan has produced 20,000 tonnes of waste rock in total and is currently not generating waste rock. Lushan currently produces around 4-5,000t/a of waste rock and expects to produce 15,000t/a after the expansion is completed. Shuishan produces about 6,000t/a of waste rock. Tiechong was stated to produce basically no waste rock and Xinghe around 6-7,000t/a of waste rock. Waste rock that has been generated at these sites has been reported so far to be used for road improvement and maintenance, to build level working areas, used by locals as construction material and stockpiled.

There has been no geochemical assessment of the waste rock and its potential for ARD and metal leaching. ARD was observed from the waste rock stockpiles at Lushan. It appeared to be a well developed and significant problem with the resulting drainage flowing directly into local water channels. Worker residences were also located in the middle of this drainage channel and the discharge point from the site drained into local agricultural fields. Vegetation at the Xinghe minesite was exhibiting effects of impacts from possible acid soils on its growth, while actual ARD was not observed itself. Considering the similarities between the mine conditions and waste rock there is potential for ARD and associated metal leaching to occur at the other mines, as it has at Lushan. SRK recommends conducting an ARD assessment on the waste rock at each of the 5 mines to define the potential for ARD to occur and possible, prevention, mitigation, control measures to limit any possible impacts derived from the ARD and metal leaching. A contaminated sites assessment would need to be conducted for the Lushan site to define the extent of the impact and detail appropriate remediation measures to alleviate the current effects of ARD on the environment.

Standard prevention measures as, are generally stated in coal project EIA's are:

- To prevent gangue from polluting the environment, gangue should be covered with soil and afforested, beautifying the environment and eliminating its negative impact on the environment due to spontaneous combustion of the gangue and rainwater eluviations.

- Storage conditions must comply with the national standard “Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes” (GB18599-2001).

9.7 Groundwater and Surface Water

AAGC Operations have previously made no measurement or calculated estimates of water usage and wastewater discharges involved with the 5 coal mines. Most of the mines were reported to have little or no need for mine dewatering due to the lack of groundwater in the mine workings. Xinghe and Lushan did estimate mine dewatering rates of 4-5t/d and 1-2m³/d, respectively. Most of the water requirements of the mines were for domestic use as there was no coal processing or washing operations associated with any of the mines and therefore AAGC stated actual water usage was small.

There were no controls in place at any of the 5 coal mines to control impacts to the environment from surface wastewater discharges. There were no treatment or collection facilities in operation and there had also been no monitoring of wastewater emissions. AAGC stated the local EPB had visited their operational sites and gave notice to AAGC that they must upgrade their wastewater discharge system and install a series of sedimentation ponds to at least settle out solids before water is released from site. No mention of other treatment requirements was forthcoming. Without EIA assessment recommendations and governmental approval’s operational compliance conditions, the level of required treatment and associate possible liabilities is currently unknown. ARD and associated metal leaching is also a potential problem for the AAGC Operations and is already impacting on the environment and water quality at Lushan mine. Effective measures will need to be introduced to mitigate the effects of this acid drainage and prevent the development of conditions in the future that will lead to acid drainage.

During SRK’s site visit there was no evidence of surface water runoff diversions or other surface and ground water control / management measures in place. SRK recommends, surface workings should employ diversion drainage systems to control surface water to reduce erosion and impacts upon water quality. Government directives on environmental protection stipulate these surface water management measures are to be implemented at the same time as surface workings are developed. The processing plant’s diversion and collection drains were insufficient and are in need of better planning and implementation to divert surface water and collect drainage water from the mine operations to be compliant with the normal project’s environmental approval conditions that are generally stipulated.

Government directives for the purpose of prevention of pollution, protection of water bodies and reasonable utilization of water resources, the priority principle for water pollution control is to improve the reuse of wastewater, using the wastewater as a resource. Wastewater produced during development and operation of the mine mainly includes: production drainage wastewater and domestic sewage discharges from the industrial site and the administrative and welfare districts of the mine as well as mine water.

9.8 Hazardous Materials

The hazardous materials that will be utilised within the AAGC Operations comprise diesel and oils for mobile plant and explosives.

Explosives and detonators were stored separately in the above ground purpose built storehouses. Explosive and detonator boxes need to be kept in a storehouse which is well ventilated, spray water-free and perfectly supported and shall be kept away from electrically charged bodies to meet Chinese standards. All the explosives storehouses for AAGC Operations 5 mines were within the 300m minimum distance from nearest building governmental regulation. Only at Shuishan did they have plans to relocate the storage to secure, compliant location.

Oil (diesel and motor) stored on site did not have no secondary containment at the time of the site investigation. Motor oil and lubricants were stored ad-hoc about the processing plants on bare ground. The storage and handling of hydrocarbons within the AAGC Operations does not conform to the Chinese standard “*General Storage Regulations of Dangerous Chemicals in Common Use*” (GB15603-1995) or international industry standards (e.g. Australian Standard *AS1940-2004: The storage and handling of flammable and combustible liquids*).

9.9 Air Emissions

9.9.1 Dust Generation

General Chinese regulations require dust suppression measures to be adopted during coal production, storage and transportation. AAGC stated water spray dust suppression will be applied to road sections with heavy traffic. For open storage, water spray humidification measures among others will be adopted to increase surface humidity of the coal dumps, and natural wind protection green belts will be maintained.

SRK did not observe any large dust generation sources during the site visit, although AAGC did state dust to be more of a problem during the dry season. To control fly dust generated by vehicular transportation in the mining area, roads in the mining area should be hardened. Meanwhile, the road surfaces should be kept clean and a certain moisture if not sealed; coal transportation vehicles must be covered with canvas and the amount of load should also be controlled.

After the ROM coal has been extracted from the mine it is transported from the shaft portal to the coal yard, periodic water spray dust suppression shall be carried out. This measure may serve to reduce the emission of coal dust, alleviating pollution to the environment. The following measures should be adopted in places that are susceptible to coal dust during handling of ROM coal:

- Set up a sealed and banded ROM coal stockyard
- Increase moisture content of the ROM coal
- Reduce coal loading/unloading height, etc.

For disposing of boiler cinder, care should be taken to prevent secondary pollution due to fly dust, and water spray device must be provided for dust suppression if necessary.

9.9.2 Gas Emissions

The primary source of gas emissions for the AAGC Operations comes from machinery, vehicles, heating boilers and mine gas ventilation. The amounts of gases produced from these sources are small due to the relatively small scale of the operations. The coal mines themselves are low gas mines and emissions are via mine ventilation. Power is supplied from the local grid and therefore, the amount of gaseous atmospheric pollution should be below the Category II standard for the “*Comprehensive Emission Standard of Atmospheric Pollutants* (GB16297-1996)”. No gas emission monitoring requirements have yet been stated as the projects have not yet conducted their required EIA’s. No measure of actual emission levels and concentrations has been stated to have been undertaken and no monitoring data was available to be provided for review.

9.9.3 Greenhouse Gas Emissions

There is no Chinese National legislative requirement for the project to estimate its Greenhouse Gas emissions or to implement any emissions reductions. As such none of the project environmental assessment documentation reviewed address the issue of Greenhouse Gas emissions. However, energy efficiency and the reduction of Greenhouse Gas emissions are now considered as Chinese National policy directives. In addition, these are also components of IFC environmental requirements and are considered as internationally recognised environmental management practices. Therefore, initiatives to account for such emissions would be beneficial to the operation.

