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 a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Rontex International Holdings Limited.

RONTEX

RONTEX INTERNATIONAL HOLDINGS LIMITED

朗迪國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1142)

(1) VERY SUBSTANTIAL ACQUISITION; AND (2) INCREASE IN AUTHORISED SHARE CAPITAL

A notice convening the EGM to be held at 3:30 p.m. on Friday, 16 January 2009 at 19/F, Chun Wo Commercial Centre, 23-29 Wing Wo Street, Central, Hong Kong is set out on pages N-1 to N-3 of this circular. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

31 December 2008

** For identification purpose only*

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

"Acquisition"	the acquisition of the Sale Shares and the Sale Loan from the Vendor by the Purchaser pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional sale and purchase agreement dated 31 October 2008 entered into among the Purchaser, the Vendor, the Warrantor and the Company (as the Purchaser's guarantor) in relation to the Acquisition
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day other than a Saturday, Sunday or public holiday on which banks are generally open for business in Hong Kong throughout their normal business hours
"BVI"	the British Virgin Islands
"Call Option"	an option held by the Target Company, granting it the right to demand the Russian Shareholders to sell, in proportion to their shareholdings, to the Target Company 10% equity interest in the issued share capital of the Russia Subsidiary at an aggregate price of US$4 million (or equivalent to approximately HK$31.2 million) after the Russia Subsidiary having obtained the Proposed New Licence
"Coal Mine"	the mine areas containing coal reserves and coal resources located in Petrov region in the state of Kemerovo, Russia, which comprises Lot 1, Lot 1 Extension and Lot 2 that are adjacent to each other
"Company"	Rontex International Holdings Limited (Stock code: 1142), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board
"Completion"	completion of the Acquisition in accordance with the Acquisition Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"Consideration"	US$253 million (or equivalent to approximately HK$1,973.4 million), being the consideration payable by the Purchaser to the Vendor for the purchase of the Sale Shares and the Sale Loan under the Acquisition Agreement
"Consolidated Mining Licence"	the consolidated mining licence being applied by the Russia Subsidiary, which shall grant the holder the right to mine at Lot 1, Lot 1 Extension and Lot 2 of the Coal Mine, details of which are set out in the section headed "Information on the Coal Mine" in the letter from the Board in this circular
"Conversion Price"	HK$0.12 per Conversion Share (subject to adjustments)
"Conversion Share(s)"	new Share(s) falling to be allotted and issued by the Company, credited as fully paid, upon exercise of the conversion rights attaching to the First Convertible Note, the Second Convertible Note and/or the Third Convertible Note
"Convertible Notes"	the First Convertible Note, the Second Convertible Note and the Third Convertible Note
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened at 3:30 p.m. on Friday, 16 January 2009 at 19/F, Chun Wo Commercial Centre, 23-29 Wing Wo Street, Central, Hong Kong for the purpose of considering, and if thought fit, approving the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes, the allotment and issue of the Conversion Shares upon exercise of the Convertible Notes and the exercise of the Call Option), and the increase in the authorised share capital of the Company
"Enlarged Group"	the Group immediately after Completion (including the Target Group)
"Existing Mining Licence"	the mining licence held by the Russia Subsidiary, granting the right to mine at Lot 1 of the Coal Mine, details of which are set out in the section headed "Information on the Coal Mine" in the letter from the Board in this circular
"First Contingent Consideration"	US$32 million (or equivalent to approximately HK$249.6 million), being the first contingent consideration payable by the Purchaser to the Vendor for the purchase of the Sale Shares and Sale Loan under the Acquisition Agreement, which will be satisfied upon the fulfillment of the condition as set out in the paragraph headed "First Contingent Consideration" under the section headed "The Acquisition Agreement" in the letter from the Board in this circular

"First Convertible Note"	the convertible note in the principal amount of US$253 million (or equivalent to approximately HK$1,973.4 million) to be issued by the Company to the Vendor at Completion as the Consideration pursuant to the terms of the Acquisition Agreement
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	person(s) or company(s) who/which is(are) independent of the Company and its connected persons
"JORC Code"	the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, published by the Joint Ore Reserves Committee (JORC) of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"Latest Practicable Date"	24 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Committee"	the listing sub-committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lot 1"	a mining area within the boundary covered by the Existing Mining Licence which includes the Kemerovsky, Volkovsky and Vladimirovsky seams down to the level of 65 metres underground. For the avoidance of doubt, Lot 1 excludes Lot 1 Extension
"Lot 1 Extension"	a mining area within the boundary of Lot 1 and includes the Kemerovsky, Volkovsky and Vladimirovsky seams from the level of 65 metres underground to 400 metres underground
"Lot 2"	a mining area including the Petrosky area to the west and the Kemerovsky area to the south which is outside the boundary covered by the Existing Mining Licence
"Main Board"	the stock market operated by the Stock Exchange (excluding the Growth Enterprise Market of the Stock Exchange and the option market)

"Maturity Dates"	the Business Day(s) falling on the fifth anniversary from the issue date(s) of the respective Note Instruments
"Note Instruments"	the instruments constituting the Convertible Notes under the Acquisition Agreement
"Option"	173,360,000 options granted by the Company pursuant to the share option scheme of the Company adopted on 8 November 2002
"PRC"	the People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
"Proposed New Licence"	the subsoil licence for exploration and production of coal on Petrovsky and adjoining lot of Kemerovsky coal mine satisfactory to the Target Company and issued for the period determined by relevant government authority
"Purchaser"	Grandvest International Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
"Russia"	the Russian Federation
"Russian Shareholders"	Tannagashev Ilya Nikolaevich, Kochkina Ludmila Dmitrievna and Demeshonok Konstantin Yur'evich, who are Russia citizens holding 15.54%, 7.80% and 6.66% of the equity interests in the Russia Subsidiary respectively as at the Latest Practicable Date. Each of the Russian Shareholders is, to the best of Directors' knowledge, information and belief having made all reasonable enquiries, an Independent Third Party as at the Latest Practicable Date
"Russia Subsidiary"	LLC "Shakhta Lapichevskaya", a company incorporated in Russia with limited liability which is owned as to 70% by the Target Company and as to 30% by the Russian Shareholders as at the Latest Practicable Date
"Sale Loan"	loan due and owing by the Target Company to the Vendor and is (or shall be) unsecured, interest-free and repayable on demand and represents 90% of the entire outstanding shareholder's loan due and owing by the Target Company as at the date of Completion
"Sale Shares"	900 allotted and issued ordinary shares of the Target Company, representing 90% of its entire issued share capital

"Second Contingent Consideration"	the second contingent consideration payable by the Purchaser to the Vendor for the purchase of the Sale Shares and Sale Loan under the Acquisition Agreement, which will be satisfied upon the fulfillment of the conditions as set out in the paragraph headed "Second Contingent Consideration" under the section headed "The Acquisition Agreement" in the letter from the Board in this circular
"Second Convertible Note"	the convertible note in the principal amount of US$32 million (or equivalent to approximately HK$249.6 million) to be issued by the Company to the Vendor to satisfy the First Contingent Consideration pursuant to the terms of the Acquisition Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Share Charges"	the three deeds of charge over the Sale Shares, the entire issued shares of the Purchaser and 70% equity interest in the issued share capital of the Russia Subsidiary to be executed by the Purchaser, the Company and the Target Company respectively in favour of the Vendor as securities for the Convertible Notes during its subsistence under the terms of the Convertible Notes
"SRK"	SRK Consulting (Russia) Limited, an independent technical adviser with professional qualifications and relevant experience in relation to mining activities appointed by the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as amended from time to time
"Target Company"	Langfeld Enterprises Limited, a company incorporated in the Republic of Cyprus with limited liability and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
"Target Group"	the Target Company and the Russia Subsidiary

"Third Convertible Note"	the convertible note to be issued by the Company to the Vendor to satisfy the Second Contingent Consideration pursuant to the terms of the Acquisition Agreement
"Vendor"	Cordia Global Limited, a company incorporated in BVI with limited liability, the entire issued share capital of which is wholly owned by the Warrantor as at the Latest Practicable Date
"Vigers"	Vigers Appraisal and Consulting Limited, a professional valuer appointed by the Company for the Acquisition
"Warrantor"	Mr. Choi Sungmin, being the warrantor for the purpose of the Acquisition Agreement and the sole beneficial owner of the Vendor as at the Latest Practicable Date
"Warrants"	warrants in the total amount of HK$5,470,000 issued by the Company, entitling holders thereof to convert into new Shares
"Mt"	million tonnes
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"RUB"	Russia ruble, the lawful currency of Russia
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

For the purpose of illustration only, amounts denominated in US$ in this circular have been translated into HK$ at the rate of US$1 = HK$7.8. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.

This glossary contains definitions of certain terms used in accordance with JORC Code in this circular:

"coal reserve"	a coal reserve is the economically mineable part of a measured and/or indicated resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal reserves are sub-divided in order of increasing confidence into probable reserves and proved reserves
"coal resource"	a coal resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a coal resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal Resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"inferred resource"	an inferred resource is that part of a coal resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
"indicated resource"	an indicated resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed

"measured resource"	a measured resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity
"probable reserve"	a probable reserve is the economically mineable part of an indicated, and in some circumstances, a measured resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified
"proved reserve"	a proved reserve is the economically mineable part of a measured resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

RONTEX INTERNATIONAL HOLDINGS LIMITED
朗迪國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1142)

Executive directors:
Mr. Li Wing Sang *(Deputy Chairman)*
Mr. Chiu Chi Hong
Mr. Lim Ho Sok

Independent non-executive directors:
Mr. Liew Swee Yean
Mr. Tam Tak Wah
Mr. Yoshinori Suzuki

Registered office:
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P.O. Box 2681
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Cayman Islands

Head office and principal place of business in Hong Kong:
23rd Floor
Chun Wo Commercial Centre
23-29 Wing Wo Street
Central
Hong Kong

31 December 2008

To the Shareholders and for information only, the Company's Warrants holders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION; AND
(2) INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 14 November 2008, the Board announced that the Purchaser, a wholly-owned subsidiary of the Company, the Vendor, the Warrantor (being the Vendor's sole beneficial owner) and the Company (as the Purchaser's guarantor) entered into the Acquisition Agreement on 31 October 2008. Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire the Sale Shares and the Sale Loan from the Vendor. As at the Latest Practicable Date, the principal asset of the Target Company is its 70% equity interest in the Russia Subsidiary, which in turn is the registered holder of the Existing Mining Licence, granting it the right to mine at Lot 1 of the Coal Mine located in Petrov region in the state of Kemerovo, Russia.

* *For identification purpose only*

The Board also proposes to increase the authorised share capital of the Company from HK$100,000,000 comprising 10,000,000,000 Shares to HK$1,000,000,000 comprising 100,000,000,000 Shares by the creation of 90,000,000,000 Shares. The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition and the Convertible Notes; (ii) information required under Chapters 14 and 18 of the Listing Rules; (iii) the increase in the authorised share capital of the Company; (iv) a notice of the EGM; and (v) other information required under the Listing Rules.

THE ACQUISITION AGREEMENT

Date

31 October 2008

Parties

Vendor:	Cordia Global Limited, a company incorporated in BVI with limited liability and is solely engaged in the investment holding of the Target Company.
Purchaser:	Grandvest International Limited, a wholly-owned subsidiary of the Company.
Warrantor:	Mr. Choi Sungmin, who is the sole beneficial owner of the Vendor, as the warrantor of the Vendor.
Guarantor:	the Company, as the guarantor of the Purchaser.

To the best of Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and the Warrantor is an Independent Third Party. The Vendor and the Warrantor do not have any prior transaction or relationship with the Group that requires aggregation under Rule 14.22 of the Listing Rules.

Assets to be acquired

Under the Acquisition Agreement, the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares, representing 90% of the issued share capital of the Target Company and the Sale Loan, representing the shareholder's loan owing by the Target Company to the Vendor as at the date of Completion. The loan outstanding from the Target Company to the Vendor amounted to US$2 million (or equivalent to approximately HK$15.6 million) as at the Latest Practicable Date.

Consideration and contingent consideration

Consideration

The Consideration for the Sale Shares and Sale Loan of US$253 million (or equivalent to approximately HK$1,973.4 million) will be satisfied by the issue of the First Convertible Note by the Company to the Vendor at Completion.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendor after taking into account the valuation of the Russia Subsidiary as at 30 October 2008 as appraised by Vigers, by taking into account Lot 1 and Lot 1 Extension of the Coal Mine but without taking into account Lot 2 of the Coal Mine (the "Lot 1 Valuation"), using the income approach of US$401.6 million (or equivalent to approximately HK$3,132.5 million).

First Contingent Consideration

The First Contingent Consideration of US$32 million (or equivalent to approximately HK$249.6 million) will be satisfied by the issue of the Second Convertible Note by the Company to the Vendor on the third Business Day following the day on which the relevant registration procedures for the exercise of the Call Option at or after Completion by the Target Company has been duly completed at the relevant authorities of the Russia government (or such other date as the Purchaser and the Vendor shall agree in writing in any event no later than one calendar year after the date of the Acquisition Agreement).

In the event that the Call Option is not exercised by the Target Company, the First Contingent Consideration shall not be payable. The exercise of the Call Option shall be subject to the Shareholders' approval in the EGM pursuant to Rule 14.76(2) of the Listing Rules. If, at the time of exercise or non-exercise of the Call Option, such exercise or non-exercise constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, the Company will comply with the relevant requirements as stipulated under Chapter 14A of the Listing Rules for such exercise or non-exercise, if necessary.

The First Contingent Consideration was arrived at after arm's length negotiations between the Company and the Vendor after taking into account (i) 10% of the Lot 1 Valuation that is attributable to the Call Option of US$40.16 million (or equivalent to approximately HK$313.2 million); and (ii) the exercise price for the Call Option of US$4 million (or equivalent to approximately HK$31.2 million). Particulars of the Call Option are set out in the section headed "Information on the Target Group" below.

Second Contingent Consideration

The Second Contingent Consideration will be satisfied by the issue of the Third Convertible Note by the Company to the Vendor on the third Business Day following the day on which the last of the following conditions is satisfied at or after Completion (or such other date as the Purchaser and the Vendor shall agree in writing in any event no later than one calendar year after the date of the Acquisition Agreement):

(a) the mining licence for Lot 2 of the Coal Mine is obtained by the Russia Subsidiary; and

(b) a technical report issued by a technical expert acceptable to the Purchaser and the Vendor confirming the proved reserves and the probable reserves of Lot 2 of the Coal Mine being not less than 12Mt (the "Certified Reserve").

In the event that the condition set out in (a) or (b) above is not satisfied, the Second Contingent Consideration shall not be payable. The value of the Second Contingent Consideration, ranging from the minimum amount of US$255.15 million (or equivalent to approximately HK$1,990.2 million) to the maximum amount of US$550.8 million (or equivalent to approximately HK$4,296.2 million), shall be calculated in accordance with the formula set out below:

(X + Y) x 90% x Z

where

X = US$405 million (or equivalent to HK$3,159 million)

Y = (value of Certified Reserve – 12Mt of coal reserves) x US$30. So far as the computation of Y is concerned, if the value of Certified Reserve exceeds 24Mt, the value of Certified Reserve will be deemed as 24Mt.

Z = percentage of shareholding in the Russia Subsidiary held by the Target Company upon the fulfillment of the last of the conditions precedent for the Second Contingent Consideration.

The Second Contingent Consideration was agreed by the Company and the Vendor after considering that (i) Lot 2 of the Coal Mine is not covered by the Existing Mining Licence; and (ii) the proved reserves and/or the probable reserves of Lot 2 of the Coal Mine cannot be ascertained as at the date of the Acquisition Agreement. Details of the mining licence to be obtained for Lot 2 of the Coal Mine and the coal resources at Lot 2 of the Coal Mine are set out in the section headed "Information on the Coal Mine" below.

The Second Contingent Consideration was arrived at after arm's length negotiations between the Company and the Vendor after taking into account the additional valuation of the Russia Subsidiary as at 30 October 2008 as appraised by Vigers by taking into account Lot 2 of the Coal Mine (the "Lot 2 Additional Valuation") using the income approach of US$405.2 million (or equivalent to approximately HK$3,160.6 million).

Vigers, an independent valuer, has been engaged by the Company to prepare the Lot 1 Valuation and the Lot 2 Additional Valuation using the income approach. The Lot 1 Valuation was determined by discounting the projected future cash flows to be generated by the Russia Subsidiary from the mining operation at Lot 1 and Lot 1 Extension of the Coal Mine. The Lot 2 Additional Valuation was determined by discounting the projected future cash flows to be generated by the Russia Subsidiary from the mining operation at Lot 2 of the Coal Mine under the assumption that (i) the mining licence for Lot 2 of the Coal Mine is obtained by the Russia Subsidiary; and (ii) the total of the proved reserves and the probable reserves of Lot 2 of the Coal Mine is not less than 12Mt. Based on the valuation report prepared by Vigers as set out in Appendix V to this circular, the Lot 1 Valuation and the Lot 2 Additional Valuation as at 30 October 2008, were US$401.6 million (or equivalent to approximately HK$3,132.5 million) and US$405.2 million (or equivalent to approximately HK$3,160.6 million) respectively. 63% (being the beneficial interest in the Russia Subsidiary attributable to the Sale Shares) of these two valuations amount to approximately US$253 million (or equivalent to approximately HK$1,973.4 million) and approximately US$255.28 million (or equivalent to approximately HK$1,991.2 million) which are approximately equal to the amount of the Consideration and the minimum amount of the Second Contingent Consideration respectively. The First Contingent Consideration of US$32 million (or equivalent to approximately HK$249.6 million) represents a discount of approximately 1.5% to approximately US$32.5 million (or equivalent to approximately HK$253.5 million), representing 90% (being the beneficial interest in the Target Company attributable to the Sale Shares) of the difference between (i) 10% of the Lot 1 Valuation that is attributable to the Call Option; and (ii) the exercise price for the Call Option.

Conditions precedent

Completion is subject to, the following conditions precedent:

(a) the obtaining of a legal opinion (in form and substance reasonably satisfactory to the Purchaser) by a qualified Russia legal adviser acceptable to the Purchaser covering, inter alia, matters relating to, (i) the due incorporation of the Russia Subsidiary; (ii) the shareholder(s) of the Russia Subsidiary; (iii) the scope of business activities of the Russia Subsidiary; (iv) the mining and production licence being duly and validly issued by the relevant Russia government authority; and (v) such other matters as may be reasonably required by the Purchaser;

(b) the obtaining of a legal opinion (in form and substance reasonably satisfactory to the Purchaser) by a qualified Cyprus legal adviser acceptable to the Purchaser covering, inter alia, matters relating to the due incorporation of the Target Company and the Target Company's compliance with local laws, rules and regulations;

(c) the obtaining from the Vendor of a report (in form and substance satisfactory to the Purchaser) issued by a technical expert acceptable to the Stock Exchange, the Purchaser and the Vendor relating to the state and condition of the Coal Mine and in accordance with Chapter 18 of the Listing Rules, covering such matters as may be required by the Stock Exchange;

(d) the delivery by the Purchaser to the Vendor of a legal opinion on matters of the Cayman Islands law confirming the validity and enforceability of the Convertible Notes, the Note Instruments and the due authorisation of the Company to issue the Conversion Shares, such opinion to be addressed to the Vendor and issued by qualified counsels in the Cayman Islands acceptable to the Vendor and in form and substance reasonably satisfactory to the Vendor;

(e) the delivery by the Purchaser to the Vendor of legal opinions respectively on matters of the laws of BVI, Russia and Cyprus, confirming the validity and enforceability of the Share Charges, such opinions to be addressed to the Vendor and issued by qualified counsels in the relevant jurisdiction acceptable to the Vendor and in form and substance reasonably satisfactory to the Vendor;

(f) the passing of the relevant resolutions at the EGM for approving, among others, the Acquisition Agreement, the issuance of the Convertible Notes, the increase of authorised share capital of the Company to cover the issue of the Conversion Shares, the specific mandate under which the Conversion Shares are to be allotted and issued and the transactions contemplated under the Acquisition Agreement;

(g) the listing of and permission to deal in the Conversion Shares on the Main Board having been granted by the Listing Committee;

(h) the sale and purchase of the Sale Shares contemplated under the Acquisition Agreement not being deemed or considered as a reverse takeover under the Listing Rules by the Stock Exchange;

(i) the Purchaser and the Vendor being satisfied that the Group and the Target Group have sufficient funding for the development of the Coal Mine for a period of 24 months from Completion;

(j) the Vendor conducting a due diligence review of and being satisfied, at its absolute discretion, with the business, assets, financial position and prospect, and the internal control system and corporate governance framework of the Group;

(k) the Purchaser conducting a due diligence review of and being satisfied, at its absolute discretion, with the business, assets, financial position and prospect of the Target Group;

(l) between the date of the Acquisition Agreement and the date of fulfilment or waiver of the last in time to be fulfilled of the conditions precedent (other than this condition precedent), trading of the Shares on the Main Board shall not have been suspended and no delisting of the Shares shall be pending or threatened save for (i) temporary suspension for no more than 20 consecutive trading days in relation to the clearance and issue of announcements of the Company pursuant to the Listing Rules or other regulatory requirements in relation to the Acquisition Agreement; or (ii) temporary suspension for no more than 20 consecutive trading days for other reasons;

(m) the loans owed by the Russia Subsidiary to the Russian Shareholders being fully repaid, settled or discharged either by way of waivers by such creditors and/or assignment and settlement by the Target Company;

(n) the liabilities of the Target Company (save for the shareholders' loan owed to the Vendor) being fully repaid, settled or discharged either by way of waivers by creditors in respect of such liabilities and/or assignment and settlement by the Vendor;

(o) all consents and acts required in relation to the transactions contemplated under the Acquisition Agreement under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules and requirements having been obtained by the Company from the Stock Exchange;

(p) all other necessary consents, authorisations, licences and approvals in relation to the Acquisition Agreement and the transactions contemplated hereunder having been obtained from any relevant governmental or regulatory authorities or other relevant third parties by the relevant parties to the Acquisition Agreement;

(q) the delivery by the Purchaser to the Vendor the Purchaser's disclosure letter on or before 4 November 2008 and the Vendor confirming in writing that it is satisfied with the disclosures set out in the Purchaser's disclosure letter on or before 7 November 2008;

(r) the delivery by the Vendor to the Purchaser the Vendor's disclosure letter on or before 4 November 2008 and the Purchaser confirming in writing that it is satisfied with the disclosures set out in the Vendor's disclosure letter on or before 7 November 2008; and

(s) at the date of fulfilment or waiver of the last in time to be fulfilled of the conditions precedent (other than this condition precedent):

   (i) all the Vendor's warranties remain true and accurate in all material respects and not misleading in any material respect and no event or circumstance has occurred that would result in any breach of any of the Vendor's warranties or other provisions of the Acquisition Agreement by the Vendor in any material respects;

   (ii) no event or circumstance has arisen or is threatening to arise which would entitle the Purchaser to terminate or rescind the Acquisition Agreement in accordance with its terms;

   (iii) all the Purchaser's warranties remain true and accurate in all material respects and not misleading in any material respect and no event or circumstance has arisen or is threatening to arise that would result in any breach of any of the Purchaser's warranties or other provisions of the Acquisition Agreement by the Purchaser in any material respects; and

   (iv) no event or circumstance has arisen or is threatening to arise which would entitle the Vendor to terminate or rescind the Acquisition Agreement in accordance with its terms.

The Purchaser may at its absolute discretion waive the above conditions precedent (a), (b), (c), (k), (m), (n), (r) and (s), and the Vendor may at its absolute discretion waive the above conditions precedent (d), (e), (j), (l), (q) and (s). None of the conditions precedent (f), (g), (h), (i), (o) and (p) may be unilaterally waived by any of the parties to the Acquisition Agreement.

In the event that all the above conditions precedent are not fulfilled or waived (where applicable) and remain unfulfilled on or before 31 July 2009 (or such later date as may be agreed by the parties in writing), no party will be obliged to complete the Acquisition and no party will have any further rights or obligations under the Acquisition Agreement except in respect of the specific provisions as set out in the Acquisition Agreement which will continue in full force and effect.

Completion

Completion shall take place on the fifth Business Day following the date on which the last of the above conditions (save for the above condition precedent (i)) is fulfilled or waived (where applicable), or a date being not later than 31 July 2009 or such other date as the parties to the Acquisition Agreement may agree in writing and the above condition precedent (i) shall be fulfilled simultaneously at Completion on such date.

Termination

Notwithstanding and without prejudice to all other rights and remedies available to the Vendor (which rights and remedies are specifically reserved pursuant to the Acquisition Agreement), the Vendor has the sole option to terminate the Acquisition Agreement immediately if, within 20 Business Days from the date of the Acquisition Agreement or such later date as the Vendor may determine at its absolute discretion that:

a. trading in the Shares has not been resumed; and

b. the Vendor has not been provided with copies of all correspondences between the Company and the SFC and the Stock Exchange in relation to the investigation by the SFC against the Company save for those restricted by the SFO and the Listing Rules.

upon which all obligations of the parties under the Acquisition Agreement shall cease and determine and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the Acquisition Agreement, except for any antecedent breach of any obligation under the Acquisition Agreement.

CONVERTIBLE NOTES

The principal terms of the Convertible Notes are as follows:

Issuer: The Company

Principal amount: The principal amount of the First Convertible Note is US$253 million (or equivalent to approximately HK$1,973.4 million).

The principal amount of the Second Convertible Note is US$32 million (or equivalent to approximately HK$249.6 million).

The principal amount of the Third Convertible Note ranges from US$255.15 million (or equivalent to approximately HK$1,990.2 million) at minimum to US$550.8 million (or equivalent to approximately HK$4,296.2 million) at maximum.

Maturity date:	Each of the Convertible Notes will mature on the Business Day falling on the fifth anniversary from the issue date of the respective Note Instruments.
Interest:	No interest shall accrue on each of the Convertible Notes.
Redemption:	The Company shall be entitled to redeem the Convertible Notes at a price equal to 115% of the outstanding principal amount of the Convertible Notes on their respective Maturity Dates, without entitlement of early redemption before the Maturity Dates.
Transferability:	Any assignment or transfer of the Convertible Notes shall be in respect of the whole or any part (in integral multiples of US$1,000,000) of the outstanding principal amount of the Convertible Notes and should be made in accordance with any applicable requirements of the Stock Exchange, the Listing Rules, applicable laws and regulations. Save for with the consent of the Stock Exchange, none of the Convertible Notes may be transferred to a connected person. The Company shall give notice to the Stock Exchange for any transfer of the Convertible Notes to a connected person.
Conversion:	The holder of the Convertible Notes shall have the right at any time from the date of issue up to and including the date immediately prior to their respective Maturity Dates, to convert in amounts in integral multiple of US$100,000, the whole (but not part) of the outstanding principal amount of the Convertible Notes into Conversion Shares. The holder of the Convertible Notes shall be entitled to convert the outstanding principle amount of the Convertible Notes, provided that: (i) the holder of each of the Convertible Notes together with the parties acting in concert with it will not hold or control such level of the voting rights of the Company as may trigger a mandatory general offer under the Takeovers Code regardless of whether a waiver has been granted by the SFC on the obligation of a mandatory general offer under the Takeovers Code; and (ii) the conversion of the outstanding principal amount of each of the Convertible Notes will not cause the public float of the Company unable to meet the requirement under Rule 8.08 of the Listing Rules.
Conversion Price:	The Convertible Notes shall be converted at the initial Conversion Price of HK$0.12 per Conversion Share (subject to adjustments), which represents: (i) a premium of approximately 42.86% over the closing price of HK$0.084 per Share as quoted on the Stock Exchange on 25 September 2008, being the last trading day prior to suspension of trading in the Shares on the Stock Exchange on 26 September 2008;

(ii) a premium of approximately 36.36% over the average of the closing prices of HK$0.088 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 25 September 2008, being the last trading day prior to suspension of trading in the Shares on the Stock Exchange on 26 September 2008;

(iii) a premium of approximately 34.83% over the average of the closing prices of HK$0.089 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 25 September 2008, being the last trading day prior to suspension of trading in the Shares on the Stock Exchange on 26 September 2008;

(iv) a premium of approximately 18.8% over the closing price of HK$0.101 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(v) a premium of approximately 605.88% over the audited net assets value per Share as at 31 March 2008 of approximately HK$0.017; and

(vi) a premium of approximately 60% over the unaudited net assets value per Share as at 30 September 2008 of approximately HK$0.075.

The Conversion Price is subject to adjustments upon the occurrence of consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, capital distributions, rights issues of Shares, options over Shares, issue of Shares or convertible securities other than Shares issued on the exercise of the conversion right at price less than 80% of the then market price per Share, modification of rights of conversion, offers to Shareholders, or any other events the Company determines that a downward adjustment should be made to the conversion price.

Ranking: The Convertible Notes will at all times rank at least pari passu with all other present and future unsecured and unsubordinated obligations of the Company, save for such obligations as may be provided by mandatory provisions of applicable law.

The Conversion Shares being allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes shall rank pari passu in all respects with all other Shares in issue as at the date of conversion.

Listing: The Convertible Notes will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

Under the terms of the Convertible Notes, the Share Charges will be executed upon Completion by the Purchaser, the Company and the Target Company respectively to charge the Sale Shares, the entire issued shares of the Purchaser and 70% equity interest in the issued share capital of the Russia Subsidiary in favour of the Vendor as securities for the Convertible Notes during its subsistence. The Share Charges shall be released at the earliest of (i) the date falling three years from the date of the Share Charges; (ii) upon the date on which the Vendor ceases to hold Convertible Notes with a face value of 50% or more of the Convertible Notes issued; and (iii) if all present and futures moneys, debts and liabilities due, owing or incurred by the Company to the holder of the Convertible Notes have been irrevocably paid.

For illustration purposes only, upon full conversion of the Convertible Notes at the Conversion Price, a total of 54,327,000,000 Conversion Shares will be allotted and issued at maximum, representing (i) approximately 1,901.21% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 95% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following chart sets out the shareholding structure of the Company as at the Latest Practicable Date and, assuming there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date, (i) immediately after the allotment and issue of the Conversion Shares upon conversion of the First Convertible Note by the Vendor to the extent that the Vendor will hold 29.99% of the entire issued Shares after such conversion; (ii) immediately after the allotment and issue of the Conversion Shares upon conversion of the First Convertible Note by the Vendor to the extent that the Vendor will hold 29.99% of the entire issued Shares after such conversion and full exercises of the Options and the Warrants; (iii) immediately after the allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes by the Vendor; and (iv) immediately after the allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes by the Vendor and full exercises of the Options and the Warrants.

	As at the Latest Practicable Date		**Immediately after the allotment and issue of the Conversion Shares upon conversion of the First Convertible Note by the Vendor to the extent that the Vendor will hold 29.99% of the entire issued Shares after such conversion**		**Immediately after the allotment and issue of the Conversion Shares upon conversion of the First Convertible Note by the Vendor to the extent that the Vendor will hold 29.99% of the entire issued Shares after such conversion and full exercises of the Options and the Warrants**		**Immediately after the allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes by the Vendor** *(Note 3)*		**Immediately after the allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes by the Vendor and full exercises of the Options and the Warrants** *(Note 3)*	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*
DTV China Holdings Limited	648,000,000	22.68	648,000,000	15.88	648,000,000	12.68	648,000,000	1.13	648,000,000	1.12
Goldwyn Management Limited *(Note 1)*	560,000,000	19.60	560,000,000	13.72	560,000,000	10.96	560,000,000	0.98	560,000,000	0.97
The Vendor	–	–	1,224,060,291	29.99	1,532,639,014	29.99	54,327,000,000	95.00	54,327,000,000	93.82
Mr. Li Wing Sang *(Note 2)*	–	–	–	–	19,560,000	0.38	–	–	19,560,000	0.03
Mr. Chiu Chi Hong *(Note 2)*	–	–	–	–	19,560,000	0.38	–	–	19,560,000	0.03
Public Shareholders										
Plenty Holdings Limited	240,000,000	8.40	240,000,000	5.88	240,000,000	4.70	240,000,000	0.42	240,000,000	0.42
Other public Shareholders	1,409,501,200	49.32	1,409,501,200	34.53	2,090,741,200	40.91	1,409,501,200	2.47	2,090,741,200	3.61
Sub-total	1,649,501,200	57.72	1,649,501,200	40.41	2,330,741,200	45.61	1,649,501,200	2.89	2,330,741,200	4.03
Total	2,857,501,200	100.00	4,081,561,491	100.00	5,110,500,214	100.00	57,184,501,200	100.00	57,904,861,200	100.00

Notes:

1. The entire issued share capital of Goldwyn Management Limited is beneficially owned by Mr. Lim Ho Sok, an executive Director as at the Latest Practicable Date.

2. As at the Latest Practicable Date, the Company has (i) 173,360,000 outstanding Options granted to certain employees of the Company, carrying rights to subscribe for 173,360,000 Shares; and (ii) 547,000,000 outstanding Warrants entitling the holders of the Warrants to convert into 547,000,000 Shares. Save for the aforesaid Options and Warrants, the Company does not have any other outstanding options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date. Mr. Li Wing Sang and Mr. Chiu Chi Hong, being executive Directors, each holds 19,560,000 Options.

3. The shareholding structures for scenario (iii) and (iv) are for illustration purpose only as pursuant to the terms of the Convertible Notes, (i) after the exercise of the conversion right attached to the Convertible Notes, the holder of the Convertible Notes, together with the parties acting in concert with it shall not hold or control such level of the voting rights of the Company as may trigger a mandatory general offer under the Takeovers Code, regardless of whether a waiver has been granted by the SFC on the obligation of a mandatory general offer under the Takeovers Code; and (ii) the conversion of the outstanding principal amount of the Convertible Notes will not cause the public float of the Company unable to meet the requirement under Rule 8.08 of the Listing Rules.

4. To the best of Directors' knowledge, information and belief having made all reasonable enquiries, (i) each of the Vendor and the Warrantor is not, or is not presumed to be, a party acting in concert with the existing Shareholders and their respective ultimate beneficial owners; and (ii) each of Plenty Holdings Limited, Goldwyn Management Limited, DTV China Holdings Limited and their respective ultimate beneficial owner(s) is not, or is not presumed to be, a party acting in concert with the Vendor, the Warrantor and other existing Shareholders and their respective ultimate beneficial owners.

DILUTION EFFECT ON SHAREHOLDERS

Due to the significant dilutive nature of the Conversion Shares, the Company would adopt the following additional disclosure measures if the Acquisition Agreement proceeds to Completion:

(i) the Company will make a monthly announcement ("**Monthly Announcement**") on the websites of the Stock Exchange and the Company. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

(a) whether there is any conversion of the First Convertible Note, the Second Convertible Note and/or the Third Convertible Note during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Shares issued and Conversion Price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

(b) the amount of the outstanding Convertible Notes after the conversion, if any;

(c) the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

(d) the total issued share capital of the Company as at the commencement and the last day of the relevant months.

(ii) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the First Convertible Note, the Second Convertible Note and/or the Third Convertible Note reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the First Convertible Note, the Second Convertible Note and/or the Third Convertible Note (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the websites of the Stock Exchange and the Company including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the First Convertible Note, the Second Convertible Note and/or the Third Convertible Note (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the First Convertible Note, the Second Convertible Note and/or the Third Convertible Note (as the case may be); and

(iii) if the Company forms the view that any issue of the Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company will make such disclosures regardless of the issue of any announcements in relation to the First Convertible Note, the Second Convertible Note and/or the Third Convertible Note as mentioned in (i) and (ii) above.

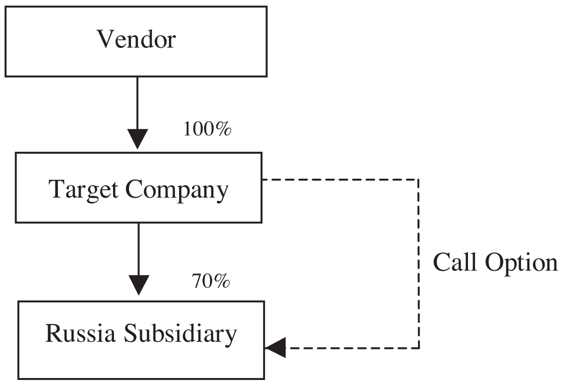
INFORMATION ON THE GROUP

The Group is principally engaged in (i) digital television broadcasting industry including provision of equipments and software of cable video-on-demand system, information broadcasting system, embedded television systems and value-added services; and (ii) sourcing, manufacture and sale of garment and trading of a variety premium items all over the world.

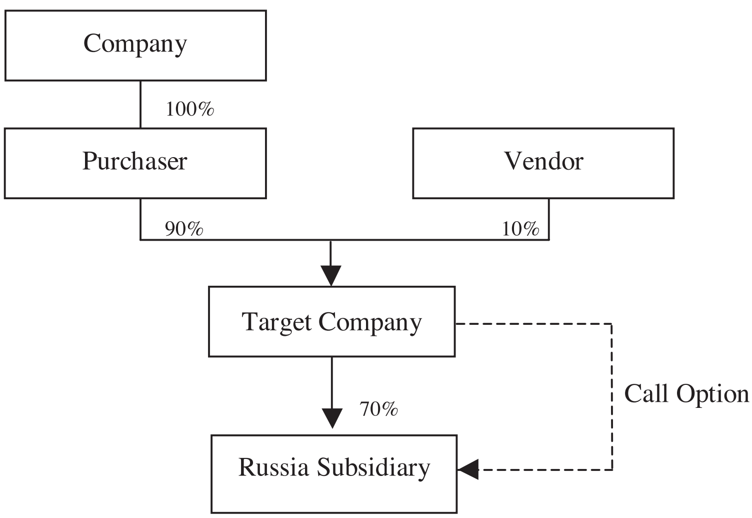
INFORMATION ON THE TARGET GROUP

The shareholding structure of the Target Group

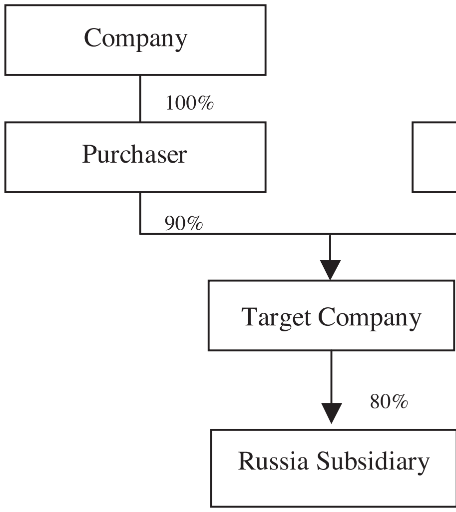
As at the Latest Practicable Date, immediately before Completion and before the exercise of the Call Option:



Immediately after Completion and before the exercise of the Call Option:



Immediately after Completion and after the exercise of the Call Option:



The Target Company

The Target Company is incorporated in the Republic of Cyprus in May 2008 with limited liability. As at the Latest Practicable Date, the Target Company is a wholly-owned subsidiary of the Vendor and an investment holding company principally engaged in the holding of a 70% equity interest in the Russia Subsidiary. The Target Company also has the Call Option, granting it the right to demand the Russian Shareholders to sell, in proportion to their shareholdings, to the Target Company 10% equity interest in the issued share capital of the Russia Subsidiary at an aggregate price of US$4 million (or equivalent to approximately HK$31.2 million) after the Russia Subsidiary having obtained the Proposed New Licence (as defined in respect of the Call Option). As advised by the Vendor, the Proposed New Licence for the purpose of the Call Option refers to the Consolidated Mining Licence being applied by the Russia Subsidiary, details of which are set out in the section headed “Information on the Coal Mine” below. The Call Option was owned by the Target Company before the date of the Acquisition Agreement and the application of the Consolidated Mining Licence made by the Russia Subsidiary.

The Vendor and the Warrantor currently have no intention to nominate the Vendor or the Warrantor as directors of the Target Company or the Russia Subsidiary. The Board currently has no intention to nominate the Vendor or the Warrantor as directors of the Company and any of its subsidiaries. As such, the Vendor and the Warrantor will not become a controller (as defined under Chapter 14A of the Listing Rules) of the Company as a result of the Acquisition.

The Russia Subsidiary

The Russia Subsidiary, a company incorporated in Russia with limited liability in November 2004, is owned as to 70% by the Target Company and as to 30% by the Russian Shareholders who, to the best of Directors’ knowledge, information and belief having made all reasonable enquiries are Independent Third Parties as at the Latest Practicable Date. The Russia Subsidiary is the registered holder of the Existing Mining Licence, granting it the right to mine at Lot 1 of the Coal Mine, and will be principally engaged in the mining of the Coal Mine. The Russia Subsidiary was previously engaged in the trading of coal.

Financial information

The Russia Subsidiary has become a subsidiary of the Target Company, which was incorporated in May 2008, since September 2008. Accordingly, the accountants' reports on the following financial information, which have been prepared under accounting principles generally accepted in Hong Kong, are set out in Appendices IIA and IIB respectively to this circular: (1) the financial statements of the Target Company from 22 May 2008 (date of incorporation) to 31 August 2008; and (2) the financial statements of the Russia Subsidiary for the three years ended 31 December 2007 and the eight months ended 31 August 2008.

According to the audited financial information of the Target Company prepared in accordance with the accounting principles generally accepted in Hong Kong for the period from 22 May 2008 (date of incorporation) to 31 August 2008, the Target Company did not record any turnover or result for the period from 22 May 2008 (date of incorporation) to 31 August 2008, and its audited net asset amounted to US$1,280 as at 31 August 2008.

Set out below is the audited financial information of the Russia Subsidiary prepared in accordance with the accounting principles generally accepted in Hong Kong:

	For the year ended 31 December 2006 *(RUB'000)*	**For the year ended 31 December 2007** *(RUB'000)*
Turnover	25,181	11,973
Loss before taxation	954	18,394
Loss after taxation	817	14,619

As at 31 August 2008, the audited net liabilities value of the Russia Subsidiary as prepared in accordance with the accounting principles generally accepted in Hong Kong was approximately RUB24.8 million.

INFORMATION ON THE COAL MINE

The Coal Mine is located in Petrov region in the state of Kemerovo, Russia, which comprises Lot 1, Lot 1 Extension and Lot 2 that are adjacent to each other and is currently not in operation. Lot 1 is a mining area within the boundary covered by the Existing Mining Licence, which excludes Lot 1 Extension and includes seams down to the level of 65 metres underground. Lot 1 Extension is a mining area within the boundary of Lot 1 and includes seams from the level of 65 metres underground to 400 metres underground. Lot 2 includes the Petrosky area to the west and the Kemerovsky area to the south, which is outside the boundary covered by the Existing Mining Licence. As at the Latest Practicable Date, save for Lot 1 which is covered by the Existing Mining Licence, the Russia Subsidiary has not obtained the mining licences for Lot 1 Extension and Lot 2 of the Coal Mine.

Up to the Latest Practicable Date, the Russia Subsidiary is the holder of the Existing Mining Licence, with licence number KEM 13206 TЭ and expiry date in December 2014, granting the Russia Subsidiary the right to mine at Lot 1 of the Coal Mine. Despite that Lot 1 Extension of the Coal Mine is currently not covered by the Existing Mining Licence, the Directors consider that the Russia Subsidiary will be able to mine at Lot 1 Extension of the Coal Mine given that (i) as advised by the Company's Russia legal adviser, the Russia Subsidiary will be forced by the relevant local government authority to develop the mining operation at Lot 1 and Lot 1 Extension of the Coal Mine in order to minimise or avoid potential losses of the coal reserves and coal resources at Lot 1 Extension of the Coal Mine that may result from developing the mining operation of Lot 1 of the Coal Mine alone; and (ii) the Russia Subsidiary has applied for the Consolidated Mining Licence which, if successfully obtained, shall grant the holder, among others, the right to mine at Lot 1 Extension of the Coal Mine.

As advised by the Company's Russia legal adviser, due to the geographical locations of Lot 1, Lot 1 Extension and Lot 2 that are adjacent to each other, the Russia Subsidiary is in an advantageous position in applying and obtaining the mining licence for Lot 2 because it would be economically and technologically difficult for other parties to develop mining operation at Lot 2 without possessing the mining rights at Lot 1 and Lot 1 Extension. As advised by the Company's Russia legal adviser, application has been made by the Russia Subsidiary for the Consolidated Mining Licence, which shall grant the holder the right to mine at Lot 1, Lot 1 Extension and Lot 2 of the Coal Mine. As advised by the Company's Russia legal adviser, the Consolidated Mining Licence can be issued by the end of June 2009. As advised by the Company's Russia legal adviser, there are no claims in relation to the Existing Mining Licence made or notified either by third parties against the Russia Subsidiary.

SRK, an independent technical adviser, has been appointed by the Company to provide an independent technical assessment on the coal reserves and coal resources of the Coal Mine in accordance with the JORC Code, the results of which are set out below:

	Coal resources			**Coal reserves**
	Measured (approximate Mt)	**Indicated (approximate Mt)**	**Inferred (approximate Mt)**	**Probable (approximate Mt)**
Lot 1	4.91	—	—	4.91
Lot 1 Extension	1.10	0.68	2.06	1.78
Sub-total	6.01	0.68	2.06	6.69
Lot 2	2.20	0.14	12.94	—
Total	8.21	0.82	15.00	6.69

The technical terms in the following paragraphs shall have the same meanings as those defined in the Technical Report of the Coal Mine set out in Appendix VIII to this circular. As stated in the Technical Report of the Coal Mine, under the Russian classification scheme in the 1982 Exploration Report, coal types of the Coal Mine are mainly classified as grades KSN and SS. A vast majority of the samples for the Vladimirovsky Seam are classified as KSN grade, the samples for the Volkovsky Seam are classified as SS grade; and a majority of samples for the Kemerovsky Seam are predominantly classified as KSN grade. The average ash content being classified as KSN grade at Vladimirovsky Seam, SS grade at Volkovsky Seam and KSN grade at Kemerovsky Seam are 10.7%, 9.2% and 12.4% respectively while the range of the sulphur content varies from 0.29% to 0.41% for the three seams. According to the Technical Report of the Coal Mine, such types of coal fall close to the limits designated for coking coals in terms of volatile matter and maceral content.

As advised by the Directors, after Completion, the Company will engage a technical expert to further carry out appropriate assessments and studies of Lot 2 of the Coal Mine in order to ascertain the amount of proved reserves and/or probable reserves at Lot 2 of the Coal Mine. The details of the Coal Mine and the assessment of SRK on the Coal Mine is set out in the technical report of the Coal Mine in Appendix VIII to this circular.

DEVELOPMENT PLAN FOR THE COAL MINE

According to a development plan for the Coal Mine being developed by the Kuzbass Giproshakht Mine Design Institute, a professional design institute specializing in coal mine project design in Russia and an Independent Third Party, and as reviewed and amended by SRK, the Coal Mine has a planned project horizon of 20 years with initial development to be commenced at Lot 1 of the Coal Mine for the first few years subsequent to Completion, followed by the development of Lot 1 Extension of the Coal Mine. Moreover, it is the plan that the development of Lot 2 will commence subsequently only after (i) the mining licence for Lot 2 of the Coal Mine having been obtained by the Russia Subsidiary; and (ii) a technical report issued by a technical expert acceptable to the Purchaser and the Vendor confirming the total of the proved reserves and the probable reserves of Lot 2 of the Coal Mine being not less than 12 Mt.

The initial investment required for the construction, installation of new facilities and infrastructure for the development of Lot 1 of the Coal Mine which will be incurred in the first two years is expected to be approximately US$67 million (or equivalent to approximately HK$522.6 million). The Company currently envisages that such investment will be funded by internal resources of the Group, borrowings, issue of securities of the Company and other feasible ways of financing. Further details in this regard will be announced by the Company as and when appropriate.

REASONS FOR THE ACQUISITION

As set out in the chairman's statement of the Company's annual report for the year ended 31 March 2008 and the Company's interim results announcement for the six months ended 30 September 2008, the Group has been seeking for business opportunities with a view to improving the competitiveness of the Group and expanding the profit base of the Group. While keeping abreast with the existing core business, the Group will look for new investments in order to increase the value of the Company. This strategy is consistent with the Group's acquisition of a 51% equity interest in DTV China Inc., which is principally engaged in the provision of digital television technology services, including cable video-on-demand system, information broadcasting system and embedded television systems as mentioned in the Company's announcements dated 10 March 2008 and 29 February 2008. As mentioned in the Company's announcement dated 28 October 2008 in respect of the discloseable and connected transaction for the disposal of a subsidiary engaged in garment trading, the Directors are not optimistic over the performance of the garment industry in view of the intense competition in the industry. As mentioned in the Company's interim report for the six months ended 30 September 2008, in view of the economic turmoil which has seriously hit the global retail market and thus a worse business performance is expected for the garment business, the Group will gradually step out from the garment products segment so as to put more effort to other more promising business.

According to statistics from the World Coal Institute in 2007, (i) Russia is the world's sixth largest hard coal producer; and (ii) the global hard coal consumption increased by approximately 42% from 1996 to 2006, while the global hard coal trading volume increased by approximately 59% from 1996 to 2006. Based on this, it can be observed that the development of the coal industry has experienced dramatic growth and the demand for coal is rising. The Directors consider that the Acquisition will enable the Group to participate in the coal mining industry in Russia which has good business potential and therefore, will broaden the Group's revenue base by diversifying to the coal mining, in particular the production of coking coal business.

After taking into account, among others, (i) the future prospects and growth potential for the coal mining industry; (ii) the Group's strategy to look for new investments that can enhance the value of the Company; (iii) the opportunity to broaden the Group's revenue base by diversifying to the coal mining business; and (iv) the bases of the Consideration, the First Contingent Consideration and the Second Contingent Consideration as mentioned under the paragraphs headed "Consideration and Contingent Consideration" in the letter from the Board in this circular, the Directors consider that the terms of the Acquisition are on normal commercial terms, fair and reasonable and in the interest of the Group and the Shareholders as a whole.

Upon Completion, the Target Company and the Russia Subsidiary will become indirect non-wholly owned subsidiaries of the Company and their results will be consolidated into the Group's financial statements. The total assets and total liabilities of the Group will be increased without any immediate material impact on the earnings of the Group as a result of the Acquisition. Details of the effect of the Acquisition on the earnings, assets and liabilities of the Group is set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular.

RISK FACTORS

Possible risk factors which may be faced by the Company are as follows:

Investments in new business

The Acquisition constitutes an investment in the new business sector of coal mining. The new business, coupled with the regulatory environment, may pose significant challenges to the Group's administrative, financial and operational resources. Since the Group does not have significant experience in the new business, it is not in a position to assure the timing and amount of any return that may be generated from the new business, nor is it in a position to control the operation risks, including the risk of obtaining and renewing the relevant mining licences, that could lead to a loss. If any exploration and mining projects, in which the Enlarged Group attempts to develop does not progress as planned, the Enlarged Group may not recover the funds and resources it has spent, and this may adversely affect the Enlarged Group.

Country risk

The Group is entering into a new business in Russia, which the Group does not have any business therein. There is a possibility that changes in the business environment will reduce the profitability of doing business in Russia. The change of political and economic conditions in Russia may adversely affect the Group.

Significant and continuous capital investment

The coal mining business requires significant and continuous capital investment. The investment may not be completed as planned and may exceed the original budgets, and it is not guaranteed to achieve the intended economic results or commercial viability. Actual capital expenditures for the new business may significantly exceed the Enlarged Group's budgets because of various factors beyond the Enlarged Group's control, which in turns may affect the Enlarged Group's financial condition.

Cyclical nature of coal markets and fluctuations in coal prices

As the revenue of the new business will be derived from coal and coal-related operations, part of the Company's future business and results of operations may be dependent on the international and Russia's supply of and demand for coal. The fluctuations in supply and demand are caused by numerous factors beyond the Company's control, which include, but not limited to:

(i) global and domestic economic and political conditions and competition from other energy sources; and

(ii) the rate of growth and expansion in industries with high coal demand, such as steel and power industries.

There is no assurance that the international and Russia's demand for coal and coal-related products will continue to grow, or that the international and Russia's demand for coal and coal-related products will not experience excess supply.

The market coal prices has dropped and exhibited a volatile trend by the end of 2008 recently. As the Directors consider that the market coal prices may be exposed to fluctuations in the future, if the selling prices of Russia Subsidiary's products cannot maintain a positive margin after it commences production, the Enlarged Group's profitability and financial condition may be adversely affected.

Coal Quality

The coal quality of the Coal Mine as disclosed in the Technical Report of the Coal Mine as set out in Appendix VIII to this circular was based on past data. As advised by SRK, no assessment on the coal quality could be performed by SRK as at the Latest Practicable Date because the Coal Mine had been closed since 1989. As advised by SRK, an independent assessment on the coal quality of the Coal Mine can be performed upon the Coal Mine commences operation. SRK expected no substantial change in the coal quality as at the Latest Practicable Date from those as disclosed in the Technical Report of the Coal Mine. The actual quality of coal to be mined from the Coal Mine may be different from that as disclosed in the Technical Report of the Coal Mine. If the actual quality of coal at the Coal Mine is significantly worse than that as disclosed in the Technical Report of the Coal Mine, the Enlarged Group's profitability and results of operation may be adversely affected.

Policies and regulations

The new business is subject to extensive governmental regulations, policies and controls. There can be no assurance that the relevant government authorities will not change the existing laws and regulations or impose additional or more stringent laws or regulations. Failure to comply with the relevant laws and regulations in the coal mining industry in Russia may adversely affect the Enlarged Group.

Environmental protection policies

The coal mining business is subject to the environmental protection law and regulations in Russia. If the Enlarged Group fails to comply with existing or future environmental laws and regulations, the Enlarged Group may be required to take remedial measures, which could have a material adverse effect on the business, operations, financial condition and results of operations of the Enlarged Group.

Fluctuations in exchange rates could materially and adversely affect the Enlarged Group's operating cash flows and profitability

Fluctuations in the RUB relative to other currencies could materially and adversely affect the Russia Subsidiary's, and hence the Enlarged Group's cash flow and earnings. The revenue of the Russia Subsidiary may or may not be denominated in currencies other than RUB while the operating costs of the Russia Subsidiary are mainly denominated in RUB. If fluctuations in exchange rates lead to significant net exchange losses, the Enlarged Group's consolidated financial results could be materially and adversely affected.

Effect of the recent global financial crisis

Since September 2008, various leading global investment and financial institutions in the United States have declared bankruptcy or sought emergency financial support, or rescue packages, from the United States government. The global financial crisis is ongoing and has resulted in a global credit tightening. Furthermore, the deteriorating situation increases counterparties' risk under the global financial crisis and have exacerbated the liquidity and credit crunch. This unexpected liquidity and credit crunch has affected not only the banking and financial sectors, but also commercial sectors which rely on availability of banking facilities and bank borrowings and accordingly may adversely affect the business prospects, financial position and performance of the Enlarged Group.

Shareholders and potential investors are advised that the Group will be exposed to the above risk factors and/or other risks in connection with the Acquisition. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the existing authorised share capital of the Company is HK$100,000,000 being divided into 10,000,000,000 Shares of par value of HK$0.01 each, of which 2,857,501,200 Shares have been issued and fully paid. As such, the number of Shares which the Company may allot and issue under the existing unissued authorised share capital of 7,142,498,800 Shares is insufficient to cover the allotment and issue of the Conversion Shares. Accordingly, the Company proposes to increase the authorised share capital of the Company from HK$100,000,000 comprising 10,000,000,000 Shares to HK$1,000,000,000 comprising 100,000,000,000 Shares by the creation of 90,000,000,000 Shares, which will be subject to passing of the ordinary resolution by the Shareholders at the EGM.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

Save as disclosed below, the Company has not raised fund on any issue of equity securities in the past 12 months immediately before the Latest Practicable Date.

Date of announcement	Event	Placing Price	Net proceeds *(HK$'million)*	Intended and actual use of net proceeds
5 August 2008	Private placing of unlisted warrants with subscription rights attached to the warrants	HK$0.01 per warrant Subscription price HK$0.08 per subscription Share	1.61 15.69 (upon full exercise of the subscription rights)	The net proceeds were intended to be applied as general working capital of the Group and any additional proceeds from the issue of new Shares upon the exercise of the subscription rights attaching to the warrants in future would be applied as general working capital and as funds for future development of the Group when investment opportunities arise. The net proceeds received up to the Latest Practicable Date have been applied as general working capital of the Group.
15 November 2007	Issue of unlisted warrants with subscription rights attached to the warrants	HK$0.01 per warrant Subscription price HK$0.21 per subscription Share	3.6 85.71 (upon full exercise of the subscription rights)	The net proceeds were intended to be applied as general working capital of the Group and any additional proceeds from the issue of new Shares upon the exercise of the subscription rights attaching to the warrants in future would be applied as general working capital and as funds for future development of the Group and other business when investment opportunities arise. The net proceeds received up to the Latest Practicable Date have been applied as general working capital of the Group.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the Shareholders' approval under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, to the best of Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor, the Warrantor and their respective associates does not own or hold any Shares. As no Shareholders have any material interest in the Acquisition, no Shareholder is required to abstain from voting at the EGM on the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes, the allotment and issue of the Conversion Shares upon exercise of the Convertible Notes and the exercise of the Call Option), and the increase in the authorised share capital of the Company.

Further, according to the amended Rule 13.39(4) of the Listing Rules to be implemented on 1 January 2009, any vote of the Shareholders at the EGM must be taken by way of poll and an announcement shall be made by the Company after the EGM on the results thereof.

EGM

Set out on pages N-1 to N-3 is a notice convening the EGM to be held at 3:30 p.m. on Friday, 16 January 2009 at 19/F, Chun Wo Commercial Centre, 23-29 Wing Wo Street, Central, Hong Kong at which resolutions will be proposed to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder and the increase in the authorised share capital of the Company.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon 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 and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish.

RECOMMENDATION

For the reasons set out above, the Directors consider that the terms of the Acquisition are fair and reasonable and in the interest of the Shareholders and the Group as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder. The Directors also recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the proposed increase in the authorised share capital of the Company.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Rontex International Holdings Limited
Li Wing Sang
Deputy Chairman

A. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the results of the Group for each of the the three financial years ended 31 March 2006, 2007 and 2008 and the assets and liabilities of the Group as at 31 March 2006, 2007 and 2008 extracted from the relevant annual reports of the Company.