Methane gas is present within the mines, although they are low gas mines. Methane is vented along with other gases present, but there is no actual measurement of the emission levels.

9.10 Waste Management

9.10.1 Waste Oil

Waste oil is generated through the maintenance of mobile and fixed plants. No designated waste oil collection and management facilities were observed during the site investigation. AAGC stated at most of the 5 mines waste oil is used as lubricant on the trolley decline winch, they have no other plan for dealing with waste oil / grease at the present time. Although relatively little is being produced, SRK recommends the collection

and sale of waste oil / grease for recycling and reuse in line with Chinese state directives on the comprehensive reuse and recycling of waste products. At the Dayan mine staff stated this was the practice for waste oil, but SRK was not able to verify this statement, as no receipt of sale was provided for review.

It is worth noting that the IFC requirements and internationally recognised environmental management practice with regards to waste oil is to explore commercial alternatives for environmentally sound disposal, recycling or reuse. The management of waste oil at the AAGC Operations by reusing it as lubricant on the winch and sale for recycling fulfils these requirements.

9.10.2 Solid wastes

The proposed project will produce solid wastes during construction and operation, which mainly includes construction and domestic garbage. Long-time storage of the garbage will give rise to fly dust, which will also interfere with the construction work and operation of the mine. Therefore, it is necessary to have a proper disposal of such garbage. A construction garbage disposal site should be applied for at the urban construction authority, where the garbage should be properly stored. AAGC was not able to estimate the amount of domestic garbage that is generated at the various mines. Some scrap iron was also evident about site, which AAGC claimed they recycled.

The standard practice in relation to garbage disposal at the AAGC Operations was ad hoc at best, with rubbish dumped everywhere about the sites. Of particular concern is the practice of throwing rubbish into the drainage channels and waterways. An appropriate number of garbage bins should be placed in the main buildings in the industrial ground and other operating positions for collection of garbage, and then it should be removed by the local council if such infrastructure services are available; if not then purpose built landfills should be constructed for long term disposal of the rubbish. Organic refuse can be composted at site for use as fertilizer for improvement of the soil fertility around the site or on nearby farmlands.

9.10.3 Sewage and Oily Waste Water

Sewage generated on site will come from dry composting ablutions at site and the waste after composting is said by AAGC to be periodically used as soil conditioner by surrounding farms. A number of these facilities though were observed to be right on drainage channels and during rainfall events compost could easily be washed into the streams. Sewage wastewater produced is minimal at site and is reportedly used for greening around the site. AAGC was not able to provide any estimates regarding the quantity of sewage or grey water for their mining operations.

The management of oily wastewater/wash-down wastewater has not been addressed by AAGC for their mining operations. The washing of mobile equipment currently occurs without any containment or collection measures. The project employs no oil/water separation equipment. Containment of processing plant drainage was not sufficient and drainage from the site working areas to the surrounding environment has not been protected against. Hydrocarbons have not been monitored. Untreated discharge of oily wastewater/wash-down wastewater is not in line with Chinese or international industry standards and practices. Any wastewater generated at site needs to comply with Class I criteria of the *Integrated Emission Standard of Wastewater* (GB8978-1996).

9.11 Noise

The noise from the mine equipment mainly refers to the noise from the diesel air compressors, conveyor operations and vehicles during loading/unloading and transportation of the ore. The AAGC Operations by implementing noise reduction equipment and operational strategies, noise levels can comply with the Class II daytime Standard of the “Standard of Environmental Noise of Urban Area” (GB3096-93) and the class II Standard of the “*Standard of noise at boundary of Industrial Enterprise*” (GB12348-90).

9.12 Environmental Management & Monitoring Plans

The purpose of an environment management and monitoring plan (EMMP) is to provide information, results and feedback on a project’s environmental performance, based on features of the construction project especially the potential negative environmental impacts of the project once it is operational and their corresponding environment protection measures. After the project is put into operation, the data obtained from monitoring should be utilized to evaluate pre-estimated environmental impacts, and shortcomings in environment protection measures. These measures can then be corrected and modified to prevent degradation of the environment and to assure sustainable economic development. Currently, the AAGC Operations do not have any environmental protection, management or monitoring plan to manage the environment and protect against impacts to it from mining and associated operations.

The largest obstacle to effective protection of the environment at the AAGC Operations is due to the ineffective management systems, technical capacity and the lack of effective measures to prevent, mitigate and control impacts upon the site and surrounding environment. SRK recommends these dedicated staff be assigned to manage environmental protection measures, implementing them in line with site conditions and circumstances as they presently exist (and arise in the future) and be appropriately resourced / financed to conduct such work, with access to technical expertise and advice as required.

9.13 Contaminated Sites Assessment

There is no documented contaminated sites assessment process for any of the AAGC Operations coal mines. Observed during the site investigation were areas susceptible to becoming contaminated sites where coal has been stockpiled and hydrocarbons are being stored. These areas were unlined and uncontained upon open ground. Mine dewatering is also being discharged directly above ground with no collection or treatment facilities which could also lead to the development of contaminated sites. Drainage was seen to be discharged into local drainage systems. As there has been no chemical characterization of other elements in the coal or gangue besides sulphur and ash content, the potential for these sites to be contaminated is not known, hence SRK recommends assaying these materials to understand their potential risks along with constructing containment facilities.

SRK recommends upgrading bunds around storage sites for concentrates, oils and wastes and building hardstand areas for maintenance work. A contaminated sites assessment should also be conducted for suspect areas and an assessment process for continued management should be implemented.

9.14 Evaluation of Environmental Risks

The sources of inherent environmental risk for the AAGC Operations are project activities that may result in potential undesirable events/environmental impacts. These project activities have been previously described within this report. In summary the most significant environmental risks for the AAGC Operations are associated with storage and handling of coal and gangue stockpiles. ARD and metal leaching has already been observed at the Lushan mine and similar conditions exist at other mines also, such that they risk similar impacts. Considering worker residences and their families and children have historically been within these drainage channels through the mines, this also represents a social risk. Residences need to be moved outside the zone of contamination to address this social liability effectively.

In addition, the potential for generating contaminated sites and operational closure liabilities through management of hazardous materials and general waste; also presents high environmental risks. In particular, the AAGC Operations have no structured process in place for undertaking contaminated sites assessment and for broader closure planning. The storage of explosives also presents a risk at some of the operations, as at some of the mines the storehouses were within the minimum 300m from nearest building governmental regulation. AAGC had shown acknowledgement of this fact and had plans at most of the mines to move the explosives storehouses to a more secure / safe location.

Generally all of the above high environmental risks are able to be reduced through application of appropriate remedial/risk management measures; including implementation of a comprehensive and appropriately resourced, operational environmental monitoring and management plan for the AAGC Operations.