The Group's financial statements for each of the three years ended 31 March 2006, 2007 and 2008 were unqualified.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	120,550	166,429	194,281
Cost of sales	(102,747)	(140,060)	(164,221)
Gross profit	17,803	26,369	30,060
Other revenue and gains	1,910	801	654
Impairment loss on property, plant and equipment	—	—	(4,831)
Write-off of/impairment loss on trade receivables	(411)	(354)	(858)
Selling and distribution costs	(7,938)	(11,517)	(11,108)
Administrative and other expenses	(20,616)	(16,958)	(24,301)
Operating loss	(9,252)	(1,659)	(10,384)
Finance costs	(2,085)	(2,728)	(3,651)
Share of profits less losses of associates	(670)	(1,480)	(915)
Share of loss of a jointly-controlled entity	(2,631)	(2,439)	—
Tax penalties and surcharges	—	(3,759)	—
Impairment loss on available-for-sale investment	—	—	(23,657)
Impairment loss on goodwill	—	(19,458)	—
Loss before taxation	(14,638)	(31,523)	(38,607)
Income tax	140	(7,831)	—
Loss for the year	(14,498)	(39,354)	(38,607)

CONSOLIDATED INCOME STATEMENT *(continued)*

	For the year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Attributable to:			
Equity holders of the Company	(12,821)	(38,684)	(36,945)
Minority interests	(1,677)	(670)	(1,662)
	(14,498)	(39,354)	(38,607)
Dividend	—	—	—
Loss per share attributable to ordinary equity holders of the Company			
Basic (HK cents)	0.644	2.353	2.267
Diluted (HK cents)	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold land and land use rights	7,530	12,646	12,444
Property, plant and equipment	9,587	12,146	29,109
Interests in associates	14,670	15,110	16,792
Interest in a jointly-controlled entity	—	2,631	—
Goodwill	—	—	19,458
Available-for-sale investments	—	1,573	688
Deposits and direct costs paid for acquisition of a subsidiary	12,071	—	—
	43,858	44,106	78,491
Current assets			
Property held for sale	7,332	—	—
Trading securities	278	—	—
Inventories	2,645	2,961	5,365
Trade receivables	7,451	14,401	7,831
Other receivables, deposits and prepayments	467	5,169	4,580
Current tax recoverable	—	—	1,083
Amounts due from related parties	—	2,490	—
Cash and cash equivalents	19,322	5,426	4,716
	37,495	30,447	23,575
Current liabilities			
Interest-bearing bank borrowings, secured	11,203	16,064	10,806
Trade payables	4,866	4,213	14,624
Other payables, accrued expenses and deposits received	12,795	7,657	8,201
Current tax liabilities	39	3,833	—
Tax penalty and surcharge payables	—	2,939	—
Amounts due to directors/related parties	4,277	4,256	5,387
	33,180	38,962	39,018
Net current assets/(liabilities)	4,315	(8,515)	(15,443)
Net assets	48,173	35,591	63,048

CONSOLIDATED BALANCE SHEET *(continued)*

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
EQUITY			
Share capital	20,475	18,075	16,295
Reserves	26,697	15,028	39,143
Equity attributable to equity holders of the Company	47,172	33,103	55,438
Minority interests	1,001	2,488	7,610
Total equity	48,173	35,591	63,048

B. AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008

Set out below are the consolidated income statement of the Group for the two years ended 31 March 2008, the consolidated balance sheet of the Group as at 31 March 2007 and 2008, the consolidated statement of changes in equity of the Group for the two years ended 31 March 2008 and the consolidated cash flow statement of the Group for the two years ended 31 March 2008 together with the 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

	Note	**2008** *HK$'000*	**2007** *HK$'000*
Turnover	*6*	120,550	166,429
Cost of sales		(102,747)	(140,060)
Gross profit		17,803	26,369
Other revenue and gains	*6*	1,910	801
Write-off of/impairment loss on trade receivables		(411)	(354)
Selling and distribution costs		(7,938)	(11,517)
Administrative and other expenses		(20,616)	(16,958)
Operating loss		(9,252)	(1,659)
Finance costs	*7*	(2,085)	(2,728)
Share of profits less losses of associates	*18*	(670)	(1,480)
Share of loss of a jointly-controlled entity	*19*	(2,631)	(2,439)
Tax penalties and surcharges	*10(iii)*	—	(3,759)
Impairment loss on goodwill	*20*	—	(19,458)
Loss before taxation	*8*	(14,638)	(31,523)
Income tax	*10(i)*	140	(7,831)
Loss for the year		(14,498)	(39,354)

CONSOLIDATED INCOME STATEMENT *(continued)*
For the year ended 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
Attributable to:			
Equity holders of the Company	11	(12,821)	(38,684)
Minority interests		(1,677)	(670)
		(14,498)	(39,354)
Dividend	12	—	—
Loss per share attributable to ordinary equity holders of the Company			
Basic (HK cents)	13	0.644	2.353
Diluted (HK cents)	13	N/A	N/A

CONSOLIDATED BALANCE SHEET

At 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold land and land use rights	14	7,530	12,646
Property, plant and equipment	15	9,587	12,146
Interests in associates	18	14,670	15,110
Interest in a jointly-controlled entity	19	—	2,631
Goodwill	20	—	—
Available-for-sale investments	21	—	1,573
Deposits and direct costs paid for acquisition of a subsidiary	22	12,071	—
		43,858	44,106
Current assets			
Property held for sale	16	7,332	—
Trading securities	23	278	—
Inventories	24	2,645	2,961
Trade receivables	25	7,451	14,401
Other receivables, deposits and prepayments		467	5,169
Amounts due from related parties	37(c), 10(iii)	—	2,490
Cash and cash equivalents	26	19,322	5,426
		37,495	30,447
Current liabilities			
Interest-bearing bank borrowings, secured	27	11,203	16,064
Trade payables	28	4,866	4,213
Other payables, accrued expenses and deposits received		12,795	7,657
Current tax liabilities		39	3,833
Tax penalty and surcharge payables	10(iii)	—	2,939
Amounts due to directors	37(b)	4,277	4,256
		33,180	38,962
Net current assets/(liabilities)		4,315	(8,515)
Net assets		48,173	35,591

CONSOLIDATED BALANCE SHEET *(continued)*
At 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
EQUITY			
Share capital	29	20,475	18,075
Reserves		26,697	15,028
Equity attributable to equity holders of the Company		47,172	33,103
Minority interests		1,001	2,488
Total equity		48,173	35,591

BALANCE SHEET
At 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	42,695	49,207
Current assets			
Other receivables, deposits and prepayments		219	4,242
Cash and cash equivalents	26	1,263	3,232
		1,482	7,474
Current liabilities			
Other payables and accrued expenses		356	328
Amounts due to subsidiaries	17	—	23,152
		356	23,480
Net current assets/(liabilities)		1,126	(16,006)
Net assets		43,821	33,201
EQUITY			
Share capital	29	20,475	18,075
Reserves	30	23,346	15,126
Total equity		43,821	33,201

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2008

	Share capital HK$'000 (note 29)	Share premium HK$'000	Contributed surplus HK$'000 (note a)	Translation reserve HK$'000	Equity-settled share option reserve HK$'000 (note b(i))	Warrant reserve HK$'000 (note b(ii))	Capital reserve HK$'000 (note b(iii))	Available-for-sale investment revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 April 2006	16,295	15,294	918	1,062	–	–	–	–	21,869	55,438	7,610	63,048
Change in fair value of available-for-sale investments	–	–	–	–	–	–	–	885	–	885	–	885
Exchange differences arising on translation of overseas operations	–	–	–	393	–	–	–	–	–	393	92	485
Total income recognised directly in equity	–	–	–	393	–	–	–	885	–	1,278	92	1,370
Loss for the year	–	–	–	–	–	–	–	–	(38,684)	(38,684)	(670)	(39,354)
Total income and expenses for the year	–	–	–	393	–	–	–	885	(38,684)	(37,406)	(578)	(37,984)
Contributions from equity holders of the Company *(note 10(iii))*	–	–	–	–	–	–	4,233	–	–	4,233	–	4,233
Premium received on issue of warrants *(note 32)*	–	–	–	–	–	2,296	–	–	–	2,296	–	2,296
Issue of shares on exercise of warrants	900	3,765	–	–	–	(795)	–	–	–	3,870	–	3,870
Grant of share options *(note 31)*	–	–	–	–	800	–	–	–	–	800	–	800
Issue of shares on exercise of share options	880	3,535	–	–	(543)	–	–	–	–	3,872	–	3,872
Reclassification of interest in a subsidiary into a jointly-controlled entity *(note 35)*	–	–	–	–	–	–	–	–	–	–	(4,544)	(4,544)
At 31 March 2007 and 1 April 2007	18,075	22,594	918	1,455	257	1,501	4,233	885	(16,815)	33,103	2,488	35,591
Exchange differences arising on translation of overseas operations and total income recognised directly in equity	–	–	–	920	–	–	–	–	–	920	190	1,110
Recognised in the income statement on disposal of available-for-sale investments	–	–	–	–	–	–	–	(885)	–	(885)	–	(885)
Loss for the year	–	–	–	–	–	–	–	–	(12,821)	(12,821)	(1,677)	(14,498)
Total income and expenses for the year	–	–	–	920	–	–	–	(885)	(12,821)	(12,786)	(1,487)	(14,273)
Premium received on issue of warrants *(note 32)*	–	–	–	–	–	3,688	–	–	–	3,688	–	3,688
Issue of shares on exercise of warrants	1,700	7,099	–	–	–	(1,501)	–	–	–	7,298	–	7,298
Grant of share options *(note 31)*	–	–	–	–	4,566	–	–	–	–	4,566	–	4,566
Issue of shares on exercise of share options	700	10,860	–	–	(257)	–	–	–	–	11,303	–	11,303
At 31 March 2008	20,475	40,553	918	2,375	4,566	3,688	4,233	–	(29,636)	47,172	1,001	48,173

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*
For the year ended 31 March 2008

Note: (a) As at the balance sheet date, the contributed surplus of the Group represented the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the group reorganisation during the year ended 31 March 2003, over the nominal value of the shares of the Company issued in exchange therefor.

(b) As at the balance sheet date, the equity-settled share option reserve, warrant reserve and capital reserve of the Group represented (i) the fair value at respective grant dates in respect of the outstanding share options of the company; (ii) premium received in respect of the outstanding warrants of the Company; and (iii) the contributions from the equity holders of the Company for an indemnity of additional taxation liabilities, penalties, surcharges and other relevant costs of the Group in respect of any accounting periods ended on or before 31 March 2002, details of which are set out in note 10(iii) to the financial statements, respectively.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2008

	2008	2007
	HK$'000	*HK$'000*
Operating activities		
Loss before taxation	(14,638)	(31,523)
Adjustments for:		
Interest income	(265)	(44)
Net realised and unrealised gains on trading securities	(24)	—
Gains on disposal of available-for-sale investments (including transfer from equity on disposal)	(1,536)	—
Equity-settled share option expense	4,566	800
Depreciation	853	1,452
Amortisation of leasehold land and land use rights	128	248
Finance costs	2,085	2,728
Share of profits less losses of associates	670	1,480
Share of loss of a jointly-controlled entity	2,631	2,439
Loss on disposal of property, plant and equipment	—	127
Tax penalties and surcharges	—	3,759
Impairment loss on inventories	1,662	464
Impairment loss on property, plant and equipment	697	—
Write-off of/impairment loss on trade receivables	411	354
Impairment loss on goodwill	—	19,458
Operating cash (outflow)/inflow before working capital changes	(2,760)	1,742
Increase in inventories	(1,346)	(368)
Decrease/(increase) in trade receivables	6,539	(11,662)
Decrease/(increase) in other receivables, deposits and prepayments	4,627	(1,737)
Increase/(decrease) in trade payables	653	(1,148)
Decrease in other payables, accrued expenses and deposits received	(3,612)	(544)
Increase/(decrease) in amounts due to directors	21	(1,131)
Cash generated from/(used in) operations	4,122	(14,848)
Hong Kong profits tax paid	(3,654)	(2,915)
Interest and bank charges paid	(2,085)	(2,728)
Tax penalties and surcharges paid	(2,939)	(820)
Net cash used in operating activities	(4,556)	(21,311)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*
For the year ended 31 March 2008

	2008	**2007**
	HK$'000	*HK$'000*
Investing activities		
Reclassification of interest in a subsidiary into a jointly-controlled entity *(note 35)*	—	(4,504)
Deposit received on disposal of property held for sale	8,750	—
Repayment of amount due from an associate	1,057	—
Acquisition of additional interest in an associate	(455)	—
Deposits and direct costs paid for acquisition of a subsidiary	(12,071)	—
Interest received	265	44
Purchase of property, plant and equipment	(320)	(7,159)
Proceeds from disposal of property, plant and equipment	—	55
Investment in trading securities	(370)	—
Proceeds from disposal of trading securities	116	—
Proceeds from disposal of available-for-sale investments	2,224	—
Additions to land use rights	(16)	(783)
Net cash used in investing activities	(820)	(12,347)
Financing activities		
Proceeds from new bank borrowings	80,065	124,488
Repayment of bank borrowings	(84,052)	(102,185)
Proceeds from issue of warrants	3,688	2,296
Proceeds from issue of shares on exercise of warrants	7,298	3,870
Proceeds from issue of shares on exercise of share options	11,303	3,872
Contribution received from equity holders of the Company	2,490	1,743
Net cash generated from financing activities	20,792	34,084
Net increase in cash and cash equivalents	15,416	426
Cash and cash equivalents at beginning of year	3,964	3,777
Effect of foreign exchange rate changes	(58)	(239)
Cash and cash equivalents at end of year	19,322	3,964
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	19,322	5,426
Bank overdrafts	—	(1,462)
	19,322	3,964

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. ORGANISATION AND OPERATIONS

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 17 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment "Capital Disclosures" has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKASs 32&1 (Amendments)	Puttable financial instruments and obligations arising in liquidation	1 January 2009
HKFRS 2 (Amendment)	Share-based payment-vesting conditions and cancellation	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) — Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of their initial application.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) Basis of preparation of financial statements

These consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale investments and trading securities which are carried at fair value.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired and 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.

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

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.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Business combinations

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as 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 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised 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 recognised. 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 recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent.

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 recognised.

(e) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Interests in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Associates and jointly-controlled entities

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

A jointly-controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, which the contractual arrangement establishes the group or company and one or more of the other parties share joint control over the economic activity of the entity.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Associates and jointly-controlled entities *(continued)*

The results and assets and liabilities of associate or jointly-controlled entity are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates and 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 associates and jointly-controlled entities, less impairment in the value of individual investments. Losses of an associate or a jointly-controlled entity in excess of the Group's interest in that associate or jointly-controlled entity, which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or jointly controlled entity are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates or 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 associate or jointly-controlled entity recognised at the date of acquisition is recognised 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 recognised immediately in profit or loss.

Where a group entity transacts with an associate or jointly-controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate or jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

(g) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost less any recognised impairment losses. Cost includes professional fees and, for qualifying assets. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Buildings	2% to 5% or the terms of the leasehold land and land use rights, if shorter
Leasehold improvements	20%
Plant and machinery	6.67%
Furniture and fixtures	20%
Office equipment	10% to 20%
Motor vehicles	10% to 30%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

3. **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

(i) Impairment of assets excluding goodwill and financial assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. During the year, the group's financial assets are financial assets at fair value through profit or loss, loans and receivables, and available-for-sale investments, which are subsequently accounted for as follows, depending on their classification:

(i) Financial assets at fair value through profit or loss

Trading securities are classified as financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

(ii) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) Available-for-sale investments

Investments in securities which do not fall into any of the other two categories are classified as available-for-sale investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the available-for-sale investment revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available-for-sale investment revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale investments are recognised in profit or loss when the group's right to receive the dividends is established.

The fair value of available-for-sale investments denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

3. **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

(k) **Financial assets** *(continued)*

(iv) ***Impairment of financial assets*** *(continued)*

Financial assets, other than those at fair value through profit or loss, 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 investment have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security 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-organisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

3. **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

(k) **Financial assets** *(continued)*

(iv) ***Impairment of financial assets*** *(Continued)*

— For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment losses on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

— Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(v) ***Effective interest method***

The effective interest method is a method of calculating the amortised 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 through the expected life of the financial asset, or where appropriate, a shorter period.

(vi) ***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Financial liabilities and equity instrument issued by the group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(iii) Warrants

The premium received on issue of warrants is included in warrant reserve under equity of the Company and the Group until the warrants expire when it is released directly to retained profits/(accumulated losses).

(iv) Financial guarantee contract liabilities

Financial guarantee contract liabilities of the company are measured initially at their fair value and are subsequently measured at the higher of:

— the amount of the obligation under the contract, as determined in accordance with accounting policy in note 3(o), or

— the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies in note 3(u).

(v) Financial liabilities

Financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised 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.

(vi) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(o) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(p) Taxation

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

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Taxation *(continued)*

(ii) Deferred tax

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

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 liabilities are recognised 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Hong Kong dollar which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollar using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(r) Employees' benefits

i) Short term benefits

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Employees' benefits *(continued)*

ii) Pension obligations

Contributions to the Mandatory Provident Fund scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to profit or loss when incurred. The group has no further payment obligations once the contribution has been made.

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

iii) Share-based payments

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

Fair value is measured using the Black-Scholes-Merton option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(s) Borrowing costs

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

(t) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax.

i) Revenue from the sale of products is recognised when the group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.

ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(v) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments

Estimates and judgments 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.

In determining whether an asset including goodwill is impaired or the event previously causing the impairment no longer exists, the group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

Estimation uncertainty

The Group also makes estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Equity-settled share option expense

Equity-settled share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the income statement and equity-settled share option reserve.

Impairment of property, plant and equipment

If the circumstances indicate that the carrying values of property, plant and equipment may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of assets". Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. However, actual sale volume, selling price and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected.

Depreciation of property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The group reviews the estimated useful lives and the estimated residual values, if any, of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

Impairment loss for bad and doubtful debts

The group maintains an impairment loss for bad and doubtful debts for estimated losses resulting from the inability of the debtors to make required payments. The Group estimates future cash flows based on the ageing of the trade receivables balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

Write down of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption and management judgement. Based on this review, write down of inventories will be made when the carrying amount of the inventories decline below the estimated net realisable value. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The business segments of the Group are businesses of woven wear, knitwear, sweaters and premium products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2008 and 2007.

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

For the year ended 31 March 2008

	Woven wear	Knitwear	Sweaters	Premium	Consolidated total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Segment revenue	44,823	27,294	39,221	9,212	120,550
Segment results	(480)	(200)	(3,381)	756	(3,305)
Unallocated corporate income					1,819
Unallocated corporate expenses					(7,766)
Finance costs					(2,085)
Share of profits less losses of associates					(670)
Share of loss of a jointly-controlled entity					(2,631)
Loss before taxation					(14,638)
Income tax					140
Loss for the year					(14,498)
Attributable to:					
Equity holders of the Company					(12,821)
Minority interests					(1,677)
					(14,498)

5. **SEGMENT INFORMATION** *(continued)*

(a) **Business segments** *(continued)*

	Woven wear	Knitwear	Sweaters	Premium	Other	Consolidated total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Assets and liabilities:						
Segment assets	3,733	1,368	14,807	—	—	19,908
Unallocated assets	—	—	—	—	61,445	61,445
Total assets						81,353
Segment liabilities	424	179	12,246	—	—	12,849
Unallocated liabilities	—	—	—	—	20,331	20,331
Total liabilities						33,180
Other segment information:						
Deprecation	—	—	734	—	119	853
Amortisation	—	—	42	—	86	128
Impairment loss on inventories	89	66	1,507	—	—	1,662
Write-off of/impairment loss on trade receivables	85	316	10	—	—	411
Impairment loss on property, plant and equipment	—	—	697	—	—	697
Capital expenditure	—	—	21	—	315	336

5. **SEGMENT INFORMATION** *(continued)*

(a) **Business segments** *(continued)*

For the year ended 31 March 2007

	Woven wear	Knitwear	Sweaters	Premium	Consolidated total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Segment revenue	71,333	52,949	35,283	6,864	166,429
Segment results	1,236	452	(982)	1,039	1,745
Unallocated corporate expenses					(3,404)
Finance costs					(2,728)
Tax penalties and surcharges					(3,759)
Impairment loss on goodwill					(19,458)
Share of profits less losses of associates					(1,480)
Share of loss of a jointly-controlled entity					(2,439)
Loss before taxation					(31,523)
Income tax					(7,831)
Loss for the year					(39,354)
Attributable to:					
Equity holders of the Company					(38,684)
Minority interests					(670)
					(39,354)

5. **SEGMENT INFORMATION** *(continued)*

(a) **Business segments** *(continued)*

	Woven wear	Knitwear	Sweaters	Premium	Other	Consolidated total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Assets and liabilities:						
Segment assets	10,065	2,421	15,779	25	—	28,290
Unallocated assets	—	—	—	—	46,263	46,263
Total assets						74,553
Segment liabilities	2,787	1,578	10,592	13	—	14,970
Unallocated liabilities	—	—	—	—	23,992	23,992
Total liabilities						38,962
Other segment information:						
Deprecation	—	575	675	—	202	1,452
Amortisation	—	—	162	—	86	248
Impairment loss on inventories	—	—	464	—	—	464
Impairment loss on trade receivables	—	—	70	—	284	354
Impairment loss on goodwill	—	—	—	—	19,458	19,458
Capital expenditure	—	6,996	892	—	54	7,942
Loss on disposal of property, plant and equipment	—	—	127	—	—	127

5. **SEGMENT INFORMATION** *(continued)*

(b) Geographical segments

For the year ended 31 March 2008

	Chile	PRC	Others	Consolidated
	$'000	*$'000*	*$'000*	*$'000*
Segment revenue	68,579	25,820	26,151	120,550
Other segment information:				
Segment assets	4,947	23,961	—	28,908
Unallocated assets	—	—	52,445	52,445
Total assets				81,353
Capital expenditure	—	21	315	336

For the year ended 31 March 2007

	Chile	PRC	Others	Consolidated
	$'000	*$'000*	*$'000*	*$'000*
Segment revenue	93,322	24,492	48,615	166,429
Other segment information:				
Segment assets	7,035	14,588	—	21,623
Unallocated assets	—	—	52,930	52,930
Total assets				74,553
Capital expenditure	—	7,888	54	7,942

6. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2008	2007
	$'000	*$'000*
Turnover:		
Sale of goods	120,550	166,429
Other revenue and gains:		
Interest income	265	44
Sale of scrap inventories, net	—	470
Sundry income	85	269
Net exchange gains	—	18
Gain on disposal of available-for-sale investments (including transfer from equity on disposal)	1,536	—
Net realised and unrealised gains on trading securities	24	—
	1,910	801

7. FINANCE COSTS

	2008	2007
	$'000	*$'000*
Interest expense:		
Bank loans and overdrafts wholly repayable within five years	607	654
Import and export loans wholly repayable within five years	463	551
Amount due to a related party *(note 37(b))*	—	120
	1,070	1,325
Bank charges	1,015	1,403
	2,085	2,728

8. LOSS BEFORE TAXATION

	2008	2007
	$'000	*$'000*
Loss before taxation is arrived at after charging:—		
Employee benefit expenses (excluding directors' remuneration *(note 9(a))*):—		
Wages and salaries	7,397	3,881
Pension fund contributions	706	158
Equity-settled share option expense	3,805	281
	11,908	4,320
Depreciation *(note 15)*	853	1,452
Amortisation of leasehold land and land use rights *(note 14)*	128	248
Equity-settled share option expense to directors	761	126
Equity-settled share option expense to consultants	—	393
Auditor's remuneration	638	680
Minimum lease payments in respect of premises under operating leases	348	346
Loss on disposal of property, plant and equipment	—	127
Impairment loss on property, plant and equipment *(note 15)*	697	—
Net exchange losses	21	—
Cost of inventories	100,388	139,596
Impairment loss on inventories (included in cost of sales)	1,662	464

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

Name of directors	Fees		Salaries and allowances		Pension fund contributions		Equity-settled share option expense		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors										
Cheung Keng Ching	—	—	1,186	1,430	12	12	—	34	1,198	1,476
Chou Mei	—	—	725	1,170	7	12	—	34	732	1,216
Chan Ching Kee, William	—	—	—	115	—	2	—	—	—	117
Chung Kam Fung, Kennis	—	—	—	196	—	5	—	49	—	250
Li Wing Sang	—	—	402	—	7	—	761	—	1,170	—
	—	—	2,313	2,911	26	31	761	117	3,100	3,059
Independent non-executive directors										
Lo Siu Tong, Alfred	12	12	—	—	—	—	—	—	12	12
Wan Ngar Yin, David	—	78	—	—	—	—	—	9	—	87
Wong Lai Wah, Ada	72	72	—	—	—	—	—	—	72	72
Tam Tak Wah	145	—	—	—	—	—	—	—	145	—
	229	162	—	—	—	—	—	9	229	171
Total	229	162	2,313	2,911	26	31	761	126	3,329	3,230

During the year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been expensed in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year, two directors, Cheung Keng Ching and Chou Mei, agreed to partially waive their directors' remuneration by the aggregate amount of $1,020,000 (2007: $Nil). Except for the above, there was no other arrangement under which a director waived or agreed to waive any remuneration during the year.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals

The five highest paid employees during the year included three (2007: two) directors, details of whose remuneration are set out in note (a) above. Details of the remuneration of the remaining two (2007: three) non-director, highest paid employees for the year are as follows:

	2008	**2007**
	$'000	*$'000*
Salaries and other benefits	1,287	752
Pension fund contributions	21	32
	1,308	784

The number of non-director, highest paid individuals whose remuneration fell within the following band is as follows:

	2008	**2007**
Nil to $1,000,000	2	3

10. INCOME TAX

(i) Taxation in the consolidated income statement represents:

	2008	**2007**
	$'000	*$'000*
Current year provision for Hong Kong profits tax	—	474
(Over)/under-provision in prior years	(140)	7,357
	(140)	7,831

Provision for Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits for the year ended 31 March 2007. In the current year, no provision has been made for Hong Kong profits tax as the group companies sustained losses during the year ended 31 March 2008. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

10. INCOME TAX *(continued)*

(ii) Taxation for the year can be reconciled to the accounting loss as follows:

For the year ended 31 March 2008

	Hong Kong	**PRC**	**Total**
	$'000	*$'000*	*$'000*
Loss before taxation	(7,843)	(6,795)	(14,638)
Tax calculated at the weighted average statutory tax rate	(1,373)	(2,106)	(3,479)
Tax effect of expenses not deductible for taxation purposes	962	—	962
Tax effect of income not taxable for taxation purposes	(498)	—	(498)
Profits and losses attributable to associates and a jointly-controlled entity	—	953	953
Over-provision in prior years	(140)	—	(140)
Tax effect of tax losses not recognised	909	1,153	2,062
Income tax for the year	(140)	—	(140)

(ii) Taxation for the year can be reconciled to the accounting loss as follows:

For the year ended 31 March 2007

	Hong Kong	**PRC**	**Total**
	$'000	*$'000*	*$'000*
Loss before taxation	(26,080)	(5,443)	(31,523)
Tax calculated at the statutory tax rate	(4,564)	(1,797)	(6,361)
Tax effect of expenses not deductible for taxation purposes	4,272	—	4,272
Tax effect of income not taxable for taxation purposes	(3)	—	(3)
Profits and losses attributable to associates and a jointly-controlled entity	—	1,337	1,337
Under-provision in prior years	7,357	—	7,357
Tax effect of tax losses not recognised	769	460	1,229
Income tax for the year	7,831	—	7,831

At 31 March 2008, the Group has unused tax losses of $27,800,000 (2007: $22,300,000) available for offset against future profits and temporary differences of $4,831,000 (2007: $4,831,000). No deferred tax asset has been recognised as at 31 March 2007 and 2008 in respect of such losses and temporary differences due to the unpredictability of future profit streams of the respective group entities.

10. INCOME TAX *(continued)*

(iii) Since December 2002, Rontex Holdings Limited ("RHL") and Ronco Trading Company Limited ("Ronco"), subsidiaries of the Company, had been queried by the Inland Revenue Department of the Hong Kong Special Administrative Region Government (the "IRD") in respect of sales and marketing support service expenses claimed by RHL and Ronco as deductible expenses in their profits tax computations. In prior years, the IRD raised queries with RHL and Ronco for the years of assessments 2000/2001, 2001/2002, 2002/2003 and 2003/2004.

During the year ended 31 March 2007, the IRD disallowed certain deduction of sales and marketing support services expenses of RHL and Ronco in their profits tax computations for the aforementioned years of assessment and raised additional taxes of $6,903,000 and $454,000 respectively. Moreover, tax penalties and surcharges of $3,559,000 and $200,000 were imposed by the IRD on RHL and Ronco respectively. The above amounts were agreed to be settled by instalments until fully settled in October 2007.

Pursuant to a deed of indemnity dated 25 October 2002 from Star Master International Limited, Cheung Keng Ching and Chou Mei, shareholders of the Company (collectively referred to as the "Indemnifiers"), who agreed to indemnify, on a joint and several basis, the Group against all additional taxation liabilities, penalties, surcharges and other relevant costs falling on any member of the Group in respect of any accounting periods ended on or before 31 March 2002, which amounted to $4,233,000. The indemnified amount of $4,233,000, obligated by the Indemnifiers, was accounted for as contributions from equity holders of the Company, and credited to capital reserve of the Group in prior year.

During the year ended 31 March 2007, the Indemnifiers had settled $1,743,000. Accordingly, as at 31 March 2007, the Group's remaining receivable from the Indemnifiers amounted to $2,490,000, which was unsecured, interest free and fully settled during the year. As at 31 March 2008, the tax penalty and surcharge payables had been fully settled by the Group to the IRD.

11. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss from ordinary activities attributable to equity holders of the Company for the year ended 31 March 2008 includes a loss of $16,235,000 (2007: a loss of $65,673,000) which has been dealt with in the financial statements of the Company (note 30).

12. DIVIDEND

The board of directors do not recommend the payment of any dividend for the year ended 31 March 2008 (2007: $Nil).

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the year attributable to the ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted loss per share amounts is based on the loss for the year attributable to the ordinary equity holders of the Company, adjusted to reflect the issue of share options and warrants. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic loss per share are based on:

	2008	**2007**
	$'000	*$'000*
Loss		
Loss attributable to the ordinary equity holders of the Company, used in the basic loss per share calculation	12,821	38,684

	Number of shares	
	2008	**2007**
Shares		
Weighted average number of ordinary shares in issue during the year for the purpose of basic loss per share:		
Number of issued ordinary shares at beginning of the year	1,807,497,200	1,629,497,200
Effect of shares issued on exercise of share options and warrants during the year	182,250,333	14,711,233
Weighted average number of ordinary shares at end of the year	1,989,747,533	1,644,208,433

Diluted loss per share for the years ended 31 March 2008 and 2007 has not been disclosed, as share options and warrants outstanding during the years had an anti-dilutive effect on the basic loss per share for these years.

14. LEASEHOLD LAND AND LAND USE RIGHTS

The Group

	Note	**2008** *$'000*	**2007** *$'000*
Cost:			
At beginning of year		13,667	13,509
Reclassification into property held for sale	*16*	(5,962)	—
Reclassification from property, plant and equipment	*15*	—	1,073
Additions		16	783
Reclassification of interest in a subsidiary into a jointly-controlled entity	*35*	—	(1,747)
Exchange realignments		185	49
At end of year		7,906	13,667
Accumulated amortisation:			
At beginning of year		897	783
Charge for the year	*8*	128	248
Reclassification into property held for sale	*16*	(716)	—
Reclassification of interest in a subsidiary into a jointly-controlled entity	*35*	—	(138)
Exchange realignments		18	4
At end of year		327	897
Carrying value:			
At 31 March		7,579	12,770
Current portion included in other receivables, deposits and prepayments		49	124
Non-current portion		7,530	12,646
		7,579	12,770

14. LEASEHOLD LAND AND LAND USE RIGHTS *(continued)*

The Group's leasehold land and land use rights represent prepaid operating lease payments and their net carrying value is analysed as follows:

	2008	**2007**
	$'000	*$'000*
Current portion:		
Located in Hong Kong, held under long-term leases	7	86
Located in the PRC, held under medium-term leases	42	38
	49	124
Non-current portion:		
Located in Hong Kong, held under long-term leases	1,840	10,944
Located in the PRC, held under medium-term leases	5,690	1,702
	7,530	12,646
	7,579	12,770

At 31 March 2008, certain of the Group's leasehold land and land use rights with an aggregate net carrying value of approximately $7,579,000 (2007: $11,030,000) were pledged to secure banking facilities granted to the Group (notes 27 and 36(a)).

15. PROPERTY, PLANT AND EQUIPMENT

The Group	Buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At cost:								
At 1 April 2006	23,890	5,049	6,083	4,056	2,360	994	2,466	44,898
Additions	142	3,678	—	2,399	11	367	562	7,159
Reclassification into leasehold land and land use rights *(note 14)*	(1,073)	—	—	—	—	—	—	(1,073)
Disposals	—	—	—	(217)	—	—	—	(217)
Reclassification of interest in a subsidiary into a jointly— controlled entity *(note 35)*	(4,510)	(8,799)	(2,997)	(5,364)	(1,434)	(312)	(2,084)	(25,500)
Exchange realignments	360	72	60	94	25	2	36	649
At 31 March 2007 and 1 April 2007	18,809	—	3,146	968	962	1,051	980	25,916
Additions	—	—	234	—	11	75	—	320
Reclassification into property held for sale *(note 16)*	(5,963)	—	(127)	—	—	—	—	(6,090)
Exchange realignments	729	—	72	94	28	—	42	965
At 31 March 2008	13,575	—	3,325	1,062	1,001	1,126	1,022	21,111
Accumulated depreciation and impairment:								
At 1 April 2006	8,755	—	2,856	807	1,290	946	1,135	15,789
Charge for the year *(note 8)*	700	—	131	359	53	50	159	1,452
Written back on disposal	—	—	—	(35)	—	—	—	(35)
Reclassification of interest in a subsidiary into a jointly-controlled entity *(note 35)*	(949)	—	(550)	(903)	(533)	(33)	(560)	(3,528)
Exchange realignments	45	—	8	17	10	—	12	92
At 31 March 2007 and 1 April 2007	8,551	—	2,445	245	820	963	746	13,770
Charge for the year *(note 8)*	514	—	84	87	56	31	81	853
Impairment loss	—	—	—	697	—	—	—	697
Reclassification into property held for sale *(note 16)*	(4,004)	—	—	—	—	—	—	(4,004)
Exchange realignments	125	—	9	33	17	—	24	208
At 31 March 2008	5,186	—	2,538	1,062	893	994	851	11,524
Net carrying value:								
At 31 March 2008	8,389	—	787	—	108	132	171	9,587
At 31 March 2007	10,258	—	701	723	142	88	234	12,146

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

During the year, certain items of plant and machinery were under-utilised. As a result, the Group assessed the recoverable amounts of these machines. Based on this assessment, the carrying value of these items of plant and machinery was written down by approximately $697,000 (included in "cost of sales"). The recoverable amount of the relevant assets has been determined on the basis of their value in use with reference to the probable cash flows from these items of plant and machinery.

As at 31 March 2008, the Group's buildings with a carrying value of approximately $2,218,000 (2007: $10,258,000) were pledged to banks under fixed charges for banking facilities granted to the Group (notes 27 and 36(a)).

16. PROPERTY HELD FOR SALE

The Group

		2008	**2007**
	Note	*$'000*	*$'000*
Carrying value:			
At beginning of year		—	—
Reclassified from land use rights	*14*	5,246	—
Reclassified from property, plant and equipment	*15*	2,086	—
At end of year		7,332	—

On 22 January 2008, the Group entered into a provisional sale agreement to dispose of one of its properties for a cash consideration of $17,500,000. As at 31 March 2008, the Group received deposits in the amount of $8,750,000 from the independent purchaser, which was included in the Group's other payables, accrued expenses and deposits received as at 31 March 2008. The disposal was completed on 19 April 2008. As at 31 March 2008, the property comprising the above building and land use rights was classified as property held for sale under current assets of the Group. The property was located in Hong Kong and held under long term leases. Further details of the disposal of the property are disclosed in note 41(b).

As at 31 March 2008, the Group's property held for sale was pledged to a bank under fixed charge for banking facilities granted to the Group (notes 27 and 36(a)).

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2008	**2007**
	$'000	*$'000*
Unlisted shares, at cost	42,779	42,779
Amounts due from subsidiaries	72,216	68,728
	114,995	111,507
Less: impairment loss on investment costs	(7,212)	(7,202)
impairment loss on amounts due from subsidiaries	(65,088)	(55,098)
	42,695	49,207
Amounts due to subsidiaries	—	(23,152)
	42,695	26,055

The amounts due from subsidiaries are unsecured, interest free and are not repayable within twelve months after the balance sheet date. The carrying amount of the amounts due from subsidiaries approximates their fair value and in substance represents the Company's interests in the subsidiaries in the form of quasi-equity loans.

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment. The carrying amount of the amounts due to subsidiaries approximates their fair value.

An impairment loss on investment costs and amounts due from subsidiaries of $7,212,000 (2007: $7,202,000) and $65,088,000 (2007: $55,098,000) respectively was recognised as at 31 March 2008 because the related recoverable amounts of the investment costs and the balances due from subsidiaries with reference to the net assets values of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related investment costs and amounts due therefrom are reduced to their recoverable amounts.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries as at 31 March 2008 are as follows:—

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Falcon Vision Limited	The British Virgin Islands	Ordinary US$1,000	100	100	Investment holding
Keen Choice Technology Limited	Hong Kong	Ordinary HK$10,000	100	100	Investment holding
Rontex Apparel Limited	Hong Kong	Ordinary HK$10,000	100	100	Trading of garment and premium products
Rontex Holdings Limited	Hong Kong	Ordinary HK$100,000	100	100	Trading of garment products
Ronco Trading Company Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Trading of garment and premium products and investment holding
Take Luck Development Limited	Hong Kong	Ordinary HK$10,000	100	100	Property holding and investment holding
Wisefull International Limited ("Wisefull")	Hong Kong	Ordinary HK$10,000	100	100	Investment holding
Digital New Century Company Limited *(note 1)*	Hong Kong	Ordinary HK$100	100	—	Investment holding
Century Power (China) Limited *(note 1)*	Hong Kong	Ordinary HK$10,000	100	—	Investment holding
湖州朗迪毛衫有限公司 (Huzhou Ronco Sweater Co., Ltd.) *(note 2)*	The PRC	US$1,380,000	52	52	Manufacture and sale of garment products

Notes:

1. The subsidiaries were newly set up by the company during the current year.

2. Huzhou Ronco Sweater Co., Ltd. was established as a Sino-foreign equity joint venture in the PRC.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Except for Falcon Vision Limited, Rontex Apparel Ltd. and Digital New Century Company Limited, which are directly held by the Company, all other subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INTERESTS IN ASSOCIATES

	The Group	
	2008	**2007**
	$'000	*$'000*
Share of net assets	14,670	14,053
Advance to an associate	—	1,057
	14,670	15,110

Advance to the associate as at 31 March 2007 was unsecured, interest free and in substance represented the Group's interest in the associate in the form of a quasi-equity loan. The carrying amount of the advance to the associate approximated its fair value.

Particulars of the Group's associates, all of which are unlisted entities, are as follows:—

Name of company	Form of business structure	Place of establishment and operation	Percentage of equity interest attributable to the Company	Principal activities
北京朗迪服裝有限公司 (Beijing Rontex Garments Co., Ltd. ("Beijing Rontex"))	Corporate	PRC	44	Manufacture and sale of garment products
北京朗坤服裝有限公司 (Beijing Longkun Garments Co., Ltd. ("Beijing Longkun"))	Corporate	PRC	30	Manufacture and sale of garment products

In June 2007, the Group acquired an additional 4% equity interest in Beijing Rontex at a consideration of $455,000, and accordingly the Group's ownership of equity interest in Beijing Rontex increased from 40% to 44% during the year.

The financial statements of the above companies are not audited by Shu Lun Pan Horwath Hong Kong CPA Limited or any of its member firms.

18. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of the Group's associates is set out below:

	2008	**2007**
	$'000	*$'000*
Turnover	157,773	117,760
Loss for the year	(1,125)	(3,108)
Loss attributable to the Group	(670)	(1,480)
Total assets	136,510	116,560
Total liabilities	(84,979)	(66,075)
Net assets	51,531	50,485
Net assets attributable to the Group	14,670	14,053

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	The Group	
	2008	**2007**
	$'000	*$'000*
Share of net assets	—	2,631

Particulars of the Group's jointly-controlled entity are as follows:—

Name of company	**Form of business structure**	**Place of establishment and operation**	**Percentage of equity interest indirectly held by the company**	**Principal activity**
Rontex Co., Ltd.	Corporate	PRC	51	Manufacture and sale of garment products

The financial statements of the above company is not audited by Shu Lun Pan Horwath Hong Kong CPA Limited or any of its member firms.

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(continued)*

The Group shares joint control over the financial and operating policy of this jointly-controlled entity notwithstanding that the Group has a 51% equity interest thereon.

The Group has not recognised its share of loss of Rontex Co., Ltd. in excess of the Group's interest in this jointly-controlled entity. Summarised financial information of the group's jointly-controlled entity is as follows:

	2008	**2007**
	$'000	*$'000*
Non-current assets	16,166	14,634
Current assets	3,250	7,964
Current liabilities	(19,767)	(19,967)
Non-current liabilities	(17)	—
Net (liabilities)/assets	(368)	2,631
Amount in excess of the Group's interest in the jointly-controlled entity	368	—
Net assets of the jointly-controlled entity attributable to the Group	—	2,631
Income	14,114	10,589
Expenses	(17,249)	(13,028)
Loss for the year	(3,135)	(2,439)
Amount in excess of the Group's interest in the jointly-controlled entity	504	—
Loss of the jointly-controlled entity attributable to the Group	(2,631)	(2,439)

During the year ended 31 March 2007, Rontex Co., Ltd., a 51%-owned subsidiary of the Company as at 31 March 2006 and 30 September 2006, became a jointly-controlled entity of the Group. Further details are set out in note 35 to the financial statements.

20. GOODWILL

	2008	2007
	$'000	*$'000*
Carrying value:		
At beginning of year	—	19,458
Acquisition of a subsidiary	—	—
Impairment loss	—	(19,458)
At end of year	—	—

The goodwill arose from the acquisition of Wisefull in the year ended 31 March 2006. Wisefull is an investment holding company and holds 30% equity interest in Beijing Longkun.

The directors reassessed the recoverable amount of goodwill as at 31 March 2007 by reference to the valuation as at 31 March 2007 performed by BMI Appraisals Limited, an independent professionally qualified valuers. The recoverable amount of the cash generating unit ("CGU") of Wisefull was determined by the professional valuers based on the present value of the expected future revenue arising from the operation of the underlying assets of the CGU. These calculations resulted in a nil value-in-use amount on the value of goodwill.

The goodwill was therefore reduced to its recoverable amount through recognition of full impairment loss of $19,458,000 in the year ended 31 March 2007.

The directors believed that as competition in the textile industry in the PRC had continued to increase, the growth rate for Beijing Longkun was expected to be reduced, resulting in the significant impairment loss for the prior year.

Key assumption used in value-in-use calculation in 2007 were:

	%
Growth rate	10
Discount rate	11.12

The directors reassessed the carrying value of goodwill during the year and believe that any reasonable possible change in the key assumptions above on which the recoverable amount is based would not affect the conclusion that the carrying value of goodwill was fully impaired as at 31 March 2007.

21. AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2008	2007
	$'000	*$'000*
Listed equity securities — Hong Kong, at fair value	—	1,573

The investments as at 31 March 2007 included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They had no fixed maturity or coupon rate. The fair values of these securities were based on quoted market prices as at 31 March 2007. During the year ended 31 March 2008, all of the Group's available-for-sale investments were disposed of.

22. DEPOSITS AND DIRECT COSTS PAID FOR ACQUISITION OF A SUBSIDIARY

	The Group	
	2008	2007
	$'000	*$'000*
Deposits paid for acquisition of a subsidiary	10,000	—
Costs directly attributable to the acquisition	2,071	—
	12,071	—

As at 31 March 2008, the amount represented deposits paid and costs directly attributable to the acquisition of a 51% equity interest in DTV China Inc. The acquisition was subsequently completed on 25 April 2008. Further details are set out in note 41(c) to the financial statements.

23. TRADING SECURITIES

	The Group	
	2008	2007
	$'000	*$'000*
Listed equity securities — Hong Kong, at fair value	278	—

The balance represents investments in equity securities that are listed in Hong Kong, and are designated as financial assets at fair value through profit or loss. They are stated at fair value based on quoted market prices as at the balance sheet date.

24. INVENTORIES

	The Group	
	2008	**2007**
	$'000	*$'000*
Raw materials	1,034	1,552
Work in progress	2,422	1,065
Finished goods	1,315	808
	4,771	3,425
Less: impairment loss for obsolete inventories	(2,126)	(464)
	2,645	2,961

During the year, the Group carried out its regular reviews on the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption and management judgment. As a result, the carrying values of certain inventories were determined to decline below their estimated net realisable values. Based on this assessment, the carrying value of inventories was written down by approximately $1,662,000 (2007: $464,000) (included in "cost of sales").

25. TRADE RECEIVABLES

	The Group	
	2008	**2007**
	$'000	*$'000*
Accounts receivable	7,528	14,755
Less: allowance for doubtful debts	(77)	(354)
	7,451	14,401

(i) The Group allows an average credit term of 60 to 90 days (2007: 60 to 90 days) to its trade customers, except for certain well-established customers having strong financial strength, good repayment history and high creditworthiness, where the terms are extended beyond 90 days.

25. TRADE RECEIVABLES *(continued)*

(ii) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2008	**2007**
	$'000	*$'000*
At beginning of year	354	692
Impairment loss recognised	—	354
Uncollectible amounts written off	(284)	(692)
Exchange realignments	7	—
At end of year	77	354

At 31 March 2008, the Group's trade receivables of approximately $77,000 (2007: $354,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $77,000 (2007: $354,000) were recognised. The Group does not hold any collateral over these balances.

Except for the above, no allowance has been made for estimated irrecoverable amounts from the sale of goods.

(iii) The ageing analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, is as follows:

	The Group	
	2008	**2007**
	$'000	*$'000*
Within 30 days	707	2,278
31 to 60 days	1,884	6,828
61 to 90 days	2,923	4,071
Over 90 days	2,014	1,578
	7,528	14,755
Less: allowance for doubtful debts	(77)	(354)
	7,451	14,401

25. TRADE RECEIVABLES *(continued)*

(iv) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2008	**2007**
	$'000	*$'000*
Neither past due nor impaired	5,514	13,177
Past due and not impaired	1,937	1,224
	7,451	14,401

Receivables that were neither past due nor impaired relate to a wide range of 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, management believes that no impairment allowance 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 over these balances.

26. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy financial institutions with no recent history of default. The carrying amounts of the cash and cash equivalents approximate their fair values.

26. CASH AND CASH EQUIVALENTS *(continued)*

	2008	**2007**
	$'000	*$'000*
The Group		
Cash and cash equivalents were denominated in:		
Renminbi ("RMB")	690	914
United States dollars ("US$")	2,141	1,247
HK$	16,491	3,265
Total	19,322	5,426
The Company		
Cash and cash equivalents were denominated in:		
HK$	1,263	3,232

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. INTEREST-BEARING BANK BORROWINGS, SECURED

The following bank borrowings are repayable on demand or within one year:

	The Group	
	2008	**2007**
	$'000	*$'000*
Bank loans	6,882	5,767
Import and export loans	4,321	8,835
Bank overdrafts	—	1,462
	11,203	16,064

All the bank borrowings are floating-rate borrowings, thus exposing the Group to cash flow interest rate risk. The effective interest rates range from 4.84% to 7.9% (2007: 5.58% to 7.26%) per annum.

The Group's bank loans, import and export loans and overdrafts are denominated in RMB, US$ and HK$, respectively. The directors consider that the carrying amount of the bank borrowings approximates their fair value.

27. INTEREST-BEARING BANK BORROWINGS, SECURED *(continued)*

At 31 March 2008, the Group had available undrawn committed borrowing facilities of $18,179,000 (2007: $12,703,000) in respect of which all conditions precedent had been met.

The Group's bank borrowings are secured by the property held for sale, leasehold land and buildings held by the Group with carrying values of approximately $7,332,000 (2007: $Nil) (note 16), $7,579,000(2007: $11,030,000) (note 14) and $2,218,000 (2007: $10,258,000) (note 15), respectively.

28. TRADE PAYABLES

The ageing analysis of trade payables of the Group at the balance sheet date, based on the invoice date, is as follows:

	The Group	
	2008	**2007**
	$'000	*$'000*
Within 30 days	2,182	1,161
31 to 60 days	1,028	1,358
61 to 90 days	645	427
Over 90 days	1,011	1,267
	4,866	4,213

The trade payables are interest free and normally settled on 90-day terms.

The Group considers that the carrying amount of the Group's trade payables approximates their fair value.

29. SHARE CAPITAL

	2008	**2007**
	$'000	*$'000*
Authorised:		
10,000,000,000 ordinary shares of $0.01 each	100,000	100,000
Issued and fully paid:		
2,047,501,200 (2007: 1,807,497,200) ordinary shares of $ 0.01 each	20,475	18,075

29. SHARE CAPITAL *(continued)*

A summary of the movements in the issued and fully paid share capital of the Company during the year is as follows:

	Number of shares		Nominal value	
	2008	**2007**	**2008**	**2007**
			$'000	*$'000*
Ordinary shares of $0.01 each:				
Authorised	10,000,000,000	10,000,000,000	100,000	100,000
Issued and fully paid:				
At beginning of the year	1,807,497,200	1,629,497,200	18,075	16,295
Shares issued on exercise of warrants *(note (i))*	170,000,000	90,000,000	1,700	900
Shares issued on exercise of share options *(note (ii))*	70,004,000	88,000,000	700	880
At end of the year	2,047,501,200	1,807,497,200	20,475	18,075

All shares issued by the Company rank pari passu with the then existing shares in all respects.

Note:

(i) During the year ended 31 March 2008, 170,000,000 (2007: 90,000,000) new ordinary shares of par value $0.01 (2007: $0.01) each were issued at a subscription price of $0.043 (2007: $0.043) each on exercise of 170,000,000 (2007: 90,000,000) warrants with an aggregate consideration of $7,298,000 (2007: $3,870,000) (after issue expenses), of which $1,700,000 (2007: $900,000) was credited to share capital and the remaining balance of $5,598,000 (2007: $2,970,000) was credited to the share premium account. In addition, the related net premium of $1,501,000 (2007: $795,000) received on issue of warrants has been transferred from warrant reserve to the share premium account.

(ii) During the year ended 31 March 2008, 70,004,000 (2007: 88,000,000) new ordinary shares of par value $0.01 (2007: $0.01) each were issued at subscription prices ranging from $0.044 to $0.333 each on exercise of 70,004,000 (2007: 88,000,000) (note 31) share options at an aggregate consideration of $11,303,000 (2007: $3,872,000), of which $700,000 (2007: $880,000) was credited to share capital and the remaining balance of $10,603,000 (2007: $2,992,000) was credited to the share premium account. In addition, an amount attributable to the related share options of $257,000 (2007: $543,000) has been transferred from equity-settled share option reserve to the share premium account.

30. RESERVES

	Share premium *$'000*	Contributed surplus *$'000* *(note (a))*	Equity-settled share option reserve *$'000* *(note (b)(i))*	Warrant reserve *$'000* *(note (b)(ii))*	(Accumulated losses)/ retained profits *$'000*	Total *$'000*
The Company						
At 1 April 2006	15,294	42,569	—	—	13,878	71,741
Premium received on issue of warrants *(note 32)*	—	—	—	2,296	—	2,296
Issue of shares on exercise of warrants	3,765	—	—	(795)	—	2,970
Issue of share options *(note 31)*	—	—	800	—	—	800
Issue of shares on exercise of share options	3,535	—	(543)	—	—	2,992
Loss for the year	—	—	—	—	(65,673)	(65,673)
At 31 March 2007	22,594	42,569	257	1,501	(51,795)	15,126
Premium received on issue of warrants *(note 32)*	—	—	—	3,688	—	3,688
Issue of shares on exercise of warrants	7,099	—	—	(1,501)	—	5,598
Issue of share options *(note 31)*	—	—	4,566	—	—	4,566
Issue of shares on exercise of share options	10,860	—	(257)	—	—	10,603
Loss for the year	—	—	—	—	(16,235)	(16,235)
At 31 March 2008	40,553	42,569	4,566	3,688	(68,030)	23,346

Note:

(a) At the balance sheet date, the contributed surplus of the Company represents the excess of the fair value of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the shares of the Company issued in exchange therefor.

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the contributed surplus account is distributable to the shareholders of the Company under certain circumstances.

(b) At the balance sheet date, the equity-settled share option reserve and warrant reserve of the Company represents (i) the fair value at the respective grant dates in respect of the outstanding share options of the Company; and (ii) premium received in respect of the outstanding warrants of the Company, respectively.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives or rewards to eligible persons for their contributions to the Group. Eligible persons of the Scheme include any full-time or part-time employees of the Company or any member of the Group, including any directors, advisors or consultants of the Group. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 8 November 2002, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not exceed 30% of the shares in issue from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates (as defined under the Listing Rule), are subject to approval by all independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of $5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted for a period of 28 days from the date of the offer, upon payment of a nominal consideration of $1 in total by the grantee. The exercisable period of the share options granted is determined by the directors, which the share options must be exercised in any event not later than 10 years or a shorter period as specified, from the date of grant. The Scheme does not require a minimum period for which the share options must be held or a performance target which must be achieved before the share options can be exercised.

The exercise price of the share options granted is not recorded in the balance sheet of the Company nor the Group until such time as the options are vested. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercisable date are deleted from the register of outstanding options.

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

31. SHARE OPTION SCHEME *(continued)*

The following is the movement of share options outstanding under the Scheme during the year from 1 April 2007 to 31 March 2008:

Name or category of participant	At 01/04/2007 *Number*	Granted during the year *Number*	Exercised during the year *Number* *(note 29(ii))*	At 31/03/2008 *Number*	Date of grant of share options	Exercise period of share options	Adjusted exercise price of share options *HK$* *(note a)*	Adjusted closing price of the Company's shares where applicable *HK$* *(note b)*
Directors								
Cheung Keng Ching	7,400,000	—	(7,400,000)	—	04/11/2003	04/11/2003 to 03/11/2008	0.3325	0.35
	5,500,000	—	(5,500,000)	—	20/01/2007	20/01/2007 to 19/01/2010	0.0440	N/A
Chou Mei	7,400,000	—	(7,400,000)	—	04/11/2003	04/11/2003 to 03/11/2008	0.3325	0.35
Li Wing Sang	—	19,560,000	—	19,560,000	10/09/2007	10/09/2007 to 09/09/2017	0.2226	N/A
Employees other than directors								
In aggregate	13,704,000	—	(13,704,000)	—	04/11/2003	04/11/2003 to 03/11/2008	0.3325	0.35
	—	97,800,000	—	97,800,000	10/09/2007	10/09/2007 to 09/09/2017	0.2226	N/A
Consultants								
In aggregate	36,000,000	—	(36,000,000)	—	20/01/2007	20/01/2007 to 19/01/2010	0.0440	N/A
	70,004,000	117,360,000	(70,004,000)	117,360,000				

Note:

a. The number of issuable shares and the exercise price of the share options are subject to adjustment in the case of capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of capital of the Company. On 20 February 2004, an ordinary resolution was passed in an extraordinary general meeting in connection with the bonus issue of shares on the basis of three bonus shares for every one existing share. The exercise price before adjustment was $1.33 per share.

b. Before the adjustment for the bonus issue of shares on 20 February 2004, the closing price of the Company's share immediately before the grant date of the share options was $1.40 per share.

31. SHARE OPTION SCHEME *(continued)*

At 31 March 2008, the Company has 117,360,000 share options outstanding under the Scheme accounting for 5.7% of the Company's issued share capital. The exercise of the entire outstanding share options would, under the capital structure of the Company as at 31 March 2008, result in the issue of 117,360,000 additional ordinary shares of $0.01 each of the Company and additional share capital of $1,173,600 and share premium account of approximately $24,951,000 (before issue expense). In addition, an amount attributable to the related share options of $4,566,000 will be transferred from equity-settled share option reserve to the share premium account.

Valuation of share options

Based on a professional valuation report issued by BMI Appraisals Limited, independent professionally qualified valuers, the fair value of the share options granted during the year ended 31 March 2008 was estimated at $4,566,000 (2007: $800,000) (note 8) which was recognised as an equity-settled share option expense during the year.

The above fair value was estimated as at the date of grant, using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008	**2007**
Exercise price of option	0.2226	0.0440
Spot price of shares	0.2200	0.0440
Expected volatility (%)	83.78	74.57
Risk-free interest rate (%)	3.841	3.795
Expected life of option (year)	0.32	0.24
Expected divdend yield (%)	0.00	0.00

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

32. WARRANTS

During the prior year, the Company issued 260,000,000 unlisted warrants, of which 90,000,000 and 170,000,000 (note 29(i)) were fully converted into ordinary shares of the Company during the year ended 31 March 2007 and 2008, respectively. Each warrant was issued at a premium price of $0.01 each in registered form and entitles the holder thereof to subscribe for fully-paid new ordinary shares of the Company at the initial subscription price of $0.043 per share. The aggregate premium, net of issue expenses, of approximately $2,296,000 was credited to warrant reserve for the prior year.

32. WARRANTS *(continued)*

On 13 November 2007, the company entered into a placing agreement with Enlighten Securities Limited, the placing agent, to procure no less than six placees to subscribe for an aggregate of 391,000,000 unlisted warrants (the "Warrants"), on a fully underwritten basis, at the issue price of $0.01 each in registered form and entitles the holder thereof to subscribe for fully-paid new ordinary shares of the Company at the initial subscription price of $0.21 per share, subject to adjustment from the date of issue, which was on 12 December 2007, to the date of expiry of two years from the date of issue, which is 11 December 2009 (both days inclusive in accordance with the terms of Warrants).

On 12 December 2007, 391,000,000 Warrants were issued and subscribed by independent investors at a premium price of $0.01 each and the aggregate premium, net of issue expense, of approximately $3,688,000 was received. The amount was credited to warrant reserve. The Warrants granted during the year have not been exercised.

33. OPERATING LEASE COMMITMENTS

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from one to two years. None of the leases includes contingent rentals.

At 31 March 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2008	**2007**
	$'000	*$'000*
Within one year	473	—
In the second to fifth years, inclusive	182	—
	655	—

The Company did not have operating lease commitment as at 31 March 2007 and 2008.

34. CONTINGENT LIABILITIES

As at 31 March 2007 and 2008, there were contingent liabilities in respect:

	The Group	
	2008	**2007**
	$'000	*$'000*
Long service payments	265	204

34. CONTINGENT LIABILITIES *(continued)*

The Group is liable to make long service payments upon the termination of employment of certain employees who have completed the required number of years of services and met the required circumstances under the Employment Ordinance. No provision has been made therefor in the financial statements as the directors are of the view that it is not probable that the amount will crystallise in the foreseeable future.

At 31 March 2008, the Company has given a financial guarantee to a bank for the purpose of obtaining bank facilities by certain subsidiaries. Based on a professional valuation report issued by RHL Appraisal Limited, independent professionally qualified valuers, the fair value of the financial guarantee during the year ended 31 March 2008 was estimated at $Nil (2007: $Nil).

35. RECLASSIFICATION OF INTEREST IN RONTEX CO., LTD. FROM A SUBSIDIARY INTO A JOINTLY-CONTROLLED ENTITY

As disclosed in note 19 to the financial statements, the Group accounted for the interest in Rontex Co., Ltd. as an interest in a jointly-controlled entity with effect from 1 October 2006. Accordingly, the Group ceased to consolidate its results, assets and liabilities as a subsidiary since that date. The net assets of Rontex Co., Ltd. as at 30 September 2006 were as follows:—

	Note	**30 September 2006** *$'000*
Net assets reclassified:		
Land use rights	*14*	1,609
Property, plant and equipment	*15*	21,972
Inventories		2,342
Trade receivables		4,738
Other receivables		990
Cash and cash equivalents		4,504
Interest-bearing bank borrowings		(17,568)
Trade payables		(9,263)
Minority interests		(4,544)
		4,780
Reclassified as an interest in a jointly-controlled entity		(4,780)
		—
Analysis of the net cash outflow:		
Cash and cash equivalents		(4,504)

36. PLEDGE OF ASSETS

As at 31 March 2008, the Group's banking facilities were secured by the following:

(a) Pledge of certain of the Group's property held for sale, leasehold land and buildings with aggregate net carrying values of approximately $7,332,000 (2007: $Nil) (note 16), $7,579,000 (2007: $11,030,000) (note 14) and $2,218,000 (2007: $10,258,000) (note 15), respectively;

(b) Cross guarantees among the subsidiaries of the Company;

(c) Assignment of documentary credit issued in favour of a subsidiary;

(d) Corporate guarantee executed by a third party; and

(e) Corporate guarantee executed by the Company.

37. RELATED PARTY TRANSACTIONS

(a) During the year and in the ordinary course of business, the Group had the following material transaction with its jointly-controlled entity:

	2008	**2007**
	$'000	*$'000*
Purchase of goods	—	5,308

(b) As at 31 March 2008, the Group had aggregate amounts due to directors of approximately $4,277,000 (2007: $4,256,000). The amounts are unsecured, interest free and have no fixed terms of repayment. An amount of $1,000,000 due to the directors' close family member bore interest at a rate of 12% per annum which was fully repaid during the year ended 31 March 2007. Interest expense paid to this related party during the prior year amounted to approximately $120,000 (note 7).

(c) During the prior year, the Group enforced the tax indemnity of $4,233,000 from the Indemnifiers and there were amounts due from the Indemnifiers of approximately $2,490,000 as at 31 March 2007. The indemnifiers had fully settled this amount as at 31 March 2008, details of which are set out in note 10(iii) to the financial statements.

(d) Members of key management during the year comprised only of the executive directors whose remuneration is set out in note 9(a) to the financial statements.

38. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which comprises the bank borrowings disclosed in note 27, cash and cash equivalents in note 26 and equity attributable to equity holders of the Company and comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 20-40% determined as the proportion of net debt to equity. Based on the management's recommendations, the Group may increase its gearing ratio closer to such range through the issue of new debts and the payment of dividends.

The gearing ratio at the balance sheet date was as follows:

	2008	**2007**
	$'000	*$'000*
Debts	11,203	16,064
Cash and cash equivalents	(19,322)	(5,426)
Net debts	N/A	10,638
Equity	48,173	35,591
Net debts to equity ratio	N/A	29.9%

39. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and price risk.

These risks are limited by the Group's financial management policies and practices described below.

39. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk

The Group's credit risk is primarily attributable to its trade receivables and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Normally, the Group does not obtain collateral from customers.

Investments are normally only in liquid securities quoted on a recognised stock exchange. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 53.4% (2007: 33.7%) and 82.6% (2007: 79.8%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively within the trading of garments business segment.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25 to the financial statements.

(b) Liquidity risk

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

(c) Interest rate risk

The Group's cash flow interest-rate risk mainly arises from interest-bearing bank borrowings as disclosed in note 27 to the financial statements. Interest-bearing bank borrowings were issued at variable rates, which expose the Group to cash flow interest rate risk. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

39. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk *(continued)*

The effective interest rates and terms of repayment of the Group's interests-bearing bank borrowings are disclosed in note 27 to the financial statements.

Sensitivity analysis

At 31 March 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after taxation and consolidated equity by approximately $112,000 (2007: $161,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(d) Currency risk

The Group mainly operates in Hong Kong and the PRC with most of the transactions settled in Hong Kong dollars and RMB respectively and does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(e) Price risk

The Group is not exposed to any significant equity securities risk or commodity price risk.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2008 and 2007.

39. FINANCIAL RISK MANAGEMENT *(continued)*

(g) Fair values estimation

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments set out in note (f) above.

(i) Trading securities and available-for-sale investments

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Interest-bearing bank borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials according to professional valuation report, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2008 and 2007 may be categorised as follows:

	2008	**2007**
	$'000	*$'000*
Financial assets		
Fair value through profit or loss		
— Held for trading	278	—
Loans and receivables (including cash and bank balances)	26,857	23,852
Available-for-sale investments	—	1,573
Financial liabilities		
Financial liabilities measured at amortised cost	20,704	26,121

41. SIGNIFICANT NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) The controlling shareholder of the Company has granted an option over the shares it holds in the Company to the extent of 820,000,000 shares at an option premium of $20,000,000. The option was exercised in full at the aggregate exercise price of $45,000,000 on 2 July 2008, details of which are disclosed in the announcements of the Company dated 16 October 2007, 20 December 2007, 4 January 2008, 9 April 2008 and 2 July 2008.

(b) On 22 January 2008, Take Luck Development Limited, an indirect wholly owned subsidiary of the Company, entered into a provisional sale agreement with an independent third party for the disposal of its property at a cash consideration of $17,500,000. The disposal of property was subsequently completed on 19 April 2008.