9.15 Site Closure Planning

A component of World Bank/IFC and internationally recognised environmental standards and practices, is that a site closure planning process be developed and implemented, and that an operational Closure Plan is documented to guide this process. This closure planning process should include the following components:

- Identify all site closure stakeholders (e.g. government, employees, community etc.).
- Undertake stakeholder consultation to develop agreed site closure criteria and post operational land use.
- Maintain records of stakeholder consultation.
- Establish a site rehabilitation objective in line with the agreed post operational land use.
- Describe/define the site closure liabilities (i.e. determined against agreed closure criteria).
- Establish site closure management strategies and cost estimates (i.e. to address/reduce site closure liabilities).
- Establish a financial accrual process for site closure.
- Describe the post site closure monitoring activities/program (i.e. to demonstrate compliance with the rehabilitation objective/closure criteria).

The AAGC Operations do not have in place a closure planning process in line with the above components. No other information on closure requirements is mentioned or plan for closure has been presented for review at this time.

9.16 Site Rehabilitation and Closure Cost Estimates

Impact's of the coal mine's construction on the ecological environment in the project area is inevitable. These impacts may be long-term or short-term, which may be reduced and eliminated by means of ecosystem rehabilitation technologies. The main task of coal mine ecosystem rehabilitation is to take remedial measures to restore the land damaged due to excavation, collapse and occupancy, etc. occurring as a result of construction and production. Mine owners should raise funds actively for the rehabilitation of the damaged land. In addition, land rehabilitation may be carried out in the form of forest restoration in order to alleviate the degree of local soil erosion, favourable for rapid restoration of local ecological environment.

For a better land restoration programme, the mine owners could set up an Environmental Department, which shall be responsible for the land rehabilitation works of the entire mine and actively engaged in land restoration activities. Main responsibilities of this administrative office should include the following:

- (1) Responsible for the design contract to be signed for land rehabilitation plan. A qualified design institute should be commissioned to compile a land restoration plan, which shall then be submitted to the land administration department for approval. After obtaining the approval, this department shall be responsible for its implementation.
- (2) Responsible for making a work plan for land restoration program. Land use status of the land to be impacted should be investigated according to the mine production plan and arrangement as well as status of the underground working face, for which a record should be maintained. Prepare a rehabilitation plan according to the forecast of ground surface displacement and deformation as well as areas of land actually affected or damaged.
- (3) Responsible for measurement, registration as well as payment of compensation for land loss with respect to the land damaged, which will be submitted as a part of the handover formality after restoration completes as well as a part of the formality for land acquisition.

At the time of SRK's site visit, no site rehabilitation and closure cost estimates had been completed for the AAGC Operations.

Indicative site closure costs can be developed as a component of a Preliminary Site Closure Plan (i.e. the site's closure criteria and associated closure liabilities will be determined as part of this process). This process will determine (through stakeholder consultation), the site's closure criteria and associated closure liabilities. It can be assumed that the decommissioning costs of the site infrastructure may be off-set through either the sale or redeployment of assets. Indicative site rehabilitation and closure measures can then be developed along with cost estimates for their implementation.

9.17 Conclusions & Recommendations

The environmental technical review identified a number of environmental issues and problems as relate to the current AAGC Operations not following conditions for construction and operation, as would normally be stated in the project's EIA's and governmental approvals (had they been completed already) and general Chinese National directives on Environmental Protection and Pollution Abatement. The most significant potential environmental management liabilities that relate to the operation and development of the current AAGC Operations are:

- Surface water management and discharges (i.e. stormwater runoff & diversions).
- Groundwater management and discharges (i.e. mine dewatering not treated or collected).
- Rehabilitation of waste rock and coal stockpiles and other disturbed areas.
- Storage and handling of hydrocarbons and explosives.
- Waste generation and management (industrial and domestic wastes).

- No characterization of process waste materials or gangue.
- No monitoring of waste water discharges
- ARD and Potential contaminated sites.
- Lack of a structured closure planning process.
- Lack of erosion control measures.

Of the above items, the most significant environmental risks for the AAGC Operations are associated with storage and handling of coal and gangue stockpiles and the potential for the generation of ARD and metal leaching is of concern, considering ARD has already developed at the Lushan coal mine, including the lack of characterization of process wastes. In addition, the potential for generating contaminated sites and operational closure liabilities through management of hazardous materials and general waste; also presents high environmental risks. In particular, the AAGC Operations have no structured process in place for undertaking contaminated sites assessment and for broader closure planning. No monitoring of discharges or the environmental quality of the receiving waters.

It is recommended that comprehensive operational environmental monitoring and management plans for each project be developed and implemented to address the identified environmental risks. These plans should be appropriately resourced and their implementation documented. In particular, consideration should be given to the implementing the following environmental management measures:

- Water monitoring and management program focusing on mining, waste rock and coal stockpile facilities.
- Upgrade storage and handling of hydrocarbons and chemicals as per design (i.e. properly designed and managed secondary containment storage facilities).
- Undertake contaminated sites assessment for areas where there is potential for contamination (e.g. uncontained hydrocarbon/chemical storage areas).
- Develop a site closure planning process that identifies and quantifies potential closure liabilities (e.g. contaminated areas), and implements remediation measures for these liabilities.
- Construct and maintain the mine dewatering waste water drain and sedimentation pond to ensure proper working conditions.
- Soil stripped as overburden be stockpiled (in piles less than two metres in height) in a suitable place (with diversion drains) for later use in rehabilitating the site.
- Diversion drains be constructed around the sites and roads.
- Construct and maintain diversion drains around the site to ensure adequate diversion of surface water flows.

10 MAJOR CONTRACTS AND AGREEMENTS

10.1 Mining contracts

SRK is not aware of any significant contracts at Tiechong, Xinghe, Shuishan, Lushan and Dayan underground coal mines.

A summary of the current coal purchaser from the five mines are provided in Table 10-1, whereas Table 10-2 provides a summary of current and projected coal prices.

Table 10-1: Summary of Current Coal Purchasers

Tiechong	Xinghe	Shuishan	Lushan	Dayan
Kaili Power Station	Kaili Power Station	Kaili Power Station	Kaili Power Station	Anshun Fertilizer Plant
Duyun Chemical Plant	Duyun Cement Plant	Duyun Ruian Cement Plant	Kaili Cement Plant	Anshun Power Station
Duyun Cement Plant		Kaili Power Station	Yangguang Aluminium Plant	Dafang Power Station
			Kaili Fertilizer Plant	Anshun Fertilizer Plant

Table 10-2: Summary of Current and Forecasted Coal Prices

	Tiechong RMB/t	Xinghe RMB/t	Shuishan RMB/t	Lushan RMB/t	Dayan RMB/t
FC present	360	300	360	340	380
LC present	450	450	480	400	480
FC 2009 Forecast	400	330	390	370	420
LC 2009 forecast	500	500	520	450	520

FC: Fine Coal, LC: Lump Coal

10.2 Supply contracts

Supplies of consumable materials such as diesel fuel and underground wood support are generally purchased at market prices on short terms contracts (i.e. less than 12 months).

10.3 Labour Relations

The majority of the workforce at the five coal mines is employed on long-term contracts. Other workers usually sign a contract with the company with a three year term. Both types of contracts require a renegotiation at the end of the term.

As described above, the mining workforce is employed on contract terms and labour relations have been reliable.