(c) On 29 January 2008, Century Power (China) Limited, an indirect wholly owned subsidiary of the Company, entered into an agreement with DTV China Holdings Limited to acquire 51% of the issued share capital of DTV China Inc. at a consideration of $357,000,000 (the "Acquisition") as set out in the Company's circular dated 31 March 2008 and the announcement dated 24 April 2008. On 21 April 2008, a resolution was duly passed by the independent shareholders in an extraordinary general meeting and the acquisition was subsequently completed on 25 April 2008. Adjustment will be made to reflect the consideration at fair value in the year ending 31 March 2009. It is impractical to disclose the pro forma revenue and profit of the Group for the year had the Acquisition been effected at the beginning of the year because the relevant financial information of DTV China Inc. and its subsidiary was not yet available for the preparation of such pro forma financial information.

42. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year's presentation.

C. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP

Set out below are the management discussion and analysis of the performance of the Group for each of the three years ended 31 March 2006, 2007 and 2008 based on the information set out in the respective published annual reports of the Company:

FOR THE YEAR ENDED 31 MARCH 2006

Financial and operation review

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$194.3 million (2005: HK$162.1 million), representing an increase of approximately 19.9% as compared to 2005.

For the year ended 31 March 2006, the Group recorded loss from operations of approximately HK$10.4 million (2005: profit from operations of approximately HK$2.7 million) mainly due to: 1) the drop in gross profit margin from approximately 20.1% in 2005 to approximately 15.5% in 2006, mainly because the Group faced a general trend of drop in selling prices of garment products under keen competition. This resulted in the decrease in gross profit by approximately HK$2.5 million or 7.7% despite the growth in turnover; 2) the increase in unit production costs in terms of raw materials, fuel and labour costs; 3) the selling and distribution costs increased with the increase in sales; and 4) the appreciation in RMB has resulted in the increase in the cost of operation.

For the year ended 31 March 2006, the Group recorded a net loss attributable to equity holders of the Company of approximately HK$36.9 million, compared to a net loss attributable to equity holders of the Company of approximately HK$6.5 million for the year ended 31 March 2005. This was mainly due to keen competition in garment product market and higher cost of operation that eroded the Group's gross profit as mentioned above, impairment loss on available-for-sale investment of approximately HK$23.7 million and impairment loss on property, plant and equipment, inventories and trade and other receivables of approximately HK$6.4 million recognised for the year ended 31 March 2006.

Garment products

Garment products business has continued to be the major source of revenue of the Group. For the year ended 31 March 2006, garment products accounted for approximately 95.9% (2005: 95.2%) of the Group's turnover. Turnover derived from garment product business increased by approximately 20.7% to approximately HK$186.2 million for the year ended 31 March 2006, mainly due to increase in demand resulted from the recovery of global economy. However, loss attributable to garment products amounted to approximately HK$9.3 million for the year ended 31 March 2006 (2005: profit of approximately HK$2.1 million) mainly due to higher cost of operation and impairment loss on property, plant and equipment, inventories and trade and other receivables of approximately HK$6.4 million. In addition, due to keen competition with competitors, the Group faced great pressure to decrease the selling price of garment products.

Premium products

For the year ended 31 March 2006, the revenue of premium products amounted to approximately HK$8.1 million (2005: HK$7.8 million) and accounted for approximately 4.1% (2005:4.8%) of the turnover of the Group. The operating loss of premium products amounted to approximately HK$1 million (2005: profit of HK$0.6 million).

Geographical

Chile continued to be the Group's largest market which accounted for approximately 48.1% (2005: 50.5%) of the Group's turnover. Other non-categorised markets accounted for approximately 20.6% (2005: 14.6%) of the Group's turnover as a result of the efforts made by the Group in exploring new markets during the year ended 31 March 2006.

Liquidity and financial resources

The bank borrowings of the Group as at 31 March 2006 amounted to approximately HK$10.8 million (2005: HK$13 million), comprising all short-term bank borrowings repayable within one year (2005: HK$11.5 million) and no long-term bank borrowings repayable after one year (2005: HK$1.5 million). All bank borrowings of the Group were denominated in RMB and carried floating interest rates.

As at 31 March 2006, the Group had net current liabilities of approximately HK$15.4 million (2005: net current assets of approximately HK$1.7 million). The Group's current ratio, as a ratio of current assets to current liabilities, was approximately 60.4% (2005: 105.1%) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was maintained at a low level of approximately 10.6% (2005: 9.6%). The Group generally financed its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 March 2006, the Group had cash and cash equivalents of approximately HK$4.7 million (2005: HK$5.1 million).

Material acquisitions and disposals of subsidiaries and associated companies

The Group acquired the entire share capital of Wisefull International Limited which owned 30% equity interests in 北京朗坤服裝有限公司(the "JV Co") for a total consideration of approximately HK$27.7 million on 31 August 2005. The JV Co was engaged in the sales and manufacture of woven garment products.

Employees and remuneration policies

As at 31 March 2006, the Group had approximately 549 staff and workers in Hong Kong and the PRC.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.

Pledge of assets

The Group's banking facilities were secured by the Group's land and buildings located in Hong Kong and the PRC with an aggregate net book value of approximately HK$27.9 million (2005: HK$31.3 million). As at 31 March 2005, motor vehicles in the PRC with net book value of approximately HK$0.5 million was secured for banking facilities granted to the Group.

Capital commitment

As at 31 March 2006, the Group had no material capital commitment.

Exposure to fluctuation in exchange rates and related hedges

As the Group's transactions were mostly settled by HK$, RMB and US$ and the existing currency peg of HK$ with US$ would likely remain steady in the near future, the Group's exposure to foreign exchange fluctuation is minimal. However, the use of financial instruments for hedging purposes would be considered when necessary.

Financial instruments for hedging purposes

The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year ended 31 March 2006.

Contingent liabilities

As at 31 March 2006, the Group had contingent liabilities arising from bills of exchange discounted with recourse and long service payment of approximately HK$2 million (2005: HK$8.6 million) and approximately HK$0.2 million (2005: HK$0.1 million) respectively.

Since December 2002, Rontex Holdings Limited ("RHL"), a subsidiary of the Company, had been queried by the Inland Revenue Department of the Hong Kong Special Administrative Region Government (the "IRD") in respect of sales and marketing support service expenses claimed by RHL as deductible expenses in its profit tax computation. As at 31 March 2006, the IRD raised queries to the RHL for the years of assessments 2000/2001, 2001/2002, 2002/2003, 2003/2004 in respect of its sales and marketing support service expenses of an aggregate total of approximately HK$61.5 million.

FOR THE YEAR ENDED 31 MARCH 2007

Financial and operation review

During the year ended 31 March 2007, the Group recorded a turnover of approximately HK$166.4 million (2006: HK$194.3 million), representing a decrease of approximately 14.4% as compared to 2006.

Despite the decrease in turnover, the Group was able to maintain the gross profit margin as compared with 2006. Gross profit and gross profit margin for the year ended 31 March 2007 was approximately HK$26.4 million (2006: HK$30.1 million) and 15.8% (2006:15.5%) respectively.

For the year ended 31 March 2007, the Group recorded loss from operations of approximately HK$1.7 million (2006: HK$10.4 million). The improvement was mainly due to administrative expenses incurred by Rontex Co., Ltd. (a subsidiary of the Group up to 30 September 2006) was no longer consolidated by the Group since 1 October 2006, when the Group lost its unilateral control over Rontex Co., Ltd. and Rontex Co., Ltd. became a jointly-controlled entity of the Group thereafter.

During the year ended 31 March 2007, the Group recorded a loss attributable to equity holders of the Company of approximately HK$38.7 million (2006: HK$36.9 million). This was mainly due to 1) an impairment loss on goodwill recognised of approximately HK$19.5 million (2006: nil); 2) the agreed settlement with the IRD of the additional profits tax assessments, tax penalties and surcharges for the previous years for certain subsidiaries of the Group in an aggregate amount of approximately HK$11.1 million; 3) no impairment loss on available-for-sale investments was recognised for the year ended 31 March 2007 (2006: approximately HK$23.7 million); and 4) the improvement in operating results as mentioned above.

Garment products

Garment products business continued to be the major source of revenue of the Group. For the year ended 31 March 2007, garment products accounted for approximately 95.9% (2006: 95.9%) of the Group's turnover. Revenue derived from garment product businesses decreased by approximately 14.3% to approximately HK$159.6 million. The decrease in turnover was mainly due to the change in accounting treatment as a result of the change of status of Rontex Co., Ltd. from a subsidiary into a jointly-controlled entity since 1 October 2006. Thus, the turnover of Rontex Co. Ltd. was not incorporated in the Group's turnover since then. Profit attributable to garment products was approximately HK$0.7 million (2006: loss of HK$9.3 million), which was partly due to the loss incurred by Rontex Co., Ltd. was no longer consolidated by the Group since 1 October 2006.

Premium products

For the year ended 31 March 2007, the revenue of premium products accounted for approximately 4.1% (2006: 4.1%) of the turnover of the Group. The revenue and operating profit of premium products were approximately HK$6.9 million (2006: HK$8.1 million) and HK$1 million (2006: loss of HK$1 million) respectively.

Geographical

Chile continued to be the Group's major market segment which accounted for approximately 56.1% (2006: 48.1%) of the total revenue. China market being the second largest market of the Group attributed to approximately 14.7% (2006: 10.0%) of total revenue. Other markets include various countries located in Europe, North America, South America and Australia.

Liquidity and financial resources

The bank borrowings of the Group as at 31 March 2007 amounted to approximately HK$16.1 million (2006: HK$10.8 million), comprising all short-term bank borrowing repayable within one year. The Group's bank borrowings as at 31 March 2007 were denominated in RMB, US$ and HK$ and all carried floating interest rates.

As at 31 March 2007, the Group had net current liabilities of approximately HK$8.5 million (2006: HK$15.4 million). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 78.1% (2006: 60.4%) and the Group's gearing ratio, being a ratio of total interest-bearing borrowings to total assets, was maintained at a level of approximately 21.5% (2006: 10.6%). The Group generally financed its operations with internally generated cash flow, facilities provided by its banks in Hong Kong and the PRC and the capital market in Hong Kong available for listed companies. As at 31 March 2007, the Group had cash and cash equivalents of approximately HK$5.4 million (2005: HK$4.7 million).

Material acquisitions and disposals of subsidiaries and associated companies

During the year ended 31 March 2007, the Group did not acquire or dispose of any material investments or subsidiaries.

Employees and remuneration policies

As at 31 March 2007, the Group had approximately 150 staff and workers in Hong Kong and the PRC.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprise salary, commissions and bonuses based on individual performance.

Pledge of assets

The Group's banking facilities were secured by the Group's land and buildings located in Hong Kong and the PRC with a total carrying value of approximately HK$21.3 million as at 31 March 2007 (2006: HK$27.9 million).

Capital commitment

As at 31 March 2007, the Group had no material capital commitment.

Exposure to fluctuations in exchange rates and related hedges

As the Group's transactions were mostly settled by HK$, RMB and US$ and the existing currency peg of HK$ with US$ would likely remain steady in the near future, the Group's exposure to foreign exchange fluctuations is limited. However, the use of financial instruments for hedging purposes would be considered when necessary.

Financial instruments for hedging purposes

The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year ended 31 March 2007.

Contingent liabilities

As at 31 March 2007, the Group had contingent liabilities arising from long service payment of approximately HK$0.2 million (2006: HK$0.2 million).

FOR THE YEAR ENDED 31 MARCH 2008

Financial and operation review

During the year ended 31 March 2008, the Group recorded a turnover of approximately HK$120.6 million (2007: HK$166.4 million), representing a decrease of approximately 27.5% as compared to 2007. Intense competition in the garment industry has resulted in the Group facing a general trend of falling in the selling prices of garment products which reduced its turnover. The overall gross profit also fell by approximately 32.5% to approximately HK$17.8 million for the year ended 31 March 2008.

The operating loss was approximately HK$9.3 million (2007: HK$1.7 million). The loss was mainly attributable to (i) the fall in turnover of garment products for reasons explained in the paragraph headed "Garment Products" below; (ii) the increase in cost of sales as a result of the appreciation in RMB; (iii) the relatively low profit margin of the Group's PRC joint venture as the production plant is facing higher cost of production in terms of raw materials, fuel and labor; and (iv) the increase in Hong Kong staff costs and other administrative expenses.

The Group recorded a loss attributable to shareholders of approximately HK$12.8 million (2007: HK$38.7 million). The improvement was mainly attributable to the fact that in prior year there was an under-provision of tax and related penalties of approximately HK$11.1 million and an impairment loss on goodwill of approximately HK$19.5 million which both were isolated events and did not recur in 2008.

Garment products

Garment products business continued to be the major source of turnover of the Group. For the year ended 31 March 2008, garment products accounted for approximately 92.4% (2007: 95.9%) of the Group's turnover. Turnover derived from garment products decreased by approximately 30.3% to approximately HK$111.3 million. The decrease in turnover was mainly due to (i) as a result of the change of status of Rontex Co. Ltd. from a subsidiary into a jointly-controlled entity of the Group since 1 October 2006, the turnover of Rontex Co. Ltd. was not consolidated as the Group's turnover since that date. (ii) the reduction of garment products' selling prices resulting from the keen competition of the market and (iii) the reduction of sales to a major customer who had opened its own office in the PRC. The loss attributable to garment products amounted to approximately HK$4.1 million (2007: profit of HK$0.7 million). This was mainly due to low profit margin and unsatisfactory performance of the PRC joint venture. The appreciation of RMB and the introduction of new labor law in the PRC also resulted in a general increase in cost of sales while the keen competition drove down the selling prices of garment products.

Premium products

For the year ended 31 March 2008, the revenue of premium products accounted for approximately 7.6% (2007:4.1%) of the turnover of the Group. The revenue and operating profit of premium products were approximately HK$9.2 million (2007: HK$6.9 million) and HK$0.8 million (2007: HK$1.0 million) respectively.

Geographical

Chile continued to be the Group's major market segment which accounted for approximately 56.9% (2007: 56.1%) of the total revenue. China market, being the second largest market of the Group, accounted for approximately 21.4% (2007: 14.7%) of the total revenue. Other markets include various countries located in United Kingdom, Europe, North America, South America and Australia.

Liquidity and financial resources

The bank borrowings of the Group as at 31 March 2008 amounted to approximately HK$11.2 million (2006: HK$16.1 million), comprising all short-term bank borrowings repayable within one year. The Group's bank borrowings as at 31 March 2008 were denominated in RMB, US$ and HK$ and all carried floating interest rates.

As at 31 March 2008, the Group had net current assets of approximately HK$4.3 million (2007: net current liabilities of HK$8.5 million). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 113.0% (2007: 78.1%) and the Group’s gearing ratio, being a ratio of total interest-bearing borrowings to total assets, was approximately 13.8% (2007: 21.5%). The Group generally financed its operations with internally generated cash flow, facilities provided by its banks in Hong Kong and the PRC and the capital market in Hong Kong available for listed companies. As at 31 March 2008, the Group had cash and cash equivalents of approximately HK$19.3 million (2007: HK$5.4 million).

The Group will constantly review its financial resources and will consider various plans to enhance its financial capabilities. During the year ended 31 March 2008, the Company has issued 391,000,000 unlisted warrants to independent investors which if fully exercised would raise approximately HK$82 million.

Material acquisitions and disposals of subsidiaries and associated companies

In January 2008, the Group entered into an agreement to acquire 51% equity interest in DTV China Inc, and its subsidiary, EnReach Information Technology (Shanghai) Company Limited, being one of the chief services providers of digital television broadcasting industry in the PRC, including provision of equipments and software of cable VOD system, information broadcasting system, embedded television systems and value-added services. The transaction was subsequently completed in April 2008.

Employees and remuneration policies

As at 31 March 2008, the Group had approximately 110 staff and workers in Hong Kong and the PRC.

The Group remunerates its employees largely based on industry practice, company performance, and individual qualifications and performance. Remuneration packages comprise salary, commissions and bonuses based on individual performance.

Pledge of assets

The Group’s banking facilities were secured by the Group’s property held for sale, leasehold land and buildings located in Hong Kong and the PRC with a total carrying value of approximately HK$17.1 million as at 31 March 2008 (2007: HK$21.3 million).

Capital commitment

As at 31 March 2008, the Group had no material capital commitment.

Exposure to fluctuation in exchange rates and related hedges

As the Group mainly operated in Hong Kong and the PRC with most of the transactions settled in HK$, RMB and US$ and the existing currency peg of HK$ with US$ would likely remain steady in the near future, the Group's exposure to risk resulting from changes in foreign currency exchange rates should not be significant. However, the use of financial instruments for hedging purposes will be considered when necessary.

Financial instruments for hedging purposes

The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year ended 31 March 2008.

Contingent liabilities

As at 31 March 2008, the Group had contingent liabilities arising from long service payments of approximately HK$0.3 million (2007: HK$0.2 million).

D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2008, being the date to which the latest published audited consolidated financial statements of the Group were made up.

E. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in (i) digital television broadcasting industry including provision of equipments and software of cable video-on-demand system, information broadcasting system, embedded television systems and value-added services; and (ii) sourcing, manufacture and sale of garment and trading of a variety premium items all over the world.

As mentioned in the Company's 2008 annual report, the Directors consider that digital television broadcasting is a global trend nowadays and is a strategic development for the PRC to face the new era of technology. In view of the PRC government's various policies to support the digital television broadcasting industry in the areas of debt financing from domestic financial institutions, tax preferential treatment and domestic research and development, the Directors believe that the prospect of digital television broadcasting services in the PRC will enter into a brilliant era.

Garment and premium was the Group's principal business before the Group completed the acquisition of the digital television broadcasting business in April 2008. However, as mentioned in the Company's announcement dated 28 October 2008 in respect of the discloseable transaction for the disposal of a subsidiary engaged in garment trading, the Directors are not optimistic over the future performance of the garment business in view of the intense competition in the industry. As mentioned in the Company's interim report for the six months ended 30 September 2008, in view of the economic turmoil has seriously hit the global retail market and thus a worse business performance is expected for the garment business, the Group will gradually step out from the garment products segment so as to put more effort to other more promising business.

In respect of the Acquisition, the Enlarged Group will also be engaged in coal mining, production and sale of coal after Completion. Coal, depending on the grading types, is generally used for (i) the manufacture of coke, which is used for the production of steel and iron; (ii) electricity generation; and (iii) cement production and other industrial activities. Based on the indicative grades of coal as stated in the Technical Report of the Coal Mine set out in Appendix VIII to this circular, it is expected that the coal produced from the Coal Mine can be sold to steel manufacturers. According to the historic growth and potential of the coal mining industry in Russia as mentioned in the section headed "Reasons for the Acquisition" in the "Letter from the Board" in this circular, the Directors consider that the coal mining industry in Russia has good prospect.

The Directors consider that the Acquisition will enable the Group to broaden its revenue base by diversifying to the coal mining industry in Russia which has good business potential and is consistent with the Group's strategy to look for new investments that can enhance the value of the Company.

F. PROPERTY VALUATION

Vigers, an independent property valuer, has valued the property interests of the Group and the Target Group as at 12 December 2008. The text of the letters, summary of valuations and the valuation certificates are set out in Appendix VIIA and VIIB respectively to this circular.

A reconciliation of the net book value of the Group's property interests as at 31 March 2008 as stated in the financial information of the Group set out in Appendix I to this circular to their fair market value as at 12 December 2008 as stated in Appendix VIIA to this circular is as follows:

	HK$ ('000)	*HK$ ('000)*
Net book value of the following properties as at 31 March 2008		
— Leasehold land and land use rights	7,579	
— Buildings	8,389	
Less: Depreciation of properties during the period from 1 April 2008 to respective dates of disposals (unaudited)	(322)	
Less: Net book values of properties disposed (unaudited) *(Note 1)*	(15,646)	
Net book value of properties as at 12 December 2008 subject to the property valuation on property interests of the Group		—
Property valuation on property interests owned by the Group as at 12 December 2008 as set out in Appendix VIIA to this circular *(Note 2)*		—

Notes:

1. *The properties disposed of with net book values of HK$15,646,000 refer to the property disposed of by the Group as set out in the announcement of the Company dated 1 August 2008; and the properties disposed of by the Group as a result of the disposal of a subsidiary as set out in the announcement and circular of the Company dated 28 October 2008 and 14 November 2008 respectively.*

2. *All property interests of the Group as set out in Appendix VIIA to this circular are held under leases.*

No reconciliation is performed between the net book value of the Target Group's property interests as at 31 August 2008 as stated in the accountants' report of the Russia Subsidiary set out in Appendix IIB to this circular and their fair market value as at 12 December 2008 as stated in Appendix VIIB to this circular, as all of the Target Group's property interest as at 31 August 2008 and as at 12 December 2008 was held under leases and was not recognized in the accountants' report of the Russia Subsidiary set out in Appendix IIB to this circular under accounting principles generally accepted in Hong Kong.

G. INDEBTEDNESS

Borrowings:

As at the close of business on 31 October 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding secured bank borrowings of approximately HK$7,816,000 and other unsecured borrowings of approximately HK$3,710,000, unsecured amounts due to directors of the Company of approximately HK$950,838, unsecured amount due to shareholders of a subsidiary of approximately HK$101,400,000 and unsecured amounts due to minority shareholders of approximately HK$1,639,000.

Pledge of assets

As at 31 October 2008, the borrowing facilities of the Enlarged Group were secured by the followings:

(a) Pledge of certain of the Enlarged Group's leasehold land with an aggregate net carrying value of approximately HK$1,788,000;

(b) Pledge of a property owned by a former director of the Company who resigned as a director on 12 November 2008;

(c) Pledge of certain deposit of the Company with a carrying amount of HK$4,020,000 and structured investment deposit of approximately HK$1,049,000;

(d) Cross guarantees among the subsidiaries of the Group;

(e) Assignment of documentary credit issued in favour of a subsidiary of the Group;

(f) Corporate guarantee executed by Independent Third Parties; and

(g) Corporate guarantee executed by the Company.

Commitments and contingent liabilities

At the close of business on 31 October 2008, the Enlarged Group had total future minimum lease payments under non-cancelable operating leases in respect of office premises amounted to approximately HK$335,000.

On 22 August 2008, the Administration of Kemerovo Region extended the lease of land plot by the Russia Subsidiary from 31 August 2008 to 31 December 2008. The purpose of land plot leased was for the performance of exploration project. As at the Latest Practicable Date, the minimum lease payment amount of the land plot for the extended period has not been determined by the Administration of Kemerovo Region. The Directors consider that, with reference to the legal opinion provided by an independent legal advisor in Russia, the Russia Subsidiary has the right in priority to extend the lease of land plot under the civil legislation and land laws of the Russian Federation. According to the legal opinion, the Russia Subsidiary is able to extend the lease as long as 20 years in practice once Russia Subsidiary commenced its coal mining operation.

At the close of business on 31 October 2008, the Enlarged Group had total long services payments amounted to approximately HK$270,000. The Enlarged Group is liable to make long service payments upon the termination of employment of certain employees who have completed the required number of years of services and met the required circumstances under the Employment Ordinance. No provision has been made as the directors are of the view that it is not probable that the amount will crystallize in the foreseeable future

At the close of business on 31 October 2008, the Enlarged Group has not incurred any significant expenditure for environmental remediation, and has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Enlarged Group and therefore no provision was made. The government of Russia, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Enlarged Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The exact amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

Save as aforesaid if any or as otherwise mentioned herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, at the close of business on 31 October 2008, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, outstanding indebtedness, loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debenture, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitment, guarantees or contingent liabilities.

H. WORKING CAPITAL

The initial investment required for the construction, installation of new facilities and infrastructure for the development of Lot 1 of the Coal Mine which will be incurred in the first two years following Completion is expected to be approximately US$67 million (or equivalent to approximately HK$522.6 million). The Company currently envisages that such investment will be funded by internal resources of the Group, borrowings, issue of securities of the Company and other feasible ways of financing. Further details in this regard will be announced by the Company as and when appropriate.

In determining the sufficiency of the working capital of the Enlarged Group, the Directors have made the assumption that the Enlarged Group will be able to raise sufficient funding (including but not limited to borrowings and equity financing such as issue of securities of the Company and other feasible ways of financing) for the development of the Coal Mine for a period of 24 months from Completion, which is in fact a condition precedent to the Completion.

The Directors are of the opinion that after taking into account the internal resources, present available banking facilities of the Enlarged Group and based on the assumption as set out in the preceding paragraphs, the Enlarged Group will have sufficient working capital, in the absence of unforeseen circumstances, for its present requirements in the next 24 months from the date of this circular.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Shu Lun Pan Horwath Hong Kong CPA Limited, Certified Public Accountants, Hong Kong.

A. ACCOUNTANTS' REPORT

Shu Lun Pan Horwath Hong Kong CPA Limited
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31 December 2008

The Board of Directors
Rontex International Holdings limited
23rd Floor, Chun Wo Commercial Centre
23-29 Wing Wo Street
Central
Hong Kong

Dear Sirs

We set out below our report on the financial information (the "Financial Information") of Langfeld Enterprises Limited ("Langfeld") for the period from 22 May 2008 (date of incorporation) to 31 August 2008 (the "Relevant Period") prepared for inclusion in the circular of Rontex International Holdings Limited (together with its subsidiaries referred to as the "Group") dated 31 December 2008 (the "Circular") in connection with the proposed acquisition of (i) 90% equity interest of Langfeld by the Group and (ii) the attributable loan due and owing by Langfeld to the Vendor (the "Acquisition").

Langfeld was incorporated in the Republic of Cyprus on 22 May 2008 with limited liability. The registered office of Langfeld is at Boumpoulinas 11, 1st Floor, PC1060, Nicosia, Cyprus and its principal place of business is at Hong Kong. During the Relevant Period, Langfeld was inactive.

No audited financial statements have been prepared for Langfeld since its incorporation because Langfeld was newly incorporated and Langfeld has not been involved in any significant business transaction since its incorporation except for Langfeld's acquisition of 70% equity interest in LLC Shakhta Lapichevskaya ("Lapichevskaya") subsequent to 31 August 2008. Lapichevskaya is engaged in holding a coal mine located in Russia and was engaged in the trading of coal. In the second half of 2008, Lapichevskaya ceased its operation in trading of coal.

For the purpose of this report, the director of Langfeld has prepared the financial statements of Langfeld for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the Relevant Period (the "Underlying Financial Statements"). We have, for the purpose of this report, undertaken appropriate audit procedures in respect of the Underlying Financial Statements of Langfeld in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The director of Langfeld is responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the Financial Information for the Relevant Period, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Langfeld as at 31 August 2008.

B. FINANCIAL INFORMATION

Income statement and cash flow statement

Langfeld has not been involved in any significant business transaction during the Relevant Period. All its expenses were met by its shareholder. Accordingly, no income statement and cash flow statement are presented.

Balance sheet

		As at 31 August 2008
	Notes	*US$*
Current assets and total asset		
Amount due from a shareholder	*5*	1,280
EQUITY		
Share capital	*6*	1,280

Statement of changes in equity

	Share capital
	US$
Shares issued since incorporation and as at 31 August 2008	1,280

C. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Langfeld is a private company incorporated in the Republic of Cyprus with limited liability and has its registered office at Boumpoulinas 11, 1st Floor, PC1060, Nicosia, Cyprus and its principal place of business is in Hong Kong. In the opinion of the director of Langfeld, the ultimate holding company of Langfeld is Cordia Global Limited, a private company incorporated in the British Virgin Islands.

During the Relevant Period, Langfeld was inactive.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following new standards, amendment to standards and interpretations that are relevant to Langfeld have been issued but are not effective for the accounting periods commencing on or after 1 January 2008 have not been early adopted:

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)
HKFRS 8	Operating segments	(i)
HK(IFRIC) — Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellation	(i)
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) — Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation	(iv)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27,HKAS 28, HKAS 29, HKAS 31,HKAS 36, HKAS 38, HKAS 39,HKAS 40 & HKAS 41	(i)
	HKFRS 5	(ii)

Effective date

(i) Annual periods beginning on or after 1 January 2009

(ii) Annual periods beginning on or after 1 July 2009

(iii) Annual periods beginning on or after 1 July 2008

(iv) Annual periods beginning on or after 1 October 2008

Langfeld is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information have been prepared in accordance with all applicable HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong. The Financial Information is presented in United States Dollars, which is also the functional currency of Langfeld.

A summary of the significant accounting policies followed by Langfeld in the preparation of the Financial Information is set out below:

(a) Basis of preparation

The Financial Information has been prepared on historical cost convention.

(b) Financial assets

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

(i) Loans and receivables

Receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment of financial assets

Financial assets 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 investment have been impacted.

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-organisation; or

Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(b) **Financial assets** *(Continued)*

(ii) Impairment of financial assets *(Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included in trade and other receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When Langfeld is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised 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 through the expected life of the financial asset, or where appropriate, a shorter period.

(iv) Derecognition of financial assets

Langfeld derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Langfeld neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Langfeld recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If Langfeld retains substantially all the risks and rewards of ownership of a transferred financial asset, Langfeld continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(c) **Equity instrument issued by Langfeld**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Langfeld are recorded at the proceeds received, net of direct issue costs.

(d) **Foreign currencies**

Transactions in currencies other than Langfeld's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise.

(e) **Related parties**

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of Langfeld where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of Langfeld or of any entity that is a related party of Langfeld.

4. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Langfeld's accounting policies. In the opinion of the director, there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. **AMOUNT DUE FROM A SHAREHOLDER**

Amount due from a shareholder is unsecured, interest free and has no fixed terms of repayment.

6. **SHARE CAPITAL**

	As at 31 August 2008 *US$*
Authorised:	
10,000 ordinary shares of €1 each	12,800
Issued:	
1,000 ordinary shares of €1 each	1,280

Langfeld was incorporated with an authorised share capital of €10,000 divided into 10,000 shares of €1 each. 1,000 shares of €1 each was issued at par to the subscribers at the date of incorporation as its initial capital.

7. RELATED PARTY TRANSACTIONS

(a) Details of the amount due from a shareholder are disclosed in Note 5.

(b) During the Relevant Period, there was no compensation pay to key management of Langfeld.

8. CAPITAL RISK MANAGEMENT

Langfeld's objective of managing capital are to safeguard Langfeld's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, Langfeld may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of Langfeld consists of equity attributable to equity holders of Langfeld only.

9. FINANCIAL RISK MANAGEMENT

The main risks arising from Langfeld's financial instruments in the normal course of the Langfeld's business are credit risk, liquidity risk and currency risk.

These risks are limited by Langfeld's financial management policies and practices described below:

(a) Credit risk

Langfeld's principal financial asset is an amount due from a shareholder. The maximum exposure of Langfeld's receivable is the carrying amount of the amount due from a shareholder.

(b) Liquidity risk

Langfeld's policy is to ensure that its shareholder will provide the necessary funding to meet its liquidity requirements in the short and longer term.

(c) Currency risk

During the period, the maximum exposure on currency risk is the translation rate on amount due from a shareholder. Director of Langfeld considers that currency risk to Langfeld is minimal as most of Langfeld's transactions are carried out in functional currency.

10. SUMMARY OF FINANCIAL ASSETS BY CATEGORY

The carrying amount of the Langfeld's financial asset classified as loans and receivables and recognised as at 31 August 2008 was US$1,280.

11. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 2 September 2008, Langfeld entered into a sale and purchase agreement with the original shareholders of Lapichevskaya ("Russian Shareholders") to acquire 70% equity interest of Lapichevskaya at a consideration of US$15,000,000 less any liability on taxation and borrowings as at the date of completion. Under the same agreement, Langfeld is also granted a call option to acquire an additional 10% equity interest of Lapichevskaya at a consideration of US$4,000,000 upon Lapichevskaya obtaining the licence for the exploration and production of coal on Petrovskyi and adjoining lot of Kemerovskyi coal mine.

As at the date of this report, US2,000,000 of the consideration has been settled by the Vendor by way of shareholder's loan to Langfeld. It is intended that the outstanding consideration of US$13,000,000 will be settled by the Vendor by way of shareholder's loan to Langfeld before Completion, or other ways as accepted by the Russian Shareholders. In fact, it is a condition precedent to the Completion that the liabilities of Langfeld (save for the shareholders' loan owed to the Vendor) shall be fully repaid, settled or discharged either by way of waivers by creditors in respect of such liabilities and/or assignment and settlement by the Vendor.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Langfeld in respect of any period subsequent to 31 August 2008 and up to the date of this report. No dividend or other distributions has been declared, made or paid by Langfeld in respect of any period subsequent to 31 August 2008.

Yours faithfully
For and on behalf of
Shu Lun Pan Horwath Hong Kong CPA Limited
Certified Public Accountants
Hong Kong
Shiu Hong NG
Practising Certificate number P03752

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Shu Lun Pan Horwath Hong Kong CPA Limited, Certified Public Accountants, Hong Kong.

A. ACCOUNTANTS' REPORT

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
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31 December 2008

The Board of Directors
Rontex International Holdings limited
23rd Floor, Chun Wo Commercial Centre
23-29 Wing Wo Street
Central
Hong Kong

Dear Sirs

We set out below our report on the financial information (the "Financial Information") of LLC Shakhta Lapichevskaya ("Lapichevskaya") for each of the years ended 31 December 2005, 2006 and 2007 and the eight months ended 31 August 2008 (the "Relevant Periods") and the comparative financial information of Lapichevskaya for the eight months ended 31 August 2007 (the "2007 Comparative Information"), prepared for inclusion in the circular of Rontex International Holdings Limited (together with its subsidiaries referred to as the "Group") dated 31 December 2008 (the "Circular") in connection with the acquisition of (i) the 90% equity interest of Langfeld Enterprises Limited ("Langfeld") by the Group and (ii) the attributable loan due and owing by Langfeld to the Vendor (the "Acquisition"). Langfeld held 70% equity interest of Lapichevskaya as at the date of this report.

Lapichevskaya was incorporated in Russia on 2 November 2004 with limited liability and its principal place of business is in Russia. Lapichevskaya is engaged in holding a coal mine located in Russia and was engaged in the trading of coal. In the second half of 2008, Lapichevskaya ceased its operation in trading of coal.

No audited financial statements have been prepared for Lapichevskaya since its incorporation because there is no statutory requirement for Lapichevskaya to do so.

For the purpose of this report, the director of Lapichevskaya has prepared the financial statements of Lapichevskaya for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the Relevant Periods (the "Underlying Financial Statements"). We have, for the purpose of this report, undertaken appropriate audit procedures in respect of the Underlying Financial Statements of Lapichevskaya in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The director of Lapichevskaya is responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the Financial Information for the Relevant Periods, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the 2007 Comparative Information, it is our responsibility to form an independent conclusion, based on our review, on the financial information and to report our conclusion to you. We conducted our review on the financial information in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. Our review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 2007 Comparative Information.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Lapichevskaya as at 31 December 2005, 2006 and 2007, and 31 August 2008 and of its results and cash flows for the Relevant Periods.

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the 2007 Comparative Information.

Without qualifying our opinion, we draw attention to Note 3(a) of Section C which indicates that Lapichevskaya had accumulated losses and net liabilities as at 31 December 2005, 2006, 2007 and 31 August 2008. These conditions, along with other matters as set forth in Note 3(a), indicate the existence of a material uncertainty which may cast significant doubt about Lapichevskaya's ability to continue as a going concern.

B. FINANCIAL INFORMATION

Income Statements

		Year ended 31 December			Eight months ended 31 August	
		2005	**2006**	**2007**	**2007**	**2008**
	Notes	*RUB*	*RUB*	*RUB*	*RUB* (unaudited)	*RUB*
Turnover	5	77,700,618	25,180,539	11,973,407	9,100,552	2,824,856
Cost of sales		(77,147,119)	(22,898,304)	(10,348,927)	(7,806,570)	(2,250,521)
Gross profit		553,499	2,282,235	1,624,480	1,293,982	574,335
Other income		—	4,999	42,020	42,020	—
Administrative expenses		(556,959)	(1,616,310)	(17,159,074)	(11,568,921)	(13,118,905)
(Loss)/profit from operations		(3,460)	670,924	(15,492,574)	(10,232,919)	(12,544,570)
Finance costs	6	(138,715)	(1,625,038)	(2,901,883)	(1,944,890)	(155,906)
Loss before taxation	8	(142,175)	(954,114)	(18,394,457)	(12,177,809)	(12,700,476)
Taxation	9(a)	34,783	137,454	3,775,765	2,466,781	2,858,137
Loss for the year/period		(107,392)	(816,660)	(14,618,692)	(9,711,028)	(9,842,339)

Balance Sheets

	Notes	As at 31 December 2005 RUB	As at 31 December 2006 RUB	As at 31 December 2007 RUB	As at 31 August 2008 RUB
ASSETS AND LIABILITIES					
Non-current assets					
Intangible assets	*10*	30,000	1,083,128	947,732	857,468
Plant and equipment	*11*	850,516	6,102,752	7,888,461	7,793,362
Prepayment made for construction in progress	*11*	—	1,934,141	—	—
Deferred tax assets	*16*	6,254	143,708	3,919,472	6,777,610
		886,770	9,263,729	12,755,665	15,428,440
Current assets					
Inventories	*12*	—	2,632,458	2,568,051	—
Trade and other receivables	*13*	740,238	4,545,090	6,028,435	865,713
Cash at banks		1,526	132,984	236,608	724,080
		741,764	7,310,532	8,833,094	1,589,793
Current liabilities					
Trade and other payables	*14*	350,318	254,926	8,368,201	18,267,395
Accruals		43,220	22,747	52,324	26,325
Borrowings	*15*	1,244,114	3,004,366	20,612,704	12,697,403
		1,637,652	3,282,039	29,033,229	30,991,123
Net current (liabilities)/assets		(895,888)	4,028,493	(20,200,135)	(29,401,330)
Non-current liabilities					
Trade and other payable	*14*	—	—	8,000,000	10,813,919
Borrowings	*15*	—	14,118,000	—	—
		—	14,118,000	8,000,000	10,813,919
NET LIABILITIES		(9,118)	(825,778)	(15,444,470)	(24,786,809)
EQUITY					
Registered capital	*17*	10,000	10,000	10,000	10,000
Reserves		(19,118)	(835,778)	(15,454,470)	(24,796,809)
TOTAL EQUITY (DEFICIENCY)		(9,118)	(825,778)	(15,444,470)	(24,786,809)

Statements of Changes in Equity

	Registered capital *RUB* *(note 17)*	Additional paid in capital *RUB*	Legal reserve *RUB* *(Note)*	Accumulated losses *RUB*	Total equity *RUB*
Balance at 1 January 2005	10,000	—	—	88,274	98,274
Transfer	—	—	105	(105)	—
Loss for the year	—	—	—	(107,392)	(107,392)
Balance at 31 December 2005	10,000	—	105	(19,223)	(9,118)
Loss for the year	—	—	—	(816,660)	(816,660)
Balance at 31 December 2006	10,000	—	105	(835,883)	(825,778)
Loss for the year	—	—	—	(14,618,692)	(14,618,692)
Balance at 31 December 2007	10,000	—	105	(15,454,575)	(15,444,470)
Loss for the period	—	—	—	(9,842,339)	(9,842,339)
Contribution from equity holders	—	500,000	—	—	500,000
Balance at 31 August 2008	10,000	500,000	105	(25,296,914)	(24,786,809)
Balance at 31 December 2006	10,000	—	105	(835,883)	(825,778)
Loss for the period	—	—	—	(9,711,028)	(9,711,028)
Balance at 31 August 2007 (unaudited)	10,000	—	105	(10,546,911)	(10,536,806)

Note: Legal reserve represents the appropriation of net profit for the year ended 31 December 2004 and such appropriation is in compliance with Lapichevskaya's articles of association.

Cash Flow Statements

	Year ended 31 December			Eight months ended 31 August	
	2005	2006	2007	2007	2008
	RUB	*RUB*	*RUB*	*RUB* (unaudited)	*RUB*
Operating activities					
Loss before taxation	(142,175)	(954,114)	(18,394,457)	(12,177,809)	(12,700,476)
Adjustments for:					
Amortisation of intangible assets	—	62,474	135,396	90,264	90,264
Depreciation of plant and equipment	131,775	136,333	148,432	98,808	95,099
Finance costs	138,715	1,625,038	2,901,883	1,944,890	155,906
Operating cash flows before working capital changes	128,315	869,731	(15,208,746)	(10,043,847)	(12,359,207)
(Increase)/decrease in inventories	—	(2,632,458)	64,407	64,407	2,568,051
(Increase)/decrease in trade and other receivables	(382,212)	(3,804,852)	(1,483,344)	(1,240,077)	5,162,722
Increase/(decrease) in trade and other payables	347,009	(95,392)	16,113,275	11,097,696	12,713,112
Increase/(decrease) in accruals	40,506	(20,473)	29,577	13,852	(25,999)
Net cash generated from/(used in) operations	133,618	(5,683,444)	(484,831)	(107,969)	8,058,679
Interest paid	(138,715)	(1,625,038)	(2,901,883)	(1,944,890)	(155,906)
Net cash (used in)/generated from operating activities	(5,097)	(7,308,482)	(3,386,714)	(2,052,859)	7,902,773
Investing activities					
Purchase of intangible assets	(30,000)	(1,115,602)	—	—	—
Prepayment made for construction in progress	—	(1,934,141)	—	—	—
Additions of plant and equipment	(146,473)	(5,388,569)	—	—	—
Net cash used in investing activities	(176,473)	(8,438,312)	—	—	—

Cash Flow Statements *(continued)*

	Year ended 31 December			Eight months ended 31 August	
	2005	**2006**	**2007**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB*	*RUB*
				(unaudited)	
Financing activities					
Proceeds from new borrowings	181,916	20,800,420	13,275,220	9,751,220	3,037,494
Repayment of borrowings	—	(4,922,168)	(9,784,882)	(7,572,250)	(10,952,795)
Contribution from equity owners	—	—	—	—	500,000
Net cash generated from/(used in) financing activities	181,916	15,878,252	3,490,338	2,178,970	(7,415,301)
Increase in cash and cash equivalents	346	131,458	103,624	126,111	487,472
Cash and cash equivalents at beginning of year/period	1,180	1,526	132,984	132,984	236,608
Cash and cash equivalents at end of year/period	1,526	132,984	236,608	259,095	724,080
Analysis of balance of cash and cash equivalents					
Cash at banks	1,526	132,984	236,608	259,095	724,080

C. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Lapichevskaya is a private company incorporated in Russia with limited liability and has its registered office and principal place of business at Promploschadka Shakhta Lapichevskaya, Kemerovsky district, Kemerovskaya region, RF, 650906.

Lapichevskaya is engaged in holding a coal mine located in Russia and was engaged in the trading of coal. In the second half of 2008, Lapichevskaya ceased its operation in trading of coal.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following new or revised standards that are relevant to Lapichevskaya have been issued but are not effective for the accounting periods commencing on or after 1 January 2008 have not been early adopted:

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)
HKFRS 8	Operating segments	(i)
HK(IFRIC) — Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellation	(i)
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) — Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation	(iv)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	HKAS 1, HKAS 16, HKAS 19,HKAS 20, HKAS 23, HKAS 27,HKAS 28, HKAS 29, HKAS 31,HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41	(i)
	HKFRS 5	(ii)

Effective date

(i) Annual periods beginning on or after 1 January 2009

(ii) Annual periods beginning on or after 1 July 2009

(iii) Annual periods beginning on or after 1 July 2008

(iv) Annual periods beginning on or after 1 October 2008

Lapichevskaya is in the process of making an assessment of what the impact of these new or revised standards is expected to be in the period of their initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with all applicable HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Russian Roubles ("RUB") which is also the functional currency of Lapichevsiaya.

A summary of the significant accounting policies followed by Lapichevskaya in the preparation of the Financial Information is set out below:

(a) Basis of preparation and presentation of Financial Information

The Financial Information has been prepared on historical cost convention.

The director of Lapichevskaya is of the opinion that capital financing will be forthcoming for the mining of the coal mine after the completion of the acquisition of a 90% equity interest of Langfeld, an immediate holding company of Lapichevskaya, by Grandvest International Limited (a wholly-owned subsidiary of Rontex International Holdings Limited) which is a condition precedent to the completion of the Acquisition. On the strength of above, the Financial Information has been prepared on the going concern basis.

(b) Plant and equipment

Plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, other than construction in progress, using straight line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal estimated useful lives of plant and equipment are as follows:

Motor vehicles	3 to 7 years
Other assets	3 to 10 years

The gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress represents plant and equipment under construction or pending installation, and is stated at cost less any impairment losses. Cost comprises direct costs of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for their intended use.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(c) Deferred overburden removal costs

Stripping ratios are determined by comparing the quantity of coal mined to the quantity of overburden, or waste removed to access the coal. Costs are deferred to the balance sheet, where appropriate, when the actual stripping ratios vary from the planned mine average stripping ratios. Deferral of costs to the balance sheet is not made where the actual stripping ratio is expected to be evenly distributed. Costs, which have previously been deferred to the balance sheet (deferred overburden removal costs), are included in the income statement on the units of production basis utilising average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

(d) Intangible assets

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised on the units of production method utilising only proven and probable coal reserves in the depletion base.

(e) Impairment of assets

At each balance sheet date, Lapichevskaya reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Lapichevskaya estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Inventories

Coal inventories are stated at the lower of weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(g) Financial assets

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(g) **Financial assets** *(continued)*

(ii) Impairment of financial assets

Financial assets 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 investment have been impacted.

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-organisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss determined and recognised as follows:

For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determines had no impairment loss been recognised in prior years.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(g) **Financial assets** *(continued)*

(ii) Impairment of financial assets *(continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When Lapichevskaya is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised 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 through the expected life of the financial asset, or where appropriate, a shorter period.

(iv) Derecognition of financial assets

Lapichevskaya derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Lapichevskaya neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Lapichevskaya recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If Lapichevskaya retains substantially all the risks and rewards of ownership of a transferred financial asset, Lapichevskaya continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(h) Financial liabilities and equity instrument issued by Lapichevskaya

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Lapichevskaya are recorded at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

The financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, unless the effect of discounting would be immaterial, in which case they are stated at cost.

The effective interest method is a method of calculating the amortised 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.

(iv) Derecognition of financial liabilities

Lapichevskaya derecognises financial liabilities when, and only when, Lapichevskaya's obligations are discharged, cancelled or they expire.

(i) Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of Lapichevskaya's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leases

Leases where substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Provisions and contingent liabilities

Provision is recognised when Lapichevskaya has a present obligation (legal or constructive) as a result of a past event, it is probable that Lapichevskaya will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provision for close down, restoration and environmental costs

One consequence of coal mining is land subsidence caused by the resettlement of the land at the mining sites. Depending on the circumstances, Lapichevskaya may relocate inhabitants from the mining sites prior to conducting mining activities or Lapichevskaya may compensate the inhabitants for losses or damage from close down and land subsidence after the sites have been mined. Lapichevskaya may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision is included in borrowing costs. Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying value of the provision and related assets, and the effect is then recognised in the income statement on a prospective basis over the remaining life of the operation. Provision for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at each balance sheet date to reflect changes in conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Lapichevskaya expects, at the balance sheet dates, to recover or settle the carrying amount of its assets and liabilities.

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(m) Employees' benefits

i) Short-term benefits

Salaries, annual bonuses and paid annual leaves are accrued in the year/period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

ii) Obligations to social contributions

Contributions to the social fund as required under the Russian regulations are charged to income statement when incurred. Lapichevskaya has no further payment obligations once the contribution has been made.

(n) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(o) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of Lapichevskaya where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of Lapichevskaya or of any entity that is a related party of Lapichevskaya.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for sales of goods in the normal course of business, net of discounts. Revenue from the sale of products is recognised when the goods have been delivered to the customer, the customer has accepted the goods and collectability of the related receivable is reasonably assured.

4. CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements used in preparing the Financial Information are evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Lapichevskaya makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment on long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be impaired and an impairment loss may be recognised in accordance with accounting policy for impairment on long-lived asset as described in Note 3(e). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. Lapichevskaya uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(b) Impairment for bad and doubtful debts

The policy for impairment of bad and doubtful debts of Lapichevskaya is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of receivables were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(c) Provision for close down, restoration and environmental costs

The provision for close down, restoration and environmental costs is determined by management based on their past experience and best estimation of future expenditure, after taking into account existing relevant regulations in Russia. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

5. TURNOVER, SEGMENT INFORMATION AND LOSS PER SHARE

Lapichevskaya's turnover represents sales of coal.

Holding of coal mine and trading of coal in Russia is Lapichevskaya's only business segment throughout the Relevant Periods. All assets and liabilities of Lapichevskaya as at each balance sheet date of the Relevant Periods are located in Russia. Accordingly, no separate segment information is presented. No loss per share is presented as Lapichevskaya is not a company incorporated with share capital and hence calculation of loss per share is not relevant.

6. FINANCE COSTS

	Year ended 31 December			Eight months ended 31 August	
	2005	**2006**	**2007**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB* (unaudited)	*RUB*
Interest on bank and other borrowings wholly repayable within five years	138,715	1,625,038	2,901,883	1,944,890	155,906

7. DIRECTOR'S EMOLUMENTS

Details on the Director's fee or emolument for services rendered to Lapichevskaya for the Relevant Periods are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2005	**2006**	**2007**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB* (unaudited)	*RUB*
Salary	11,232	77,748	70,549	52,150	36,800

8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

					Eight months	
		Year ended 31 December			ended 31 August	
		2005	**2006**	**2007**	**2007**	**2008**
	Notes	*RUB*	*RUB*	*RUB*	*RUB*	*RUB*
					(unaudited)	
Cost of inventories		77,147,119	22,898,304	10,348,927	7,806,570	2,250,521
Director's remuneration	*7*	11,232	77,748	70,549	52,150	36,800
Auditor's remuneration		—	—	—	—	—
Amortisation of intangible assets	*10*	—	62,474	135,396	90,264	90,264
Depreciation	*11*	131,775	136,333	148,432	98,808	95,099
Employee benefit expenses						
— salaries and allowances		61,687	437,923	230,275	211,875	4,600
— obligation to social contribution		16,038	113,860	59,872	55,088	1,196
Operating leases payment for land plot		289,249	893,610	16,470,807	11,023,949	12,220,879

9. TAXATION

(a) No provision for Hong Kong profits tax nor corporate income tax in Russia has been made as Lapichevskaya did not earn any profit assessable in Hong Kong and Russia and Lapichevskaya sustained a loss throughout the Relevant Periods, respectively. Taxation in other countries and jurisdictions is calculated at the rates applicable in the respective jurisdictions in which Lapichevskaya operates, based on existing legislation, interpretations and practices in respect thereof.

Taxation credit in the income statement represents:

				Eight months	
	Year ended 31 December			ended 31 August	
	2005	**2006**	**2007**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB*	*RUB*
				(unaudited)	
Current tax					
— Over/(under) provision in respect of prior year	—	—	1	—	(1)
Deferred tax credit *(Note 16(a))*					
— attributable to the origination and reversal of temporary differences	34,783	137,454	3,775,764	2,466,781	2,858,138
	34,783	137,454	3,775,765	2,466,781	2,858,137

9. **TAXATION** *(continued)*

(b) Tax credit for each of the Relevant Periods can be reconciled to their accounting losses as follows:

	Year ended 31 December			Eight months ended 31 August	
	2005	**2006**	**2007**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB*	*RUB*
				(unaudited)	
Loss before taxation	(142,175)	(954,114)	(18,394,457)	(12,177,809)	(12,200,476)
Taxation credit calculated at Russia's corporate income tax rate of 24%	(34,122)	(228,987)	(4,414,670)	(2,922,674)	(2,928,114)
Tax effect on expenses not deductible	—	91,533	638,904	455,893	69,978
Other	(661)	—	—	—	—
Over/(under) provision in prior year	—	—	1	—	(1)
Tax credit for the year/period	(34,783)	(137,454)	(3,775,765)	(2,466,781)	(2,858,137)

10. INTANGIBLE ASSETS

	Mining rights
	RUB
Cost:	
At 1 January 2005	—
Additions	30,000
At 31 December 2005	30,000
Additions	1,115,602
At 31 December 2006	1,145,602
Additions	—
At 31 December 2007	1,145,602
Additions	—
At 31 August 2008	1,145,602
Accumulated amortisation:	
1 January 2005	—
Charge for the year	—
At 31 December 2005	—
Charge for the year	(62,474)
At 31 December 2006	(62,474)
Charge for the year	(135,396)
At 31 December 2007	(197,870)
Charge for the year	(90,264)
At 31 August 2008	(288,134)
Net carrying amount:	
At 31 December 2005	30,000
At 31 December 2006	1,083,128
At 31 December 2007	947,732
At 31 August 2008	857,468

Amortisation is provided to write off the cost of the mining rights using (i) the units of production method based on the proven and probable mineral reserves under the assumption that Lapichevskaya can renew the mining rights till all proven and probable mineral reserves have been mined if the mining activity is carried out; or (ii) straight line method over the remaining terms of the mining rights if no mining activity is carried out. During the Relevant Periods, the coal mine was not operated and accordingly, amortisation on the mining right was amortised under straight line method.

The mining rights of Lapichevskaya were granted on 27 June 2005 with its expiry date on 31 December 2014 on the extraction of the bituminous coal at Kemerovo region, Russia.

11. PLANT AND EQUIPMENT AND PREPAYMENT MADE FOR CONSTRUCTION IN PROGRESS

	Motor Vehicles	Construction in progress	Other assets	Total
	RUB	*RUB*	*RUB*	*RUB*
At cost:				
1 January 2005	578,568	—	257,250	835,818
Additions	—	146,473	—	146,473
31 December 2005	578,568	146,473	257,250	982,291
Additions	—	5,360,451	28,118	5,388,569
31 December 2006	578,568	5,506,924	285,368	6,370,860
Additions	—	1,934,141	—	1,934,141
31 December 2007	578,568	7,441,065	285,368	8,305,001
Additions	—	—	—	—
31 August 2008	578,568	7,441,065	285,368	8,305,001
Accumulated depreciation:				
1 January 2005	—	—	—	—
Charge for the year	115,714	—	16,061	131,775
31 December 2005	115,714	—	16,061	131,775
Charge for the year *(note 8)*	115,714	—	20,619	136,333
31 December 2006	231,428	—	36,680	268,108
Charge for the year *(note 8)*	115,713	—	32,719	148,432
31 December 2007	347,141	—	69,399	416,540
Charge for the year *(note 8)*	77,143	—	17,956	95,099
31 August 2008	424,284	—	87,355	511,639
Net carrying amount:				
31 December 2005	462,854	146,473	241,189	850,516
31 December 2006	347,140	5,506,924	248,688	6,102,752
31 December 2007	231,427	7,441,065	215,969	7,888,461
31 August 2008	154,284	7,441,065	198,013	7,793,362

The prepayment balance as at 31 December 2006 represented the prepayment made for construction in progress in relation to the mine of Lapichevskaya, which were all utilised during the year ended 31 December 2007.

12. INVENTORIES

	As at 31 December			As at 31 August
	2005	2006	2007	2008
	RUB	*RUB*	*RUB*	*RUB*
Finished goods	—	2,632,458	2,568,051	—

13. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 31 August
	2005	2006	2007	2008
	RUB	*RUB*	*RUB*	*RUB*
Trade receivables	653,129	2,386,165	3,952,013	18
Less: allowance for doubtful debts	—	—	—	—
	653,129	2,386,165	3,952,013	18
Other receivables	15,000	16,819	16,820	2,600
Various taxes recoverable	71,069	1,311,214	1,371,569	863,095
Prepayments	1,040	830,892	688,033	—
	740,238	4,545,090	6,028,435	865,713

(i) The average credit terms Lapichevskaya grants to trade customers is 90 days. Trade receivables as at the respective balance sheet dates are aged within 90 days from the date of billing.

No allowance for doubtful debts was made during the Relevant Periods. All of the trade receivables were neither past due nor impaired.

14. TRADE AND OTHER PAYABLES

	As at 31 December			As at 31 August
	2005	2006	2007	2008
	RUB	*RUB*	*RUB*	*RUB*
Trade payables	94,502	72,637	364	364
Various tax payables	29,611	25,100	14,110	15,564
Rent and other payables	226,205	157,189	16,353,727	29,065,386
	350,318	254,926	16,368,201	29,081,314
Portion classified as non-current liabilities	—	—	(8,000,000)	(10,813,919)
Portion classified as current liabilities	350,318	254,926	8,368,201	18,267,395

All trade payables are aged within one month, non-interest bearing and are normally settled on 30-day term.

The director of Lapichevskaya considers that the carrying amount, of trade and other payables approximate their fair values at each of the balance sheet dates.

15. BORROWINGS

	As at 31 December			As at 31 August
	2005	2006	2007	2008
	RUB	*RUB*	*RUB*	*RUB*
Bank loans — secured	—	3,000,000	3,000,000	—
Loans from equity owners — unsecured *(note 19(a))*	1,184,114	—	370,200	581,200
Other loans — unsecured	60,000	14,122,366	17,242,504	12,116,203
	1,244,114	17,122,366	20,612,704	12,697,403
The borrowings are repayable as follows:				
On demand or within one year	1,244,114	3,004,366	20,612,704	12,697,403
After one year but within two years	—	14,118,000	—	—
	1,244,114	17,122,366	20,612,704	12,697,403

The effective interest rate of the bank loans was 16% per annum for the year ended 31 December 2006 and 2007. Bank loans carried at fixed interest rate.

Loans from equity owners are unsecured, interest-free and repayable on demand.

Other loans of approximately RUB12,116,203 as at 31 August 2008 which are interest free. Other loans for the year ended 31 December 2005, 2006 and 2007 carried interest at a fixed rate of 16% per annum. Other loans are unsecured and are repayable on demand.

All of the Lapichevskaya's borrowings are denominated in its functional currency and therefore exposed to minimal foreign exchange rate risk.

The bank loans were secured by assets of independent third parties in Russia and personal guarantees executed by an equity owners and an independent third party.

16. DEFERRED TAXATION

(a) The movements in the deferred tax assets during the Relevant Periods were as follows:

	As at 31 December			As at 31 August
	2005	2006	2007	2008
	RUB	*RUB*	*RUB*	*RUB*
At beginning of year/period	(28,529)	6,254	143,708	3,919,472
Credited to income statement *(Note 9(a))*	34,783	137,454	3,775,764	2,858,138
At end of year/period	6,254	143,708	3,919,472	6,777,610

Deferred tax assets as at 31 December 2005 and 2006 were mainly tax losses available for offset against future profits. Deferred tax assets as at 31 December 2007 and 31 August 2008 were mainly temporary differences on deferred payments.

(b) As at 31 August 2008, Lapichevskaya had no unused tax losses (2007: Nil; 2006: RUB589,000; 2005: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the tax losses have yet to be agreed by the Russian tax authority. There is no other significant unrecognised deferred tax for each of the Relevant Periods and at the respective balance sheet dates.

17. REGISTERED CAPITAL

	As at 31 December			As at 31 August
	2005	2006	2007	2008
	RUB	*RUB*	*RUB*	*RUB*
Registered and fully paid	10,000	10,000	10,000	10,000

18. CONTINGENT LIABILITIES AND LEASE COMMITMENT

(i) Provision for close down, restoration and environmental costs

To date, Lapichevskaya has not incurred any significant expenditure for environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of Lapichevskaya and therefore no provision was made as at 31 December 2005, 2006, 2007 and 31 August 2008. The government of Russia, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect Lapichevskaya's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The exact amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

(ii) On 22 August 2008, the Administration of Kemerovo Region extended the lease of land plot by Lapichevskaya from 31 August 2008 to 31 December 2008. The purpose of land plot leased was for the performance of exploration project. Up to the date of this report, the minimum lease payment amount of the land plot for the extended period has not been determined by the Administration of Kemerovo Region. The director considers that, with reference to the legal opinion provided by an independent legal advisor in Russia, Lapichevskaya has the right in priority to extend the lease of land plot under the civil legislation and land laws of the Russian Federation. According to the legal opinion, Lapichevskaya is able to extend the lease as long as 20 years in practice once Lapichevskaya commenced its coal mining operation.

19. RELATED PARTY TRANSACTIONS

(a) Included in borrowings of Lapichevskaya as at the balance sheet dates are borrowings from equity owners which are unsecured, interest-free and repayable on demand. Details on the borrowing from the equity owners are as follow:

	As at 31 December			As at 31 August
	2005	2006	2007	2008
	RUB	*RUB*	*RUB*	*RUB*
I Tannagashev	984,114	—	370,200	581,200
K Demeshonok	200,000	—	—	—
	1,184,114	—	370,200	581,200

19. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation for key management personnel of Lapichevskaya, including amount paid to Lapichevskaya's director during the Relevant Periods, was as follows:

	Year ended 31 December			Eight months ended 31 August	
	2005	**2006**	**2007**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB*	*RUB*
Salaries and other employee benefits	11,232	77,748	70,549	52,150	36,800
Retirement benefit costs	2,920	20,214	18,342	13,559	9,568

20. CAPITAL RISK MANAGEMENT

Lapichevskaya's primary objective when managing capital is to safeguard Lapichevskaya's ability to continue as a going concern, so that it can continue to provide returns for equity owners and benefits for other stakeholders.

Lapichevskaya actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity owners' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Lapichevskaya has no equity due to losses incurred from 2005 through 2008. Lapichevskaya maintains its operation by means of borrowings or additional capital contribution from investors.