11 SOCIAL ASSESSMENT

11.1 Social and Community Interaction

Around the AAGC Operations there is a lack of well developed industries, and the main mode of employment is in agriculture. Education and training facilities are also lacking in the area, such that AAGC Operations offer more employment options and trains people with a skill at the same time. No social assessment of the residents surrounding the project areas before the mines began operating has been conducted. AAGC stated there was community support for the project as with little previous industry developed in the area, locals felt the project would be advantageous to the development of the local economy, but could not provide any documentation to support this assertion.

Positive effects to the surrounding local communities are mainly in the form of direct employment of local contractors and the use of local suppliers/service providers where practical. As operation of the project and capacity of the company increases, more employees may be needed.

No records of public complaints in relation to the activities of AAGC Operations were sighted as part of this review.

11.1.1 Cultural Minorities and Heritage

Around AAGC's 5 coal mines there are large numbers of various ethnic minorities, AAGC provided details on the population matrix as follows:

- Dayan Mine local population comprises 50% Han, 40% Miao and 10% Yi and Dong peoples.
- Lushan Mine local population comprises 75% Miao and 25% Han peoples.
- Shuishan Mine local population comprises 60% Han and 40% Miao peoples.
- Xinghe Mine local population comprises 90% Buyi and 10% mix of other ethnicities.
- Tiechong Mine local population comprises 70% Han and 30% Miao, Shui and Dong peoples.

Many of these people have the opportunity to gain employment either directly with the mines or via supplying a service to the mines.

There are no cultural heritage sites reported around the AAGC Operations sites. No records of cultural heritage sites located within or near the project area, were sighted as part of this review.

11.2 Relationship with Local Government

The AAGC Operations have a close relationship with the local Guizhou County Governments, evidenced by the following:

- Electrical power for the site is currently sourced from the local County grid.
- The County's directive to develop and make use of coal resources prevalent in the area.
- The project driving the local economy and tax benefits to the government itself.
- Verbal statement from AAGC.

12 RECOMMENDATIONS

SRK strongly recommends the commencement of a JORC compliant drilling program at Tiechong, Xinghe, Shuishan, Lushan and Dayan in order to confirm the continuity of the Permo-Carboniferous target seams along strike as well as down dip. The drill holes should be geophysically logged with a coal combination sonde (caliper, density, and gamma). The drill holes will in turn provide critical information for the future planning of underground mining operations.

At the Tiechong coal mine the instability of hill slope might be due to subsidence over caved out areas, which calls for review of mining method even with reduced recovery of resource. Safety of workers may be endangered due to roof collapse owing to unstable immediate roof strata and coal seam.

At Xinghe the mine development plan is short term and based on local experience. The instability of the hill slope due to subsidence over caved goaf, has been manifested by landslide seen while approaching the mine. Further instability is expected as the goaf area is increased in future. Major landslide may cause danger to the villages or other infrastructure on the lower elevation of the hill slope. No organization for survey work maintained in the mine. Survey work is done on contract basis in every half year. Mine plans are not updated. This may result in undesired developments endangering safety of the mine.

At the Lushan coal mine No mine plan for life of the mine has been prepared. The mining development is being done based on local experience and not on scientific mining practice. This is manifested in the infructuous construction work done in the eastern boundary. No organization for survey work maintained in the mine. Survey work is done on contract basis in every half year. Mine plans are not updated. This may result in undesired developments endangering safety of the mine. No

RMR study for overlying and underlying strata of coal seam has been undertaken. Support designs are based on local experience. This may be adequate for development faces but for longwall panels it may become grossly inadequate. As the mining area is hilly, subsidence may cause instability of the hill slopes. A review of the method of workings may be required. Generated by the explosive nature of the coal dust at Lushan, SRK recommends adopting the international practise of stone dusting in order to reduce the risk of underground explosions.

The safety records show no major accidents. However, safety standards are clearly not up to the mark particularly regarding ventilation and gas monitoring. The lack of dust suppression measures, facility for safe and comfortable travelling, and safety features of haulage tracks needs to be addressed.

The approach roads to all five mines will need to be revamped for smooth dispatch of coal products as production ramps up.

13 REFERENCES

115th Geological Brigade of Guizhou Province: *Dayan Coal Mine in Shaopu Town, Zhijin County, Guizhou Province, Resource Reserve Verification Report*, June 2007.

6th Geological Brigade of Guizhou Province: *Lushan Coal Mine in Shaopu Town, Zhijin County, Guizhou Province, Resource Reserve Verification Report*, August 2007.

101th Geological Brigade of Guizhou Province: *Shuishan Coal Mine in Bibo Town Majiang County,, Resource Reserve Verification Report*, September 2007.

101th Geological Brigade of Guizhou Province: *Tiechong Coal Mine of Xianchang Village,, Majiang County, Resource Reserve Verification Report*, September 2007.

Diesel, C.F.K.: *Utility of coal petrology for sequence-stratigraphic analysis*, International Journal of Coal Geology, Vol x, xx. p. xxx-xxx, 2006.

Global Physics and Chemistry Perambulation Institute of the Geological and Mine Exploitation Bureau, Guizhou Province: *Xinghe Coal Mine, Resource Reserve Verification Report*, August 2007.

Isozaki, Y., and Ota, A.: *Middle-Upper Permian (Maokouan-Wuchiapingian) boundary in mid-oceanic paleo-atoll limestone of Kamura and Akasaka, Japan, Proc. Japan Acad.* Vol 77, p. 104-109, 2001.

Li, S., Mooney, W.D. and Fan, J.: *Crustal structure of mainland China from deep seismic sounding data*, Tectonophysics, Vol 420, p. 239-252, 2006.

Liu, H. and Zhang, G.: *On the Micro-Rift of South China*, Journal of Geosciences of China, Vol 4, 1. p. 25-29, March, 2002.

Meng, Q., Wang, E. and Hu, J.: *Mesozoic sedimentary evolution of the northwest Sichuan basin: implication for continued clockwise rotation of the South China block*, Geol. Soc. Amer. Bull, Vol 117, p. 396-410, 2005.

Michaelsen, P: *Mass extinction of peat-forming plants and the effect on fluvial styles across the Permo-Triassic boundary, Bowen Basin, Australia. Palaeogeography, Palaeoclimatology, Palaeoecology*, vol. 179, p. 173-188, 2002.

Reinhardt, J.W.: *Uppermost Permian reefs and Permo-Triassic sedimentary facies from the southeastern margin of Sichuan Basin, China*, Facies, Vol 18, 1. p. 231-287, December, 1988.

Appendix 1: Chinese Resource and Reserve Standards

GLOSSARY OF TERMS AND ABBREVIATIONS

°	degrees
°C	degrees Celsius
cm	centimetre/s
gm / cc	grams per cubic centimetre
JORC	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004)
JORC Committee	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
K	Cretaceous strata
km	Kilometre/s
km ²	square kilometre/s
m	metre/s
MJ/kg	Mega joules/kilogram
mm	millimetre/s
Mt	Million tonne/s
P	Permian strata
Q	Quaternary strata
SRK	Steffen Robertson and Kirsten (Australasia) Pty Ltd trading as SRK Consulting
T	Triassic strata
WTB	Wampoo Tuff Bed (Early Late Permian)

CATEGORISATION OF MINERAL RESOURCES AND ORE RESERVES

The system for the categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence - Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form “123”. This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system. However, estimates and feasibility studies carried out before 1999 will have used the old system.