The net debt and total equity at 31 December 2005, 2006 and 2007 and 31 August 2008 were as follows:

	As at 31 December			As at 31 August
	2005	**2006**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB*
Current liabilities:				
Trade and other payables	350,318	254,926	8,368,201	18,267,395
Accruals	43,220	22,747	52,324	26,325
Borrowings	1,244,114	3,004,366	20,612,704	12,697,403
	1,637,652	3,282,039	29,033,229	30,991,123
Non-current liabilities:				
Trade and other payables	—	—	8,000,000	10,813,919
Borrowings	—	14,118,000	—	—
		14,118,000	8,000,000	10,813,919
Total debts	1,637,652	17,400,039	37,033,229	41,805,042
Less: cash and cash equivalents	(1,526)	(132,984)	(236,608)	(724,080)
Net debts	1,636,126	17,267,055	36,796,621	41,080,962
Total equity/(deficiency)	(9,118)	(825,778)	(15,444,470)	(24,786,809)

21. FINANCIAL RISK MANAGEMENT

The main risks arising from Lapichevskayas' financial instruments in the normal course of Lapichevskaya's business are credit risk, liquidity risk, interest rate risk, currency risk and price risk.

(a) Credit risk

Lapichevskaya's credit risk is primarily attributable to its receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Further details are set out in Note 13.

(b) Liquidity risk

The following table details the remaining contractual maturities at each of the balance sheet dates of Lapichevskaya's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date Lapichevskaya can be required to pay.

	Carrying amount *RUB*	Total contractual undiscounted cash flow *RUB*	Within 1 year or on demand *RUB*	More than 1 year but less than 2 years *RUB*
As at 31 August 2008				
Borrowings	12,697,403	12,697,403	12,697,403	—
Other liabilities	29,107,639	29,107,639	18,293,720	10,813,919
	41,805,042	41,805,042	30,991,123	10,813,919
As at 31 December 2007				
Borrowings	20,612,704	20,612,704	20,612,704	—
Other liabilities	16,420,525	16,420,525	8,420,525	8,000,000
	37,033,229	37,033,229	29,033,229	8,000,000
As at 31 December 2006				
Borrowings	17,122,366	17,122,366	3,004,366	14,118,000
Other liabilities	277,673	277,673	277,673	—
	17,400,039	17,400,039	3,282,039	14,118,000
As at 31 December 2005				
Borrowings	1,244,114	1,244,114	1,244,114	—
Other liabilities	393,538	393,538	393,538	—
	1,637,652	1,637,652	1,637,652	—

21. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk

Lapichevskaya's interest-rate risk mainly arises from borrowings as disclosed in Note 15. All borrowings were issued at fixed rates which expose Lapichevskaya to fair value interest rate risk. Lapichevskaya has not used any financial instruments to hedge potential fluctuations in interest rates.

The interest rates and terms of repayment of Lapichevskaya's borrowings are disclosed in Note 15.

At 31 August 2008, it is estimated that a general increase/decrease of 100 basis point in interest rates, with all other variables held constant, would increase/decrease Lapichevskaya's loss after taxation and accumulated losses by approximately RUB121,000 (2007: RUB202,000; 2006: RUB171,000; 2005: RUB1,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for borrowings in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis throughout the Relevant Periods.

(d) Currency risk

Lapichevskaya mainly operates in Russia with most of the transactions are settled in RUB and does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(e) Price risk — commodity price risk

Lapichevskaya is principally engaged in the sale of coal. The coal markets are influenced by global as well as regional supply and demand conditions. A change in the price of coal could significantly affect Lapichevskaya's financial performance. Lapichevskaya historically has not used any commodity derivative instruments to hedge the potential price fluctuations of coal and does not have a fixed policy to do so in the foreseeable future.

22. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of Lapichevskaya's financial assets and financial liabilities as recognised at 31 December 2005, 2006 and 2007 and 31 August 2008 may be categorised as follows:

	As at 31 December			As at 31 August
	2005	**2006**	**2007**	**2008**
	RUB	*RUB*	*RUB*	*RUB*
Financial assets				
Loans and receivables (including cash at banks)	741,764	4,678,074	6,265,043	1,589,793
Financial liabilities				
Financial liabilities measured at amortised cost	1,637,652	17,400,039	37,033,229	41,805,042

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lapichevskaya in respect of any period subsequent to 31 August 2008 and up to the date of this report. No dividend or other distributions has been declared, made or paid by Lapichevskaya in respect of any period subsequent to 31 August 2008.

Yours faithfully
For and on behalf of
Shu Lun Pan Horwath Hong Kong CPA Limited
Certified Public Accountants
Hong Kong
Shiu Hong NG
Director
Practising Certificate number P03752

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET COMPANY FOR THE PERIOD FROM 22 MAY 2008 (DATE OF INCORPORATION) TO 31 AUGUST 2008 AND OF THE RUSSIA SUBSIDIARY FOR THE THREE YEARS ENDED 31 DECEMBER 2005, 2006, 2007 AND THE EIGHT MONTHS ENDED 31 AUGUST 2008

THE TARGET COMPANY

Financial review

The Target Company is an investment holding company principally engaged in the holding of a 70% equity interest in the Russia Subsidiary and has no significant operation from 22 May 2008 (date of incorporation) to 31 August 2008. The Target Company has not recorded any turnover or result for the period from 22 May 2008 (date of incorporation) to 31 August 2008.

THE RUSSIA SUBSIDIARY

Business and Financial review

The Russia Subsidiary is engaged in the holding of the Coal Mine and was engaged in the trading of coal which has been ceased in 2008. The turnover of the Russia Subsidiary that was attributable to the trading of coal for the three years ended 31 December 2005, 2006 and 2007 amounted to approximately RUB77.7 million, RUB25.2 million and RUB12.0 million respectively, whereas turnover for the eight months period ended 31 August 2008 was approximately RUB2.8 million compared to approximately RUB9.1 million for the corresponding period in 2007. The decreasing in turnover was due to fewer customer orders received and the focus placed by Russia Subsidiary on development of the Coal Mine.

The loss after taxation of the Russia Subsidiary for the three years ended 31 December 2005, 2006 and 2007 amounted to approximately RUB0.1 million, RUB0.8 million and RUB14.6 million respectively, whereas loss after taxation for the eight months period ended 31 August 2008 was approximately RUB9.8 million compared to approximately RUB9.7 million for the corresponding period in 2007. The significant increase in loss after taxation in 2007 was mainly due to the operating lease payments for a land plot increased by approximately RUB15.6 million to approximately RUB16.5 million in 2007. The operating lease payment was paid by the Russia Subsidiary to the Russia government for the right to use the land plot as project design and exploration work on the Coal Mine. The increase in lease payment is due to the revision of rent as a result of, among others, market situation.

Liquidity and financial resources

The borrowings of the Russia Subsidiary as at 31 December 2005, 2006 and 2007 and as at 31 August 2008 amounted to approximately RUB1.2 million, RUB17.1 million, RUB20.6 million and RUB12.7 million respectively, comprising secured bank loans of nil (2005: nil; 2006: RUB3 million; 2007: RUB3 million), unsecured loans from equity owners of approximately RUB0.6 million (2005: approximately RUB1.2 million; 2006: nil; 2007: approximately RUB0.4 million) and unsecured other loans from independent third parties of approximately RUB12.1 million (2005: RUB0.06 million; 2006: approximately RUB14.1 million; 2007: approximately RUB17.2 million) as at 31 August 2008. Save for approximately RUB14.1 million borrowings that are repayable after one year but within two years as at 31 December 2006, all of Russia Subsidiary's borrowings as at 31 December 2005, 2006 and 2007 and as at 31 August 2008 were short-term borrowings repayable within one year. All of Russia Subsidiary's borrowings were denominated in RUB, being its functional currency. Other than other loans of approximately RUB12.1 million as at 31 August 2008 and loans from equity owners that were interest-free, the Russia Subsidiary's borrowings carried fixed interest rates.

As at 31 August 2008, the Russia Subsidiary had net current liabilities of approximately RUB29.4 million (2005: approximately RUB0.9 million; 2006: net current assets of approximately RUB4 million; 2007: approximately RUB20.2 million). The Russia Subsidiary's current ratio as at 31 August 2008, being a ratio of current assets to current liabilities, was approximately 5.1% (2005: approximately 45.3%; 2006: approximately 222.7%; 2007: approximately 30.4%) and the Group's gearing ratio as at 31 August 2008, being a ratio of total interest-bearing borrowings to total assets, was maintained at a level of approximately 0% (2005: approximately 3.7%; 2006: approximately 103.3%; 2007: approximately 93.8%). The Russia Subsidiary generally financed its operations with internally generated cash flow and borrowings. As at 31 August 2008, the Group had cash at banks of approximately RUB 0.7 million (2005: approximately RUB0.02 million; 2006: approximately RUB0.1 million; 2007: approximately RUB0.2 million).

Material acquisitions and disposals of subsidiaries and associated companies

During each of the three years ended 31 December 2007 and for the eight months period ended 31 August 2008, the Russia Subsidiary did not acquire or dispose of any material investments or subsidiaries.

Employees and remuneration policies

As at 31 August 2008, the Russia Subsidiary had 2 staff working in Russia (2005: 5; 2006: 5; 2007: 6). The Russia Subsidiary remunerates its employees largely based on industry practice. Remuneration packages mainly comprise salary based on individual performance.

Pledge of assets

As at each of the three years ended 31 December 2005, 2006 and 2007 and as at 31 August 2008, the Russia Subsidiary had no material pledge of assets.

Capital commitment

As at each of the three years ended 31 December 2005, 2006 and 2007 and as at 31 August 2008, the Russia Subsidiary had no material capital commitment.

Exposure to fluctuations in exchange rates and related hedges

As the Russia Subsidiary operated in Russia with all of the transaction settled in RUB, the Russia Subsidiary's exposure to risk resulting from changes in foreign currency exchange rates should not be significant.

Financial instruments for hedging purposes

The Russia Subsidiary had neither foreign currency hedging activities nor any financial instruments for hedging purposes during each of the years ended 31 December 2005, 2006 and 2007 and for the eight months period ended 31 August 2008.

Contingent liabilities

Save for the contingent liabilities as disclosed in note 18 of the accountants' report of the Russia Subsidiary as set out in Appendix IIB to this circular, the Russia Subsidiary had no material contingent liabilities as at each of the three years ended 31 December 2005, 2006 and 2007 and as at 31 August 2008.

ACQUISITION OF 51% EQUITY INTEREST IN DTV CHINA INC. COMPLETED ON 25 APRIL 2008

Background

On 29 January 2008, the Century Power (China) Limited ("Century Power"), an indirect wholly-owned subsidiary of the Company (as buyer), entered into a sale and purchase agreement with DTV China Holdings Limited ("DTV Holdings") (as seller) and Mr. Li Yi Nan (as guarantor), pursuant to which Century Power has conditionally agreed to acquire 51% equity interest in and shareholder's loan due by DTV China Inc. at a consideration of HK$357 million which was satisfied by Century Power (i) as to HK$40 million in cash; (ii) as to HK$80 million by the issue of a promissory note; and (iii) as to HK$237 million by the allotment and issue of 790,000,000 consideration Shares at the issue price of HK$0.30 per Share credited as fully paid to DTV Holdings at completion. DTV China Inc. is an investment holding company and holds the entire share capital of EnReach Information Technology (Shanghai) Company Limited ("EnReach"), a wholly foreign owned enterprise in the PRC and principally engaged in the provision of digital television technology services, including cable video-on-demand system, information broadcasting system and embedded television systems. The aforesaid acquisition was completed on 25 April 2008. There was no variation to the aggregate remuneration payable to and benefits in kind receivable by the directors of Century Power as a result of the acquisition.

Financial information

Set out below are (i) audited financial information of DTV China Inc. and EnReach (collectively the "DTV Group") for each of the three years ended 31 December 2007 together with the relevant notes to the accounts as extracted from the accountants' report of the DTV Group as set out in Appendix II to the Company's circular dated 31 March 2008; (ii) the management discussion and analysis of the DTV Group as extracted from Appendix III to the Company's circular dated 31 March 2008; and (iii) the pro forma financial information of the Group as enlarged by the acquisition of the 51% interest in the DTV Group extracted from Appendix IV to the Company's circular dated 31 March 2008. Unless otherwise defined in this appendix, capitalised terms used in this appendix shall have the same meanings as those defined the Company's circular dated 31 March 2008.

1. AUDITED FINANCIAL INFORMATION OF THE DTV CHINA GROUP

A. Financial Information

1. Consolidated income statements

		Period/year ended 31 December		
		2005	**2006**	**2007**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*5*	—	—	5,835
Cost of sales		—	—	(848)
Gross profit		—	—	4,987
Other revenue		—	16	16
Selling expenses		—	—	(1,350)
Administrative expenses		(8)	(1)	(1,346)
(Loss)/profit before taxation	*7*	(8)	15	2,307
Taxation	*8(a)*	—	—	(763)
Net (loss)/profit for the period/year		(8)	15	1,544
(Loss)/earnings per share attributable to the equity holder of DTV:	*9*			
Basic *(HK$'000)*		(8)	15	1,544
Diluted *(HK$'000)*		N/A	N/A	N/A

2. *Consolidated balance sheets*

	Note	As at 31 December 2005 HK$'000	2006 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*10*	—	—	62
Current assets				
Inventories		—	—	1,830
Trade and other receivables and deposits paid	*11*	—	—	4,378
Amount due from a related company	*16(b)(i)*	—	—	814
Amount due from a director	*16(b)(ii)*	—	—	26
Cash at banks		—	1,498	1,713
		—	1,498	8,761
Current liabilities				
Accounts payable	*12*	—	—	1,685
Other payables and accruals	*12*	—	—	3,563
Amount due to a shareholder	*16(b)(iii)*	7	1,490	1,133
Tax payable		—	—	763
		7	1,490	7,144
Net current (liabilities)/assets		(7)	8	1,617
NET (LIABILITIES)/ASSETS		(7)	8	1,679
EQUITY				
Share capital	*13*	1	1	1
Reserves		(8)	7	1,678
TOTAL EQUITY		(7)	8	1,679

3. *Consolidated statements of changes in equity*

	Share capital *HK$'000* *(Note 13)*	**Translation reserve** *HK$'000*	**(Accumulated loss)/retained profits** *HK$'000*	**Total** *HK$'000*
Issue of share capital upon incorporation of DTV	1	—	—	1
Loss for the period	—	—	(8)	(8)
At 31 December 2005	**1**	—	**(8)**	**(7)**
Profit for the year	—	—	15	15
At 31 December 2006	**1**	—	**7**	**8**
Exchange differences arising on translation of overseas operation recognised directly in equity	—	127	—	127
Profit for the year	—	—	1,544	1,544
At 31 December 2007	**1**	**127**	**1,551**	**1,679**

4. Consolidated cash flow statements

	Period/year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
(Loss)/profit before taxation	(8)	15	2,307
Adjustments for:			
Depreciation	—	—	16
Interest income	—	(16)	(16)
Operating cash (outflow)/inflow before working capital change	(8)	(1)	2,307
Increase in inventories	—	—	(1,830)
Increase in trade and other receivables and deposits paid	—	—	(4,378)
Increase in amount due from a related company	—	—	(814)
Increase in amount due from a director	—	—	(26)
Increase in accounts payable	—	—	1,685
Increase in other payables and accruals	—	—	3,563
Cash (used in)/generated from operations	(8)	(1)	507
Interest received	—	16	16
Net cash (used in)/generated from operating activities	(8)	15	523
Investing activities			
Purchase of property, plant and equipment	—	—	(78)
Net cash used in investing activities	—	—	(78)
Financing activities			
Issue of share capital	1	—	—
Increase/(decrease) in amount due to a shareholder	7	1,483	(357)
Net cash generated from/(used in) financing activities	8	1,483	(357)
Net increase in cash and cash equivalents	—	1,498	88
Effect of changes in foreign exchange rate	—	—	127
Cash and cash equivalents at beginning of period/year	—	—	1,498
Cash and cash equivalents at end of period/year	—	1,498	1,713
Analysis of the balances of cash and cash equivalents			
Cash at banks	—	1,498	1,713

B. Notes To The financial information

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

DTV was incorporated in the British Virgin Islands. The registered office of DTV is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands.

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) and accounting principles generally accepted in Hong Kong and have been consistently applied throughout the Relevant Periods.

The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand, except otherwise indicated.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The DTV Group has not early applied the following new standards and interpretations relevant to its operations that have been issued but are not yet effective. The directors of DTV anticipate that the application of these standards or interpretations will have no material impact on the Financial Information of the DTV Group.

		Effective for accounting periods beginning on or after
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared on the historical cost basis.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the Financial Information.

(b) Consolidation

The consolidated financial statements incorporate the financial statements of DTV and its subsidiary made up during each of the Relevant Periods.

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

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with those of DTV.

(c) Subsidiary

A subsidiary is an entity whose financial and operating policies DTV controls, directly or indirectly, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the DTV controls another enterprise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The annual rate of depreciation for furniture, fixtures and equipment is 10%.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(e) Inventories

Inventories are finished goods and stated at the lower of cost and net realisable value. Cost includes cost of purchase of goods computed using the specific identification method. Net realisable value is determined by reference to the anticipated sales proceeds of items sold in the ordinary course of business less estimated selling expenses after the balance sheet date or to management estimates based on prevailing market conditions.

(f) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the DTV Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments

Financial assets and financial liabilities are recognised on the DTV Group's consolidated balance sheet when the DTV Group 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 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 recognised immediately in profit or loss.

Financial assets

The DTV Group's financial assets are mainly classified into receivables and cash at banks. All regular way purchases or sales of financial assets are recognised and derecognised 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. The accounting policies adopted in respect of each category of financial assets are set out below.

(i) Receivables

Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate provisions for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The provision recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the DTV Group 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 DTV Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Payables

Payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(ii) Equity instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Provisions and contingent liabilities

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

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

(i) 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 income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The DTV 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 liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Taxation rates enacted or substantively enacted by the balance sheet dates are used to determine deferred taxation.

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 liabilities are recognised for taxable temporary differences arising on investment in subsidiary, except where the DTV 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the DTV Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(k) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant equity holders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the DTV Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the DTV Group or of any entity that is a related party of the DTV Group.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and excluded value added tax or other sales related taxes.

(i) Revenue from sale of cable video-on-demand systems, information broadcasting systems and embedded television systems is recognised when the DTV Group has delivered products to the customers, the customers have accepted the products and collectibility of the related receivables is reasonably assured;

(ii) Provision of digital television technology services is recognised when the services are rendered; and

(iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the effective interest rate applicable.

(m) Translation of foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity (foreign currencies) are recorded in its functional currency. The consolidated financial statements are expressed in Hong Kong dollars which is the functional currency of DTV, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, foreign currency transactions are translated into Hong Kong dollars, being the functional currency at the rates of exchange 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 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 retranslation of monetary items, are included in profit or loss for the period.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(m) Translation of foreign currencies *(Continued)*

For the purpose of presenting consolidated financial statements, the assets and liabilities of the DTV Group's foreign operation (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the DTV Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

(n) Employees' benefits

(i) Short term benefits

Salaries and annual bonuses are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(ii) Pension

The employees of the DTV Group are required to participate in a central pension scheme operated by the local municipal government of the PRC. The DTV Group is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

4. **CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments used in preparing the Financial Information are 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 DTV Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment on assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, the asset may be impaired and an impairment loss may be recognised in accordance with accounting policy for impairment on asset as described in Note 3 (f) above. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to the level of revenue and amount of operating costs. The DTV Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(b) Impairment for bad and doubtful debts

The policy for impairment of bad and doubtful debts of the DTV Group is based on the evaluation of collectibility and aging analysis of receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of material debtor. If the financial conditions of debtors of the DTV Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. TURNOVER AND SEGMENT INFORMATION

The DTV Group derived income from the provision of digital television technology services, including sale of cable video-on-demand systems, information broadcasting systems and embedded television systems in the PRC.

During the period/year ended 31 December 2005 and 2006, the DTV Group was dormant and all of its assets were located in Hong Kong. During the year ended 31 December 2007, the DTV Group's only business segment was the provision of digital television technology services, including sale of cable video-on-demand systems, information broadcasting systems and embedded television systems in the PRC, and all of its assets and operations were located in the PRC.

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) None of the directors received any fees or emoluments in respect of their services rendered to the DTV Group for the Relevant Periods. During the Relevant Periods, no emoluments were paid by the DTV Group to any of the directors of DTV as an inducement to join or upon joining the DTV Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the Relevant Periods.

(b) The emoluments payable to the five individuals whose emoluments were the highest in the DTV Group during the Relevant Periods were as follows:

	Period/year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	—	—	92
Contributions to retirement benefit scheme	—	—	7
	—	—	99

The emoluments of each individual were all below HK$1,000,000 for each of the Relevant Periods. During the Relevant Periods, no amount was paid by the DTV Group to any of the above individuals as an inducement to join or upon joining the DTV Group or as compensation for loss of office.

7. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	Period/year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Auditor's remuneration	—	—	—
Minimum lease payments under operating leases in respect of land and buildings	—	—	575
Interest income	—	(16)	(16)
Staff costs			
— Wages and salaries	—	—	214
— Contributions to retirement benefit scheme	—	—	61
Depreciation	—	—	16

8. TAXATION

(a) Taxation in the income statement represents:

	Period/year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Current tax — PRC	—	—	763

No provision has been made for Hong Kong profits tax as the DTV Group has no assessable profits arising in Hong Kong for the Relevant Periods.

PRC corporate income tax of Enreach Information Technology (Shanghai) Company Limited is subject to the PRC enterprise income tax at the statutory rate of 33% for the year ended 31 December 2007.

There was no material unprovided deferred tax in respect of the Relevant Periods and as at each of the balance sheet dates.

(b) Taxation for the Relevant Periods can be reconciled to the accounting (loss)/profit as follows:

	Period/year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before taxation	(8)	15	2,307
Calculated at the PRC enterprise income tax rate of 33%	(3)	5	761
Tax effect of income not taxable	—	(5)	—
Tax effect of expenses not deductible	3	—	2
Taxation for the period/year	—	—	763

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the net (loss)/profit attributable to ordinary equity holder for the period/years ended 31 December 2005, 2006 and 2007 of approximately HK$(8,000), HK$15,000 and HK$1,544,000, respectively, and the weighted average of 1 ordinary share in issue during each of the Relevant Periods.

Diluted earnings per share amount has not been disclosed as no dilutive event existed during each of the Relevant Periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment
	HK$'000
Cost:	
At date of incorporation of DTV, and 1 January 2006 and 2007	—
Additions	78
At 31 December 2007	78
Accumulated depreciation:	
At date of incorporation of DTV, and 1 January 2006 and 2007	—
Charge for the year	16
At 31 December 2007	16
Net book value:	
At 31 December 2005	—
At 31 December 2006	—
At 31 December 2007	62

11. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

		As at 31 December	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	—	—	3,686
Other receivables and deposits paid	—	—	692
	—	—	4,378

All trade receivables are aged within 1 month.

The directors of DTV consider that the carrying amount of the DTV Group's trade and other receivables and deposits paid approximate its corresponding fair value at each of the balance sheet dates due to their short term nature. Trade receivables are non-interest bearing.

12. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Accounts payables	—	—	1,685
Other payables and accruals	—	—	3,563
	—	—	5,248

All accounts payable are aged within 1 to 2 months.

The directors of DTV consider that the carrying amounts of accounts payable, other payables and accruals approximate their fair value at each of the balance sheet dates due to their short term nature.

Accounts and other payables are non-interest-bearing and settled according to the terms of the respective contracts.

13. SHARE CAPITAL

	As at 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Authorised:			
50,000 ordinary shares of US$1 each	389,500	389,500	389,500
Issued and fully paid:			
1 ordinary share of US$1 each	8	8	8

DTV was incorporated on 19 April 2005 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. 1 share of US$1 each was issued to a subscriber to the Memorandum of Association at par for cash on incorporation to provide the initial capital.

14. OPERATING LEASE ARRANGEMENTS

At each of the balance sheet dates, the DTV Group had outstanding minimum commitments under a non-cancellable operating lease in respect of land and buildings, which fall due as follows:

	As at 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	—	—	262

Operating lease payments represent rentals payable by the DTV Group for its office. The leases is negotiated for a term of two years at fixed rentals.

15. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The main risks arising from the DTV Group's financial instruments in the normal course of the DTV Group's business are currency risk, credit risk and liquidity risk. These risks are evaluated and monitored by the DTV Group in accordance with the financial management policies and practices described below.

(i) Currency risk

Foreign exchange risk arises from current and future commercial transactions, recognised assets and liabilities. The DTV Group's foreign currency transactions are mainly denominated in US dollars and Renminbi. At present, the DTV Group does not intend to seek to hedge its exposure to foreign exchange risk profile, and will consider appropriate hedging measure in future as may be necessary.

The following table details the DTV Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Assets			Liabilities		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
United States Dollars	—	1,490	27	—	—	1,133
Renminbi	—	—	8,767	—	—	6,011

The following table indicates the approximate change in the DTV Group's profit after taxation and retained profits in response to reasonably possible changes in the foreign exchange rates to which the DTV Group has significant exposure at the respective balance sheet dates. For a weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the results, and the balance below would be negative.

	Period/years ended 31 December					
	2005		**2006**		**2007**	
	Increase in foreign exchange rates	**Effect on loss for the period and accumulated loss**	**Increase in foreign exchange rates**	**Effect on profit for the year and retained profits**	**Increase in foreign exchange rates**	**Effect on profit for the year and retained profits**
		HK$'000		*HK$'000*		*HK$'000*
United States dollars	—	—	—	—	—	—
Renminbi	N/A	—	N/A	—	7%	108

As the exchange rate between Hong Kong dollars and United States dollars is pegged, no significant increase in exchange rate is anticipated.

During the period/year ended 31 December 2005 and 2006, the DTV Group had no assets or liabilities denominated in Renminbi and therefore the approximate change is only presented for the year ended 31 December 2007.

15. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk

The DTV Group's principal financial assets are trade and other receivables. The amounts presented in the consolidated balance sheet are net of provisions for doubtful receivables. A provision for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The DTV Group has no significant concentration of credit risk, with exposure spread over various customers.

(iii) Liquidity risk

The DTV Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

(b) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at each of the balance sheet dates.

(c) Capital risk management

The DTV Group manages its capital to maintain a balance between continuity of funding and the flexibility through the use of financing from the shareholder of DTV. The DTV Group also monitors the current and expected liquidity requirements regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirements.

The capital structure of the DTV Group consists of debts, which include amount due to a shareholder, cash at banks, and equity, comprising of share capital, reserves and retained profits.

The management of the DTV Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risks, and takes appropriate actions to adjust the DTV Group's capital structure.

During the Relevant Periods, the DTV Group aimed at maintaining a gearing ratio of not more than 5-10%. The gearing ratios based on the DTV Group's net debts (amount due to a shareholder less cash at banks) and its total equity as at 31 December 2005, 2006 and 2007 were 100%, Nil% and Nil% respectively.

16. RELATED PARTY TRANSACTIONS

Details of the transactions between the DTV Group and related parties are disclosed below:

(a) During the year ended 31 December 2007, the DTV Group received service fees of approximately HK$2,222,000 from Enreach Information Technology (Beijing) Company Limited and made purchases of approximately HK$1,433,000 therefrom. Enreach Information Technology (Beijing) Company Limited and DTV have a common director.

Goods and services were provided to the above related party at the DTV Group's normal list prices and charge notes. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties.

(b) (i) The amount due from a related company is trading in nature, unsecured, interest-free and has no fixed terms of repayment. The maximum amount due from the related company during the Relevant Periods was approximately HK$2,222,000.

(ii) The amount due from a director is unsecured, interest-free and has no fixed terms of repayment. The maximum amount due from the director during the Relevant Periods is approximately HK$26,000.

(iii) The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

(c) Members of key management of the DTV Group comprised of DTV's directors only whose remuneration during the Relevant Periods is disclosed in Note 6(a) to the Financial Information.

17. POST BALANCE SHEET EVENTS

On 14 January 2008, the issued share capital of DTV was increased to approximately US$10,000 (equivalent to approximately HK$78,000) by the allotment of 9,999 shares of US$1 each (equivalent to approximately HK$7.8 each) at par for cash to broaden the capital base of DTV. Such shares rank pari passu in all respects with the existing share of DTV.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE DTV GROUP FOR THE PERIOD FROM 19 APRIL 2005, BEING THE DATE OF INCORPORATE, TO 31 DECEMBER 2005 AND THE TWO YEARS ENDED 31 DECEMBER 2006 AND 2007.

	From 19 April 2005 to 31 December 2005	**For the year ended 31 December 2006**	**For the year ended 31 December 2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	—	—	5,835
Gross profit	—	—	4,987
Net (loss)/profit for the period/ year	(8)	15	1,544

The Target Company was incorporated on 19 April 2005. On 22 March 2007, EnReach was established in the PRC as a wholly-owned subsidiary of the Target Company. As the Target Group was in the stage of establishment, there was no turnover recorded for the period from 19 April 2005 to 31 December 2005 and for the year ended 31 December 2006. The Target Group recorded a loss caused by the administrative expenses incurred during the period from 19 April 2005 to 31 December 2005 and a minimal profit of approximately HK$15,000 as other revenue exceeded expenses for the year ended 31 December 2006. For the year ended 31 December 2007, the Target Group recorded turnover of approximately HK$5,835,000 and a net profit of approximately HK$1,544,000 with the gross profit margin of 85.47% and net profit margin of 26.46%

Treasury policies

As at 31 December 2005, 2006 and 2007, there was no other borrowing from bank or financial institution.

Business development

The Target Company is principally engaged in the provision of digital television technology services, including cable video-on-demand ("VOD") system, information broadcasting system and embedded television systems. Currently, EnReach has gained about 70% of the market share in the VOD solution (including head-end server system and browser middleware in set-top box) in the PRC and about 45% of the market share in set-top box's browser middleware in the PRC. It is estimated that EnReach's system and services are being used by nearly 18 million households (or about 72 million users).

In January 2008, the PRC government has announced for the encouragement on the development of digital television industry. Digitized TV broadcasting shall be greatly promoted through the global broadcast of Beijing Olympic 2008 programs. Basic technological facilities are expected to be in place to support the network coverage of most cities in eastern, middle and western regions of the PRC. Digital TV is targeted to be widely adopted throughout the PRC by 2015.

The Company considered that the trend of value-added services being a major development in digital TV, EnReach has attained substantial market share in cable television market and shall be dedicated to the development of digital television technology services. Television broadcasting technology has been revolving, the Target Group allows the Company to step into this prospering industry of the PRC market. We believe the Target Group shall generate a different source of income from the principal business of the Company and give the Company and Shareholders profitable return in the long run.

Liquidity and financial resources

Net assets/liabilities

Set out below is a summary of the audited accountants' report of the Target Group as at 31 December 2005, 2006 and 2007:

	As at 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	—	1,498	8,823
Total liabilities	(7)	(1,490)	(7,144)
Net assets/(liabilities)	(7)	8	1,679
Gearing ratio*	N/A	99.47%	80.97%

* The gearing ratio is calculated based on the total liabilities over total assets

Liquidity

The Target Group had current assets of nil, approximately HK$1,498,000 and approximately HK$8,761,000 as at 31 December 2005, 2006 and 2007 respectively. The current ratios were approximately 1.01 and approximately 1.23 as at 31 December 2006 and 2007 respectively.