A broad comparison guide between the Chinese classification scheme and the JORC Code Resources is presented in the following table.

JORC Code Resource Category	Previous System	Chinese “Reserve” Category Current system
Measured	A	111b, 121b, 2M11, 2M21, 2S21, 331
Indicated	B	2M22, 122b, 112, 112b, 2S11, 2S12, 2S22, 332
Inferred	C	113, 113b, 123, 123b, 333
Unclassified under JORC	D	334

A broad comparison guide between the Chinese classification scheme and the JORC Code Resources is presented in the following table.

JORC Code Reserve Category	Chinese Reserve Category
Proven	111
Probable	121, 122

RELATIONSHIP BETWEEN JORC CODE AND THE CHINESE RESERVES SYSTEM

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum ‘industrial’ or ‘economic’ grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C & D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent “JORC Code type” category. The traditional Categories B, C & D are broadly equivalent to the ‘Measured’, ‘Indicated’, and ‘Inferred’ categories that are provided by the JORC Code and USBM / USGS systems used widely elsewhere in the world. In the JORC Code system the ‘Measured Resource’ category has the most confidence and the ‘Inferred’ category has the least confidence, based on the increasing levels of geological knowledge and continuity of mineralisation.

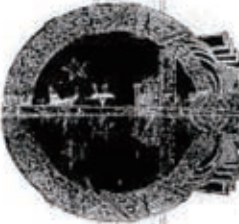
With regards to the new Chinese Category Scheme, as shown in the following table, the three numbers refer to economic, feasibility/mine design and geological degrees of confidence.

Definition of the new Chinese Category Scheme

Category	Denoted	Comments
Economic	1	Full Feasibility Study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in “2” by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping etc
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which projected throughout the area
	4	Review stage

Appendix 2: Mining Licenses

1. Tiechong
2. Xinghe
3. Shuishan
4. Lushan
5. Dayan



中华人民共和国 采矿许可证

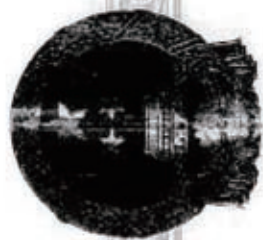
(正本)

证号: 5260000540312

采矿权人:	麻江县碧波乡永山煤矿	开采矿种:	煤
地址:	麻江县碧波乡叉诗村	开采方式:	地下开采
矿山名称:	麻江县碧波乡永山煤矿	生产规模:	3.00万吨/年
经济类型:	私营企业	矿区面积:	1.28平方公里
有效期限:	伍年 自 2005年12月至 2010年12月	矿区范围:	(见副本)


 二〇〇五年十二月十四日

中华人民共和国国土资源部印制



中华人民共和国

采矿许可证

证号: 52000000711403

(正本)

采矿权人: 贵州都匀市兴和矿业有限公司(边传哲)

地址: 贵州都匀市摆忙乡

矿山名称: 贵州都匀市兴和矿业有限公司兴和煤矿(整合)

经济类型: 有限责任公司

有效期限: 自 2007年8月 至 2018年8月

开采矿种: 煤

开采方式: 地下开采

生产规模: 9.00万吨/年

矿区面积: 3.5818平方公里

矿区范围: (见副本)

发证机关

(采矿登记专用章)

二〇〇七年八月三日

中华人民共和国国土资源部印制

中华人民共和国

采矿许可证

(副本)

证号: 5200000711044

采矿权人 织金县大雁煤矿(何勇模)

地址 织金县少普乡

矿山名称 织金县少普乡大雁煤矿

经济类型 私营独资企业

开采矿种 煤

开采方式 地下开采

生产规模 9万吨/年

矿区面积 3.763 平方公里

有效期限 壹年

2007年5月 至 2008年5月

发证机关 (贵州省国土资源厅)

2007 年 5 月 10 日

矿区范围拐点坐标:

0	3935594	35558208
1	2935359	35557261
2	2934838	35557043
3	2934448	35556846
4	2934071	35556705
5	2933530	35556685
6	2933778	35557372
7	2933891	35557676
8	2934734	35557697

开采深度: 由1780米至1550米标高, 共划分9个拐点圈定

中华人民共和国

采矿许可证

(副本)

证号: 52000000730035

采矿权人: 凯里市炉山镇煤矿(杨林勇)

地址: 凯里市炉山镇

矿山名称: 凯里市炉山镇煤矿

经济类型: 私营独资企业

开采矿种: 煤

开采方式: 地下开采

生产规模: 9.00万吨/年

矿区面积: 3.931平方公里

有效期限: 自 2007年2月 至 2016年12月

玖年 壹拾月

发证机关
(采矿登记专用章)
2007年2月 采矿专用章

中华人民共和国国土资源部印制

矿区范围拐点坐标:

点号 X坐标 Y坐标

1, 2952750.00, 36488150.00

2, 2951450.00, 36488150.00

3, 2950650.00, 36486500.00

4, 2951150.00, 36485860.00

5, 2951860.00, 36486200.00

6, 2952760.00, 36486700.00

7, 2952760.00, 36487240.00

8, 2953730.00, 36488310.00

9, 2953470.00, 36488530.00

开采深度: 由903米至760米标高 共有9个拐点圈定

中华人民共和国

采矿许可证

(副本)

证号： 52000000540313

采矿权人：麻江县贤昌乡铁冲煤矿

地 址：麻江县贤昌乡甲耳村

矿山名称：麻江县贤昌乡铁冲煤矿

经济类型：私营企业

开采矿种：煤

开采方式：地下开采

生产规模：3.00万吨/年

矿区面积：1.4平方公里

有效期限：伍年 自 2005年12月1日至2010年12月

发证机关 盖

(采矿许可证专用章)

二〇〇五年 月 日

中华人民共和国国土资源部印制

矿区范围拐点坐标：

点号 X坐标 Y坐标

1, 2917600.00, 36451500.00

2, 2917600.00, 36452200.00

3, 2919600.00, 36452200.00

4, 2919600.00, 36451500.00

2006年麻江县贤昌乡铁冲煤矿

年检 06.7.10 章

注：1、每年的3—4月到国土资源部门年检，否则，采矿权失效。

2、办理资源安全生产、煤炭生产等相关手续后才能依法开采。

开采深度：

由1100米至850米标高 共有4个拐点圈定

Appendix 3: Environmental Legislative Background

The Chinese *Mineral Resources Law (1996)*, *Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006)* and *Environmental Protection Law (1989)* provides the main legislative framework for the regulation and administration of mining projects within China. The *Environmental Protection Law (1989)* provides the main legislative framework for the regulation and administration of mining projects environmental impacts.

The following articles of the *Mineral Resources Law (1996)* summarise the specific provisions in relation to environmental protection:

Article 15 Qualification & Approval

Anyone who wishes to establish a mining enterprise must meet the qualifications prescribed by the State, and the department in charge of examination and approval shall, in accordance with law and relevant State regulations examine the enterprise's mining area, its mining design or mining plan, production and technological conditions and safety and environmental protection measures. Only those that pass the examination shall be granted approval.

Article 21 Closure Requirements

If a mine is to be closed down, a report must be prepared with information about the mining operations, hidden dangers, land reclamation and utilization, and environmental protection, and an application for examination and approval must be filed in accordance with relevant State regulations.

Article 32 Environmental protection obligations of mining license holders

In mining mineral resources, a mining enterprise or individual must observe the legal provisions on environmental protection to prevent pollution of the environment.

In mining mineral resources, a mining enterprise or individual must economize on the use of land. In case cultivated land, grassland or forest land is damaged due to mining, the mining enterprise concerned shall take measures to utilize the land affected, such as by reclamation, tree and grass planting, as appropriate to the local conditions.

Anyone who, in mining mineral resources, causes losses to the production and well-being of other persons shall be liable for compensation and shall adopt necessary remedial measures.

The following articles of the Environmental Protection Law (1989) summarise the specific provisions for environmental protection in relation to mining:

Article 13 Environmental protection

Units constructing projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects.

The environmental impact statement on a construction project must assess the pollution the project is likely to produce and its impact on the environment and stipulate the preventive and curative measures; the statement shall, after initial examination by the authorities in charge of the construction project, be submitted by specified procedure to the competent department of environmental protection administration for approval. The department of planning shall not ratify the design plan descriptions of the construction project until after the environmental impact statement on the construction project is approved.

Article 19 Statement of requirement for Environmental protection

Measures must be taken to protect the ecological environment while natural resources are being developed or utilized.

Article 24 Responsibility for Environmental protection

Units that cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Article 26 Pollution Prevention & Control

Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement.

Article 27 Report on Pollution Discharge

Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council.

Article 38 Violation Consequences

An enterprise or institution which violates this Law, thereby causing an environmental pollution accident, shall be fined by the competent department of environmental protection administration or another department invested by law with power to conduct environmental supervision and management in accordance with the consequent damage; in a serious case, the persons responsible shall be subject to administrative sanction by the unit to which they belong or by the competent department of the government.

The following are other Chinese laws that provide environmental legislative support to the Minerals Resources Law (1996) and the Environmental Protection Law (1989):

- *Environmental Impact Assessment (EIA) Law (2002).*
- *Law on Prevention & Control of Atmospheric Pollution (2000).*
- *Law on Prevention & Control of Noise Pollution (1996).*
- *Law on Prevention & Control of Water Pollution (1996).*
- *Law on Prevention & Control Environmental Pollution by Solid Waste (2002).*
- *Forestry Law (1998).*
- *Water Law (1988).*
- *Water & Soil Conservancy Law (1991).*
- *Water Conservancy Industrial Policy (1997).*
- *Cleaner Production Law (2003).*
- *Land Administration Law (1999).*
- *Protection of Wildlife Law (1989).*
- *Energy Conservation Law (1998).*
- *Electric Power Law (1995).*
- *Management Regulations of Prevention & Cure of Tailings Pollution (1992).*
- *Management Regulations of Dangerous Chemical Materials (1987).*

The relevant environmental protection related Chinese legislation utilised for project's design are a combination of the following National design regulations and emissions standards:

- *Environment Protection Design Regulations of Construction Project (No.002) by Environment Protection Committee of State Council of PRC (1987).*
- *Decree No. 152 of the State Council of the People's Republic of China - Detailed Rules for the Implementation of the Minerals Resources Law (1994).*
- *Decree No. 253 of the State Council of the People's Republic of China - Regulations on the Administration of Construction Project Environmental Protection (1998).*
- *Huan Fa No. 28 of State Environmental Protection Administration - Notice on Interim Measures for Public Participation in Environmental Impact Assessment (2006).*
- *Guo Fa No.38 of the State Council - Notice on National Programme for Eco-Environmental Conservation (2000).*
- *Industrial Policy for China Resources Comprehensive Utilization (2003).*
- *Regulations for Quality Control of Construction Projects (2000).*

- *Regulations for the Implementation of the Water and Soil Conservation Law (1993).*
- *Regulations for Environmental Monitoring (1983).*
- *Regulations on Nature Reserves (1994).*
- *Regulations on Administration of Chemicals Subject to Supervision & Control (1995).*
- *Regulations on Management of Chemicals Subject to Supervision & Control (1995).*
- *Environment Protection Design Regulations of Metallurgical Industry (YB9066-55).*
- *Comprehensive Emission Standard of Wastewater (GB8978-1996).*
- *Sewage Discharge Standard (GB8979-1996).*
- *Irrigation Water Quality Standard (GB5084-1992).*
- *Environmental Quality Standard for Surface Water (GB3838-2002).*
- *Environmental Quality Standard for Groundwater (GB/T14848-1993).*
- *Ambient Air Quality Standard (GB3095-1996).*
- *Comprehensive Emission Standard of Atmospheric Pollutants (GB16297-1996).*
- *Atmospheric Diffusion Parameters and VWP Index (GB/T13201-1991).*
- *Emission Standard of Atmospheric Pollutants from Industrial Kiln (GB9078-1996).*
- *Emission Standard of Atmospheric Pollutants from Boiler (GB13271-2001) ---- II - stage coal-fired boiler.*
- *Environmental Quality Standard for Soils (GB15618-1995).*
- *Standard of Boundary Noise of Industrial Enterprise (GB12348-90).*
- *Emissions Standard for Pollution from Heavy Industry; Non-Ferrous Metals (GB4913-1985).*
- *Control Standard on PCB's for Wastes (GB13015-1991).*
- *Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001).*
- *Standard for Pollution Control of Hazardous landfill Sites (GB18598-2001).*
- *Standard for Pollution Control on General Industrial Solid Waste Sites (GB18599-2001).*
- *Identification Standards for Hazardous Waste - Identification for Extraction Procedure Toxicity (GB5085.3-1996).*
- *Standard of Landfill and Pollution Control of Hazardous Waste (GB 18598-2001).*

Appendix 4: World Bank/International Finance Corporation (IFC) Environmental Standards and Guidelines

In seeking to obtain project financing or to list on a stock exchange, these institutions themselves require the proponent to comply with such documents as the Equator Principles and the IFC Performance Standards and Guidelines. This is exemplified by the following preamble from the Equator Principles (July 2006):

Project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world. Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in the emerging markets.

The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. We believe that adoption of and adherence to these Principles offers significant benefits to ourselves, our borrowers and local stakeholders through our borrowers' engagement with locally affected communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. We will not provide loans to projects where the borrower will not or is unable to comply with our respective social and environmental policies and procedures that implement the Equator Principles.

Table 1 and Table provide a brief summary of the Equator Principles and the IFC Performance Standards respectively. These documents are used by the EPFI's and stock exchanges in their review of the social and environmental performance of proponent companies.

Table 1: Equator Principles

Equator Principles	Title	Key Aspects (Summary)
1	Review and Categorisation	Categorise such project based on the magnitude of its potential impacts and risks
2	Social and Environmental Assessment	Conduct a Social and Environmental Assessment ("Assessment"). The Assessment should also propose mitigation and management measures appropriate to the nature and scale of the proposed project.
3	Applicable Social and Environmental Standards	The Assessment will refer to the applicable IFC Performance Standards, and applicable Industry Specific EHS Guidelines ("EHS Guidelines") and overall compliance with same.
4	Action Plan and Management System	Prepare an Action Plan (AP) which addresses the relevant findings of the Assessment. The AP will describe and prioritise the actions, mitigation measures, corrective actions and monitoring to manage the impacts and risks identified in the Assessment. Maintain a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with host country laws and regulations, and requirements of the applicable Standards and Guidelines, as defined in the AP.

Equator Principles	Title	Key Aspects (Summary)
5	Consultation and Disclosure	Consult with project affected communities. Adequately incorporate affected communities' concerns.
6	Grievance Mechanism	Establish a grievance mechanism as part of the management system. to receive and resolve concerns about the project by individuals or groups from among project-affected communities. Inform the affected communities about the grievance mechanism in the course of the community engagement process and ensure that the mechanism addresses concerns promptly and transparently, and is readily accessible to all segments of the affected communities.
7	Independent Review	Independent social or environmental expert will review the Assessment, AP and consultation process to assess Equator Principles compliance.
8	Covenants	Covenant in financing documentation: a) to comply with all relevant host country social and environmental laws, regulations and permits; b) to comply with the AP during the construction and operation of the project; c) to provide periodic reports not less than annually, prepared by in-house staff or third party experts, that (i) document compliance with the AP, and (ii) provide compliance with relevant local, state and host country social and environmental laws, regulations and permits; and d) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.
9	Independent Monitoring and Reporting	Appoint an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information.
10	EPFI Reporting	Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

Table B: IFC Performance Standards

IFC Performance Standard	Title	Objective (Summary)	Key Aspects (Summary)
1	Social and Environmental Assessment and Management Systems	Social and EIA and improved performance through use of management systems.	Social & Environmental Management System (S&EMS). Social & Environmental Impact Assessment (S&EIA). Risks and impacts. Management Plans. Monitoring. Reporting. Training. Community Consultation
2	Labour and Working Conditions	EEO. Safety and Health	Implement through the S&EMS. HR policy. Working condition. EEO. Forced & child labour. OH&S.
3	Pollution Prevention and Abatement	Avoid pollution. Reduce Emissions.	Prevent pollution. Conserve resources. Energy efficiency. Reduce waste. Hazardous materials. EPR. Greenhouse
4	Community Health, Safety and Security	Avoid or minimise risks to community.	Implement through the S&EMS. Do risk assessment. Hazardous materials safety. Community exposure. ERP
5	Land Acquisition and Involuntary Resettlement	Avoid or minimise resettlement. Mitigate adverse social impacts	Implement through the S&EMS. Consultation. Compensation. Resettlement planning. Economic displacement
6	Biodiversity Conservation and Sustainable Natural Resource Management	Protect and conserve biodiversity	Implement through the S&EMS. Assessment. Habitat. Protected areas. Invasive species.
7	Indigenous Peoples	Respect. Avoid and minimise impacts. Foster good faith	Avoid adverse impacts. Consultation. Development benefits. Impacts to traditional land use. Relocation.
8	Cultural Heritage	Protect cultural heritage	Heritage Survey. Site avoidances. Consultation.

SRK Report Distribution Record

Report No. SHK013

Copy No. 1

Name/Title	Company	Copy #
Michael Ng, General Manager (China)	Wing Hing International Holdings Ltd.	1

Approval Signature:

This report is protected by copyright vested in SRK Consulting. It may not be reproduced or transmitted in any form or by any means whatsoever to any person without the written permission of the copyright holder, SRK.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

<i>Authorised</i>		<i>HK\$</i>
100,000,000	Shares	100,000,000
<i>Issued and to be issued, fully paid or credited as fully paid</i>		
69,000,000	Shares in issue as at the Latest Practicable Date	69,000,000
10,000,000	Consideration Shares to be allotted and issued upon Completion	10,000,000
5,681,818	Shares to be allotted and issued pursuant to the exercise of the subscription rights attaching to the 5,681,818 warrants (<i>Note</i>)	5,681,818
<u>84,681,818</u>	Shares	<u>84,681,818</u>

Note: 5,681,818 warrants issued by the Company, each entitling its holder to subscribe for one Share. For details in relation to such warrants, please refer to the announcement of the Company dated 27 June 2005 and the circular of the Company dated 29 July 2005.

3. DISCLOSURE OF INTERESTS**(a) Director's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352

of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Name of Director	Number or attributable number of Shares held or short positions	Nature of interests		Approximate percentage or attributable percentage of shareholding (%)
		Interest of controlled corporation	Beneficial owner	
Ng Tat Leung George	15,690,069 (<i>L</i>)	10,772,700 (<i>Note</i>)	4,917,369	22.74
Lui Siu Yee	30,600 (<i>L</i>)	–	30,600	0.04
Wong Teck Ming	30,000 (<i>L</i>)	–	30,000	0.04

L: Long Position

Note:

The 10,772,700 Shares was registered in the name of Total Success Worldwide Limited. The issued share capital of Total Success Worldwide Limited is owned as to approximately 92.92% by Ng Tat Leung, George, the chairman of the Company and the managing Director, and as to approximately 7.08% by Wong Teck Ming, an executive Director.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group:

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Liu Pui Lan	11,700,000 (<i>L</i>)	Beneficial owner	14.81
Total Success Worldwide Limited (<i>Note 1</i>)	10,772,700 (<i>L</i>)	Beneficial owner	13.64
Cheung Oi Chun	10,000,000 (<i>L</i>)	Beneficial owner	12.66
Grand Legend Limited (<i>Note 2</i>)	5,750,000 (<i>L</i>)	Beneficial owner	8.33
Lo Chun Yang (<i>Note 2</i>)	5,750,000 (<i>L</i>)	Interest of controlled corporation	8.33
Loh Siu Yin, Lulu (<i>Note 2</i>)	5,750,000 (<i>L</i>)	Interest of spouse	8.33
Complete Success Limited (<i>Note 3</i>)	5,681,818 (<i>L</i>)	Beneficial owner	8.23
Li Dan Dan (<i>Note 3</i>)	5,681,818 (<i>L</i>)	Interest of controlled corporation	8.23

L: Long Position

Notes:

1. These Shares were registered in the name of Total Success Worldwide Limited. The issued share capital of Total Success Worldwide Limited is owned as to approximately 92.92% by Ng Tat Leung, George, the chairman of the Company and the managing Director, and as to approximately 7.08% by Wong Teck Ming, an executive Director.
2. The entire issued share capital of Grand Legend Limited is owned by Lo Chun Yang. Loh Siu Yin, Lulu is the spouse of Lo Chun Yang.
3. The entire issued share capital of Complete Success Limited is owned by Li Dan Dan. Complete Success Limited currently holds 5,681,818 warrants of the Company, upon the exercise of which 5,681,818 Shares are to be issued.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

- (i) the sale and purchase agreement dated 18 October 2006 and entered into among Wing Hing Group (BVI) Limited, Skree Investments Limited and Li Zhimin pursuant to which Wing Hing Group (BVI) Limited agreed to sell and Skree Investments Limited agreed to acquire the entire issued share capital of Anpoint Engineering Limited at a consideration of HK\$1.00;
- (ii) the subscription agreement dated 7 May 2007 and entered into among the Company, Best Time International Limited and Liu Chi Wah, Jimmy in respect of the subscription of the convertible note with an aggregate principal amount of HK\$15,000,000 by Best Time International Limited;

- (iii) the sale and purchase agreement dated 21 May 2007 and entered into between CWS International Trading Limited and Leung Pui Kwan in relation to the sale and purchase of the entire issued share capital of Charm Faith Group Limited at a consideration of HK\$150,000,000;
- (iv) the sale and purchase agreement dated 10 January 2008 entered into between CWS International Trading Limited and Liu Pui Lan in relation to the sale and purchase of the entire issued share capital of Farrell Global Limited and the shareholder's loan at a aggregate consideration of HK\$250,000,000;
- (v) the sale and purchase agreement dated 28 February 2008 entered into between Heart Ace Limited and the Company in relation to the sale and purchase of the entire issued share capital of Wing Hing Group (BVI) Limited and the shareholder's loan at a aggregate consideration of HK\$171,000,000; and
- (vi) the Sale and Purchase Agreement.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. EXPERTS

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

Name	Qualifications
Asset Appraisal Limited	Professional valuer
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
SRK Consulting	Mining engineering consultant

Each of Asset Appraisal Limited, HLB Hodgson Impey Cheng and SRK Consulting has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Asset Appraisal Limited, HLB Hodgson Impey Cheng and SRK Consulting does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. LITIGATION

- (i) The Group was previously engaged in early 2000 in the undertaking of a piling work contract, which was terminated by the contract customer during 2001 prior to the completion of contract works as a result of the allegation of non-conforming piles. In the previous year, the contract customer demanded from the Group the retrenchment of HK\$5 million of the contract fees received by the Group, as compensation for early termination of the contract works. In prior years, the contract customer was in the process of undergoing a court compulsory winding-up and the provisional liquidator of the contract customer requested payment of HK\$8 million from the Group. Having considered legal counsel's advice, the Directors are of the opinion that the claim is unlikely to succeed. Accordingly, no provision has been made up to 31 March 2008.
- (ii) The Group was previously engaged in early 2000 in the undertaking of a piling work contract. In 2001, the Group made a claim against the main contractor of HK\$7 million for variation orders in addition to the original contract sum. In prior years, the main contractor submitted a counterclaim of HK\$44 million for additional costs incurred due to wrongful repudiation of the subcontract. Having considered the legal counsel's advice, the Directors are of the opinion that the Group has a good chance of defending the counterclaim. Accordingly, the Directors consider that a provision for the counterclaim is not necessary.
- (iii) A number of claims have been brought against the Group in respect of compensation for alleged personal injuries sustained by construction workers during the execution of contract works. The total amount of the litigation claims cannot be quantified. As most of the litigation claims are personal injury claims and some of them have not reached the stage in which the amount of the claim can be calculated. The Directors believe that any liabilities of the Group in respect of such claims will be covered either by the Group's insurance policies, or that the Group has a meritorious defense against such claims. Accordingly, the Directors do not believe that these claims will have any material adverse impact on the Group and, therefore no provisions have been made in respect thereof in the financial statements of the Group up to 31 March 2008.

Save as disclosed, no member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

8. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2008, being the date to which the latest published audited financial statements of the Group was made up.

9. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

10. MISCELLANEOUS

- (a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Enlarged Group.
- (b) As at the Latest Practicable Date, neither Asset Appraisal Limited, HLB Hodgson Impey Cheng, SRK Consulting nor any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 March 2008, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Bermuda) Limited whose address is Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (d) Tricor Tengis Limited, the transfer office of the Company is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The company secretary of the Company is Chan Yuen Bik, Jane. Ms Chan is a Fellow of the Hong Kong Institute of Company Secretaries in Hong Kong and a Fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (f) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Ngan Chi Keung, Mike. Mr Ngan is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (g) Neither Asset Appraisal Limited, HLB Hodgson Impey Cheng, SRK Consulting nor any Directors had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period of two years immediately preceding the issue of this circular.

- (h) To the best of the Directors' knowledge and information, no claims of material importance in relation to the exploration rights of Target Group has been made or notified by third parties against the Company.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of the Company at 14th Floor, Yau Lee Centre, 45 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including 16 September 2008 and at the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;
- (c) the written consents of the experts referred to in the paragraph headed "Experts" in this Appendix;
- (d) the valuation report on the Coal Mines, the text of which is set out in Appendix I to this circular;
- (e) the valuation report on the property interests of the Enlarged Group, the text of which is set out in Appendix II to this circular;
- (f) the accountants' report on the Target Group prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix IV to this circular;
- (g) the accountants' report from HLB Hodgson Impey Cheng on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;
- (h) the technical report on the Coal Mines, the text of which is set out in Appendix VI to this circular; and
- (i) the annual reports of the Company for each of the two financial years ended 31 March 2007 and 31 March 2008.

NOTICE OF SGM

WING HING INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 621)



NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of the shareholders of Wing Hing International (Holdings) Limited (the “**Company**”) will be held at 14th Floor, Yau Lee Centre, 45 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 September 2008 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the conditional sale and purchase agreement (the “**Sale and Purchase Agreement**”) (a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) dated 20 June 2008 (as supplemented by the supplemental agreement (the “**Supplemental Agreement**”) (a copy of which has been produced to the SGM marked “B” and signed by the chairman of the SGM for the purpose of identification) dated 31 July 2008) and entered into between Bless Luck International Limited, a wholly owned subsidiary of the Company, as purchaser and Cheung Oi Chun (“**Ms Cheung**”) as vendor in relation to the sale and purchase of 70 shares of US\$1.00 each in the share capital of Union Sense Development Limited (“**Union Sense**”) at a consideration of HK\$210,000,000 and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder; and
- (c) the allotment and issue of an aggregate of an aggregate of 10,000,000 shares (each a “**Consideration Share**”) of HK\$1.00 each in the share capital of the Company, credited as fully paid, at an issue price of approximately HK\$5.00 per Consideration Share to Ms Cheung in accordance with the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement) be and is hereby approved.”

NOTICE OF SGM

2. “**THAT**

- (a) the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 divided into 100,000,000 shares of HK\$1.00 each (each a “**Share**”) to HK\$150,000,000 divided into 150,000,000 Shares by the creation of an additional 50,000,000 Shares (the “**Increase in Authorised Share Capital**”); and
- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts or things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Increase in Authorised Share Capital and the transaction contemplated thereunder.”

By order of the Board
Wing Hing International (Holdings) Limited
Ng Tat Leung, George
Chairman

Hong Kong, 29 August 2008

Registered office:
Canon’s Court
22 Victoria Street
Hamilton HM 12
Bermuda

*Head office and principal place of
business in Hong Kong:*
14th Floor
Yau Lee Centre
45 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

NOTICE OF SGM

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
4. In the case of joint holders of Shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holder are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.