Acquisitions and disposals

The Target Group had not made any acquisition and disposal during the relevant period under review.

Significant investment held

The Target Group had 100% equity interest in EnReach.

Segmental information

No business segment analysis and geographical segment analysis for the Target Group were prepared as there is only one business segment and the Target Group operates entirely in the PRC.

Future plans for material investments

There are no future plans for any significant investments in capital assets or future funding needs.

Contingent liabilities

As at 31 December 2005, 2006 and 2007, the Target Group did not have any contingent liabilities.

Charges on assets

As at 31 December 2005, 2006 and 2007, the Target Group had no interest-bearing borrowings and no assets were pledged.

Foreign exchange exposure

The Target Group does not hedge its foreign currency risks, as the management does not expect any significant movements in exchange rate between, United States Dollar, RMB and HK$, during the period under review, the Target Group did not use any hedging instrument.

Employee

As at 31 December 2005 and 2006, the Target Group was in the stage of setting up the holding company and did not employ any employees during the period.

As at 31 December 2007, the Target Group has set up its operation team and had 22 employees based in the PRC. The total staff costs, excluding for directors, was approximately HK$275,000. The Target Group continues to provide remuneration packages to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme and staff training program.

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AS ENLARGED BY THE ACQUISITION OF THE 51% INTEREST IN THE DTV GROUP

The following is the illustrative and unaudited pro forma financial information of the Group, and DTVChina Inc. ("DTV") and its subsidiary (collectively referred as the "DTV Group") after the completion of the Acquisition (as defined below) (the DTV Group together with the Group are hereinafter referred to as the "Enlarged Group") which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of (i) the 51% of the issued share capital of DTV; and (ii) the DTV Group's amount due to DTV China Holdings Limited, the shareholder of DTV, as at 31 January 2008, which are collectively referred as the Acquisition as if it had been taken place on 31 March 2007 for the pro forma balance sheet; and at the beginning of the year ended 31 March 2007 for the pro forma income statement and the pro forma cash flow statement.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 March 2007 as set out in the financial information of the Group in Appendix I; and the audited consolidated balance sheet of the DTV Group as at 31 December 2007 in Appendix II, after making pro forma adjustments as set out in the notes thereto. The unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 March 2007 as set out in the financial information of the Group in Appendix I; and the audited consolidated income statement and cash flow statement of the DTV Group for the year ended 31 December 2007 in Appendix II, after making pro forma adjustment as set out in the notes thereto.

As the unaudited pro forma consolidated financial information of the Enlarged Group was prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations or cash flows of the Enlarged Group had the Acquisition been completed as at the respective dates to which it is made up to or at any future date.

A. Unaudited pro forma consolidated balance sheet

	Audited consolidated balance sheet of the Group as at 31 March 2007	Audited consolidated balance sheet of the DTV Group as at 31 December 2007	Pro forma adjustments		Unaudited pro forma consolidated balance sheet of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Non-current assets					
Leasehold land and land use rights	12,646	—			12,646
Property, plant and equipment	12,146	62			12,208
Interests in associates	15,110	—			15,110
Interest in a jointly-controlled entity	2,631	—			2,631
Available-for-sale investments	1,573	—			1,573
Goodwill	—	—	333,050	*1*	333,050
	44,106	62			377,218
Current assets					
Inventories	2,961	1,830			4,791
Trade and other receivables, deposits and prepayments	19,570	4,378			23,948
Amounts due from related parties	2,490	840			3,330
Cash and bank balances	5,426	1,713	(5,426)	*1*	1,713
	30,447	8,761			33,782
Current liabilities					
Interest-bearing bank borrowings, secured	(16,064)	—			(16,064)
Trade payables	(4,213)	(1,685)			(5,898)
Other payables, accrued expenses and trade deposits received	(7,657)	(3,563)	(35,574)	*2*	(46,794)
Current tax payables	(3,833)	(763)			(4,596)
Amount due to a shareholder	—	(1,133)	1,133	*1*	—
Tax penalty and surcharge payables	(2,939)	—			(2,939)
Amounts due to related parties	(4,256)	—			(4,256)
	(38,962)	(7,144)			(80,547)
Net current (liabilities)/assets	(8,515)	1,617			(46,765)
Total assets less current liabilities	35,591	1,679			330,453
Non-current liability					
Promissory note	—	—	(57,039)	*1*	(57,039)
Net assets	35,591	1,679			273,414
Capital and reserves					
Share capital	18,075	1	7,899	*3*	25,975
Reserves	15,028	1,678	227,422	*3*	244,128
Minority interest	2,488	—	823	*1*	3,311
Total equity	35,591	1,679			273,414

Notes:

1. Under Hong Kong Financial Standard 3 "Business Combinations" and Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements", the Group will apply the purchase method to account for the acquisition of the DTV Group as subsidiaries if the Group has the power, directly or indirectly, to govern the financial and operating policies of the DTV Group, so as to obtain benefits from its activities after the completion of the Acquisition. As of the date of this report, the directors of the Company consider that the Group will have the above control over the DTV Group pursuant to the completion of the Acquisition. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the DTV Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of the completion of the Acquisition. Any goodwill or discount arising on the Acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the DTV Group at the date of completion of the Acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

   Since the net fair value of the identifiable assets, liabilities and contingent liabilities of the DTV Group and the share price of the Company (which form part of the consideration given by the Company for the Acquisition as mentioned in Note 1(i)(c) below) as at the date of the actual completion of the Acquisition may be different from the fair values used in the preparation of the unaudited pro forma consolidated balance sheet above, the goodwill arising from the Acquisition will be reassessed at time of actual completion.

   The adjustments reflect the following:

   (i) The aggregation consideration of HK$357,000,000 for the Acquisition shall be satisfied upon the completion of the Acquisition in the following manner:

      (a) a sum of HK$40,000,000, which will be financed by the Group's cash and bank balances as at 31 March 2007 of HK$5,426,000, and other short term payable of HK$34,574,000.

      (b) a sum of HK$80,000,000, which will be paid by issuing and executing a promissory note by the Company with the principal value of HK$80,000,000 (the "Promissory Note") to the vendor. The Promissory Note is repayable in one lump sum on the fifth anniversary of the date of issue at no interest. The Promissory Note is classified as a financial liability and should be initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method. The fair value of the Promissory Note is determined at HK$57,039,000 at the date of issue using the discount rate of 7% per annum, which is within the range of the effective interest rates of the Group's existing financing facilities, over the entire term of the Promissory Note, i.e. 5 years. The shortfall of HK$22,961,000 of the fair value of HK$57,039,000 below the principal value of HK$80,000,000 will be recognised as an interest expense of the Group over a term of 5 years using the effective interest rate method. The effective interest expense of the Promissory Note amounts to HK$3,993,000 based on the applicable principal amount of HK$57,039,000 and interest rate of 7% per annum.

(c) a sum of HK$237,000,000, which will be satisfied by the Company allotting and issuing 790,000,000 ordinary shares of the Company to the vendor, credited as fully paid at an issue price of HK$0.30 per ordinary share upon the completion of the Acquisition, which is taken as the fair value of the Company's to-be-issued ordinary shares for the purpose of preparing the unaudited pro forma consolidated balance sheet.

Taking into account the professional and legal costs of HK$1,000,000 as mentioned in Note 2 below and the fair value of the items as mentioned in Note 1(i)(a), (b) and (c) above, the aggregate fair value of Group's purchase cost of the Acquisition amounted to HK$335,039,000.

(ii) The DTV Group's amount due to DTV China Holdings Limited, the shareholder of DTV, will also be acquired by the Group in the Acquisition. As a result, there will be an intragroup balance of HK$1,133,000 between the DTV Group and the Group which is eliminated on consolidation in the unaudited pro forma consolidated balance sheet.

(iii) The adjustments represent goodwill of HK$333,050,000 arising from the Acquisition.

For the purpose of preparing the unaudited pro forma consolidated balance sheet, the net assets of the DTV Group of HK$1,679,000 as at 31 December 2007 is taken as its fair value. The goodwill represented the excess of the Group's total purchase cost of the Acquisition of HK$335,039,000 as mentioned in Note 1(i)(c) above over the aggregate fair value of the assets acquired in the Acquisition of HK$1,989,000, comprising the Group's 51% equity interest in the fair value of the DTV Group's net assets of HK$856,000 and the DTV Group's amount due to a shareholder of HK$1,133,000.

(iv) The adjustment represents the 49% equity interest held by the minority shareholder of DTV in the fair value of the net assets of the DTV Group of approximately HK$823,000.

2. The adjustment represents (i) the unsettled amount of cash consideration of HK$34,574,000 as mentioned in note 1(i)(a) above; and (ii) the professional and legal costs of HK$1,000,000 in aggregate to be incurred by the Group in relation to the Acquisition, which will also be capitalised in the Group's goodwill arising from the Acquisition.

3. The adjustments represent (i) the elimination of DTV's share capital of HK$7.8 (presented as HK$1,000 on the consolidated balance sheet of the DTV Group), and (ii) an amount of HK$237,000,000 arising from issue of 790,000,000 new ordinary shares of par value HK0.01, at an issue price of HK$0.30 per ordinary share, upon the completion of the Acquisition as mentioned in Note 1(i)(c), of which HK$7,900,000 was credited to share capital and the remaining balance of HK$229,100,000 was credited to the share premium account.

After taking into account the elimination of the pre-acquisition reserves of the DTV Group of HK$1,678,000 on consolidation and the above movements in the share premium account, the adjustment on the reserves amounted to HK$227,422,000.

B. Unaudited pro forma consolidated income statement

	Audited consolidated income statement of the Group for the year ended 31 March 2007	Audited consolidated income statement of the DTV Group for the year ended 31 December 2007	Pro forma Adjustments	Note	Unaudited pro forma consolidated income statement of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Turnover	166,429	5,835			172,264
Cost of sales	(140,060)	(848)			(140,908)
Gross profit	26,369	4,987			31,356
Other revenue and gains	801	16			817
Impairment loss on trade and other receivables	(354)	—			(354)
Selling expenses	(11,517)	(1,350)			(12,867)
Administrative expenses	(16,958)	(1,346)			(18,304)
Operating (loss)/profit	(1,659)	2,307			648
Finance costs	(2,728)	—	(3,993)	*1*	(6,721)
Tax penalties and surcharges	(3,759)	—			(3,759)
Impairment loss on goodwill	(19,458)	—			(19,458)
Share of results of associates	(1,480)	—			(1,480)
Share of results of a jointly-controlled entity	(2,439)	—			(2,439)
(Loss)/profit before taxation	(31,523)	2,307			(33,209)
Income tax	(7,831)	(763)			(8,594)
(Loss)/profit for the year	(39,354)	1,544			(41,803)
Attributable to:					
Equity holders of the Company	(38,684)	1,544	(4,750)	*1 and 4*	(41,890)
Minority interest	(670)	—	757	*4*	87
	(39,354)	1,544			(41,803)
Loss per share				*5*	HK$0.0172

Notes:

4. The net profit attributable to the minority interest of approximately HK$757,000 is arrived at the net profit of the DTV Group for the year ended 31 December 2007 of approximately HK$1,544,000 and the 49% equity interest of the DTV Group held by the minority shareholder after the completion of the Acquisition.

5. The unaudited pro forma basic loss per share amount is calculated at HK$0.0172 based on the unaudited pro forma loss for the year attributable to ordinary equity holders of the Company of HK$41,890,000 as disclosed in Appendix IV (II) of the Circular, and the pro forma weighted average number of 2,434,208,433 ordinary shares in issue during the year, which is the sum of (i) the weighted average number of 1,644,208,433 shares in issue of the Company for the year ended 31 March 2007 as disclosed in Appendix I of this Circular; and (ii) the weighted average number of 790,000,000 new shares to be issued as part of the consideration of the Acquisition and such issue is assumed to be effected at the beginning of the year ended 31 March 2007 for the purpose of preparing the unaudited pro forma basic loss per share amount.

C. Unaudited pro forma consolidated cash flow statement

	Audited consolidated cash flow statement of the Group for the year ended 31 March 2007 *HK$'000*	Audited consolidated cash flow statement of the DTV Group for the year ended 31 December 2007 *HK$'000*	Pro forma Adjustments *HK$'000*	*Note*	Unaudited pro forma consolidated cash flow statement of the Enlarged Group *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/profit before taxation	(31,523)	2,307	(3,993)	*1*	(33,209)
Adjustments for:					
Interest income	(44)	16			(28)
Share option expense	800	—			800
Depreciation	1,452	(16)			1,436
Amortisation of leasehold land and land use rights	248	—			248
Finance costs	2,728	—	3,993	*1*	6,721
Share of results of associates	1,480	—			1,480
Share of results of a jointly-controlled entity	2,439	—			2,439
Loss on disposal of property, plant and equipment	127	—			127
Taxation penalties and surcharges	3,759	—			3,759
Impairment loss on inventories	464	—			464
Impairment loss on trade and other receivables	354	—			354
Impairment loss on goodwill	19,458	—			19,458
Operating cash flows before movements in working capital	1,742	2,307			4,049
Increase in inventories	(368)	(1,830)			(2,198)
Increase in trade receivables, other receivables, deposits and prepayments	(13,399)	(4,378)			(17,777)
(Decrease)/increase in trade payables	(1,148)	1,685			537
(Decrease)/increase in other payables, accrued expenses and trade deposits received	(544)	3,563			3,019
Decrease/(increase) in amounts due to related companies	(1,131)	—			(1,131)
Increase in amounts due from related companies	—	(840)			(840)
Cash (used in)/generated from operations	(14,848)	507			(14,341)
Hong Kong profits tax paid	(2,915)	—			(2,915)
Interest received	—	16			16
Interest and bank charges paid	(2,728)	—			(2,728)
Taxation penalties and surcharges paid	(820)	—			(820)
Net cash (used in)/generated from operating activities	(21,311)	523			(20,788)

	Audited consolidated cash flow statement of the Group for the year ended 31 March 2007 *HK$'000*	Audited consolidated cash flow statement of the DTV Group for the year ended 31 December 2007 *HK$'000*	Pro forma Adjustments *HK$'000*	*Note*	Unaudited pro forma consolidated cash flow statement of the Enlarged Group *HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for the Acquisition	—	—	(5,426)	*1*	(5,426)
Reclassification of interest in a subsidiary into a jointly-controlled entity	(4,504)	—			(4,504)
Interest received	44	—			44
Purchase of property, plant and equipment	(7,159)	(78)			(7,237)
Proceeds from disposal of property, plant and equipment	55	—			55
Purchase of land use rights	(783)	—			(783)
Net cash used in investing activities	(12,347)	(78)			(17,851)
FINANCING ACTIVITIES					
Proceeds from inception of bank loans and import and export loans	29,608	—			29,608
Proceeds from issue of warrants	2,296	—			2,296
Repayment of bank loans	(7,305)	—			(7,305)
Proceeds from issue of new shares on exercise of warrants	3,870	—			3,870
Proceeds from issue of new shares on exercise of share options	3,872	—			3,872
Contribution received from equity holders of the Company	1,743	—			1,743
Increase/(decrease) in amount due to a shareholder	—	(357)			(357)
Net cash generated from financing activities	34,084	(357)			33,727
Net increase/(decrease) in cash and cash equivalents	426	88			(4,912)
Cash and cash equivalents at beginning of the year	3,777	1,498			5,275
Effect of foreign exchange rate changes	(239)	127			(112)
Cash and cash equivalent at the end of the year	3,964	1,713			251
Analysis of the balances of cash and cash equivalents					
Cash and bank balances	5,426	1,713	(5,426)	*1*	1,713
Bank overdrafts	(1,462)	—			(1,462)
	3,964	1,713			251

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information"), including the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement, has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of i) the proposed acquisition of a 90% equity interest of Langfeld Enterprises Limited ("Langfeld") and its 70% directly-owned subsidiary, LLC Shakhta Lapichevskaya ("Lapichevskaya", collectively referred to as the "Langfeld Group") by the Group; (ii) the attributable loan due and owing by Langfeld to the Vendor (the "Shareholder's Loan") (collectively the "Acquisition") as if the Acquisition had been taken place on 31 March 2008 for the unaudited pro forma consolidated balance sheet and on 1 April 2007 for the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement. The Group and the Langfeld Group are collectively referred to as the Enlarged Group.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position of the Enlarged Group or results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position or results of operations.

(I) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group as at 31 March 2008 which has been extracted from the financial information of the Group as set out in Appendix I and the audited balance sheets of Langfeld and Lapichevskaya as at 31 August 2008 as set out in Appendices II(A) and II(B) to this circular, respectively, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	Audited consolidated balance sheet of Group as at 31 March 2008	Audited balance sheet of Langfeld as at 31 August 2008	Translated audited balance sheet of Langfeld as at 31 August 2008	Audited balance sheet of Lapichevskaya as at 31 August 2008	Translated audited balance sheet of Lapichevskaya as at 31 August 2008	Pro forma adjustments		Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2008
	HK$'000	*US$'000*	*HK$'000*	*RUB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(note 7)	*(note 1)*	*(note 1)*	*(note 1)*	*(note 1)*			
Non-current assets								
Leasehold land and land use right	7,530	—	—	—	—			7,530
Property, plant and equipment	9,587	—	—	7,793	2,474			12,061
						4,243	*3*	
Derivative financial assets	—	—	—	—	—	28,205	*3*	32,448
Interests in associates	14,670	—	—	—	—			14,670
Deposits and direct costs paid for acquisition of a subsidiary	12,071	—	—	—	—			12,071
Deferred tax assets	—	—	—	6,778	2,152			2,152
Goodwill	—	—	—	—	—	3,695	*2(c)*	3,695
						2,596,661	*2(c)*	
Intangible assets	—	—	—	857	272	1,525,023	*2(c)*	4,121,956
	43,858	—	—	15,428	4,898			4,206,583
Current assets								
Property held for sale	7,332	—	—	—	—			7,332
Trading securities	278	—	—	—	—			278
Inventories	2,645	—	—	—	—			2,645
Trade receivables, deposits, prepayment and other receivables	7,918	1	10	866	275			8,203
Cash and bank balances	19,322	—	—	724	230			19,552
	37,495	1	10	1,590	505			38,010
Current liabilities								
Interest-bearing bank borrowings, secured	11,203	—	—	—	—			11,203
Borrowings	—	—	—	12,697	4,031			4,031
Trade payables, accruals and other payables	17,700	—	—	18,294	5,807	8,000	*6*	31,507
Amounts due to directors	4,277	—	—	—	—			4,277
	33,180	—	—	30,991	9,838			51,018
Net current assets/(liabilities)	4,315	1	10	(29,401)	(9,333)			(13,008)

	Audited consolidated balance sheet of Group as at 31 March 2008	Audited balance sheet of Langfeld as at 31 August 2008	Translated audited balance sheet of Langfeld as at 31 August 2008	Audited balance sheet of Lapichevskaya as at 31 August 2008	Translated audited balance sheet of Lapichevskaya as at 31 August 2008	Pro forma Adjustments		Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2008
	HK$'000	*US$'000*	*HK$'000*	*RUB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(note 7)	*(note 1)*	*(note 1)*	*(note 1)*	*(note 1)*			
Non-current liabilities								
Liabilities component of convertible notes	—	—	—	—	—	1,475,682	*2(c)*	1,475,682
Derivative component of convertible notes	—	—	—	—	—	497,718	*2(c)*	497,718
						623,199	*2(c)*	
Deferred tax liabilities	—	—	—	—	—	366,005	*2(c)*	989,204
Other payables	—	—	—	10,814	3,433			3,433
	—	—	—	10,814	3,433			2,966,037
Net assets/(liabilities)	48,173	1	10	(24,787)	(7,868)			1,227,538
Capital and reserves								
Share capital	20,475	1	10	10	3	(13)	*5*	20,475
Reserves	26,697	—	—	(24,797)	(7,871)			18,826
	47,172	1	10	(24,787)	(7,868)			39,301
						1,159,018	*2(c)*	
						28,205	*3*	
Minority interests	1,001	—	—	—	—	13	*5*	1,188,237
Total equity	48,173	1	10	(24,787)	(7,868)			1,227,538

(II) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma consolidated income statement is based on the audited consolidated income statement of the Group for the year ended 31 March 2008 which has been extracted from the financial information of the Group as set out in Appendix I, the audited income statement of Langfeld for the period from 22 May 2008 (date of incorporation) to 31 August 2008 and the audited income statement of Lapichevskaya for the year ended 31 December 2007 as set out in Appendices II(A) and II(B) to this circular, respectively, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of operation of the Enlarged Group for the year/period ended to which it is made up to or for any future periods.

	Audited consolidated income statement of Group for the year 31 March 2008	Audited income statement of Langfeld for the period 31 August 2008	Translated audited income statement of Langfeld for the period 31 August 2008	Audited income statement of Lapichevskaya for the year 31 December 2007	Translated audited income statement of Lapichevskaya for the year 31 December 2007	Pro forma adjustments	Notes	Unaudited pro forma consolidated income statement of the Enlarged Group for the year 31 March 2008
	HK$'000	*US$'000*	*HK$'000*	*RUB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(note 7)	*(note 1)*	*(note 1)*	*(note 1)*	*(note 1)*			
Revenue	120,550	—	—	11,973	3,669			124,219
Cost of sales	(102,747)	—	—	(10,349)	(3,171)			(105,918)
Gross profit	17,803	—	—	1,624	498			18,301
Other revenue and gains	1,910	—	—	42	13			1,923
Written-off of/impairment loss on trade receivables	(411)	—	—	—	—			(411)
Selling and distribution costs	(7,938)	—	—	—	—			(7,938)
Administrative and expenses	(20,616)	—	—	(17,159)	(5,258)			(25,874)
Operating loss	(9,252)	—	—	(15,493)	(4,747)			(13,999)
Finance costs	(2,085)	—	—	(2,902)	(889)	(132,654)	4	(135,628)
Share of profits less losses of associates	(670)	—	—	—	—			(670)
Share of loss of a jointly-controlled entity	(2,631)	—	—	—	—			(2,631)
Loss before taxation	(14,638)	—	—	(18,395)	(5,636)			(152,928)
Income tax	140	—	—	3,776	1,157			1,297
Loss after taxation	(14,498)	—	—	(14,619)	(4,479)			(151,631)

(III) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma consolidated cash flow statement is based on the audited consolidated cash flow statement of the Group for the year ended 31 March 2008 which has been extracted from the financial information of the Group as set out in Appendix I, the audited cash flow statement of Langfeld for the period from 22 May 2008 (date of incorporation) to 31 August 2008 and the audited cash flow statement of Lapichevskaya for the year ended 31 December 2007 as set out in Appendices II(A) and II(B) to this circular, respectively, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year/period ended to which it is made up to or for any future periods.

	Audited consolidated cash flow statement of Group for the year 31 March 2008	Audited cash flow statement of Langfeld for the period 31 August 2008	Translated audited cash flow statement of Langfeld for the period 31 August 2008	Audited cash flow statement of Lapichevskaya for the year 31 December 2007	Translated audited cash flow statement of Lapichevskaya for the year 31 December 2007	Pro forma adjustments		Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year 31 March 2008
	HK$'000	*US$'000*	*HK$'000*	*RUB'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(note 7)	*(note 1)*	*(note 1)*	*(note 1)*	*(note 1)*			
OPERATING ACTIVITIES								
Loss before taxation	(14,638)	—	—	(18,395)	(5,636)	(132,654)	*4*	(152,928)
Adjustments for:								
Interest income	(265)	—	—	—	—			(265)
Net realised and unrealised gains on trading securities	(24)	—	—	—	—			(24)
Gains on disposal of available-for-sale investments (including transfer from equity on disposals)	(1,536)	—	—	—	—			(1,536)
Equity-settled share option expenses	4,566	—	—	—	—			4,566
Depreciation	853	—	—	149	45			898
Amortisation of leasehold land and land use rights	128	—	—	135	41			169
Finance costs	2,085	—	—	2,902	889	132,654	*4*	135,628
Share of profits less losses of associates	670	—	—	—	—			670
Share of loss of a jointly-controlled entity	2,631	—	—	—	—			2,631
Impairment loss on inventories	1,662	—	—	—	—			1,662
Impairment loss on property, plant and equipment	697	—	—	—	—			697
Written-off/impairment loss on trade receivables	411	—	—	—	—			411
Operating cash flows before movements in working capital	(2,760)	—	—	(15,209)	(4,661)			(7,421)
Increase/(decrease) in inventories	(1,346)	—	—	64	20			(1,362)
Decrease in trade and other receivables	11,166	—	—	(1,483)	(454)			10,712
Increase in amount due from a shareholder	—	(1)	(10)	16,113	4,937			4,927
Increase in trade payables	653	—	—	—	—			653
Decrease in other payables, accrued expenses and deposits received	(3,612)	—	—	30	9			(3,603)
Increase in amounts due to directors	21	—	—	—	—			21
Cash generated from operations	4,122	(1)	(10)	(485)	(149)			3,963
Hong Kong profits tax paid	(3,654)	—	—	—	—			(3,654)
Interest and bank charges paid	(2,085)	—	—	(2,902)	(889)			(2,974)
Tax penalties and surcharges paid	(2,939)	—	—	—	—			(2,939)
NET CASH USED IN OPERATING ACTIVITIES	(4,556)	(1)	(10)	(3,387)	(1,038)			(5,604)

	Audited consolidated cash flow statement of Group for the year 31 March 2008	Audited cash flow statement of Langfeld for the period 31 August 2008	Translated audited cash flow statement of Langfeld for the period 31 August 2008	Audited cash flows tatement of Lapichevskaya for the year 31 December 2007	Translated audited cash flow statement of Lapichevskaya for the year 31 December 2007	Pro forma adjustments		Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year 31 March 2008
	HK$'000	*US$'000*	*HK$'000*	*RUB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(note 7)	*(note 1)*	*(note 1)*	*(note 1)*	*(note 1)*			
INVESTING ACTIVITIES								
Deposit received on disposal of property held for sale	8,750	—	—	—	—			8,750
Repayment of amount due from an associate	1,057	—	—	—	—			1,057
Acquisition of additional interest in an associate	(455)	—	—	—	—			(455)
Deposits and direct costs paid for acquisition of a subsidiary	(12,071)	—	—	—	—			(12,071)
Interest received	265	—	—	—	—			265
Purchase of property, plant and equipment	(320)	—	—	—	—			(320)
Investment in trading securities	(370)	—	—	—	—			(370)
Proceeds from disposal of trading securities	116	—	—	—	—			116
Proceeds from disposal of available-for-sale investments	2,224	—	—	—	—			2,224
Additions to land use rights	(16)	—	—	—	—			(16)
NET CASH USED IN INVESTING ACTIVITIES	(820)	—	—	—	—			(820)
FINANCING ACTIVITIES								
Proceeds from new bank borrowings	80,065	—	—	13,275	4,067			84,132
Repayment of bank borrowings	(84,052)	—	—	(9,785)	(2,998)			87,050
Proceeds from issue of share capital	—	1	10	—	—			10
Proceeds from issue of warrants	3,688	—	—	—	—			3,688
Proceeds from issue of shares on exercise of warrants	7,298	—	—	—	—			7,298
Proceeds from issue of shares on exercise of share options	11,303	—	—	—	—			11,303
Contribution received from equity holders of the Company	2,490	—	—	—	—			2,490
NET CASH GENERATED FROM FINANCING ACTIVITIES	20,792	1	10	3,490	1,069			21,871
NET DECREASE IN CASH AND CASH EQUIVALENTS	15,416	—	—	103	31			15,447
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,964	—	—	133	41			4,005
Effect of foreign exchange rate changes	(58)							(58)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	19,322	—	—	236	72			19,394
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS								
Bank balances and cash	19,322	—	—	236	72			19,394

Notes:

1. The balances are extracted from the audited financial information of Langfeld for the period ended 31 August 2008 and Lapichevskaya for the period ended 31 August 2008 for the unaudited pro forma consolidated balance sheet and for the year ended 31 December 2007 for the unaudited pro forma consolidated income statement and cash flow statement as set out in Appendices IIA and IIB to this circular, respectively, and are translated from their presentation currencies, which are rounded to thousands, from United States Dollars (the "US$'000") and Russian Roubles (the "RUB'000") into Hong Kong Dollars (the "HK$'000") using the exchange rate of US$1.000 = HK$7.806 and RUB1.000 = HK$0.3174 in respect of unaudited pro forma balance sheet and RUB1.000 = HK$0.3064 in respect of unaudited pro forma income statement and cash flow statement, respectively.

2. Under Hong Kong Financial Reporting Standard 3 "Business Combinations", the Group applied the purchase method to account for the acquisition of a 90% equity interest in Langfeld Group. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Langfeld Group are recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of Langfeld Group at the date of completion of the Acquisition. Excess of the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Langfeld Group over consideration should be recognised immediately in the consolidated income statement.

   Since the net fair value of the identifiable assets, liabilities and contingent liabilities of Langfeld Group as at the date of the actual completion of the Acquisition may be different from the fair values used in the preparation of the unaudited pro forma consolidated balance sheet above, the goodwill or the discount arising from the Acquisition will be reassessed at the time of actual completion.

   The adjustments reflect the following:

   (a) The consideration of HK$1,973,400,000 (or US$253,000,000 equivalent), including acquisition of Shareholder's Loan as detailed in note 2(c) below by issue of the Convertible Notes at a conversion price of HK$0.12 per conversion share to the Vendor upon the completion of the Acquisition.

   (b) The Convertible Notes with an aggregate principal amount of HK$1,973,400,000 to be issued by the Company as consideration for the Acquisition will be separated into a derivative component and a liability component for the purpose of recognition of the Convertible Notes in the unaudited pro forma balance sheet in accordance with relevant accounting standard issued by the HKICPA. The fair value of the derivative component amounted to approximately HK$497,718,000 (or US$63,810,000 equivalent), which was valued by independent valuers who have applied binomial model to access the market value of the convertible right on the issue date. As such, the residual amount of HK$1,475,682,000 (or US$189,190,000 equivalent) was assigned to the liability component.

(c) For the purpose of preparing the unaudited pro forma consolidated balance sheet, Shareholder's Loan at the date of completion is assumed to be HK$117,000,000 (or US$15,000,000 equivalent) which arises from Langfeld's consideration payable for the acquisition of equity interest in Lapichevskaya subsequent to 31 August 2008, by assuming that the aforesaid US$15,000,000 consideration payable will be settled by the Vendor by way of Shareholder's Loan to Langfeld before Completion. Details of the net identified assets to be acquired and the discount arising from the Acquisition are calculated as follows:

	HK$'000
Derivative component of Convertible Notes	497,718
Liability component of Convertible Notes	1,475,682
Total consideration	1,973,400
Less:	
Acquisition cost on Shareholder's Loan	(117,000)
Add:	
Expenses directly attributable to the Acquisition *(note 6)*	8,000
Less:	
Effective interest on:	
— fair value of Call Option granted to Langfeld after taking into account additional consideration to be paid by the Group *(note 3)*	(4,243)
— fair values of net identified assets to be acquired (including mining rights net of deferred tax)	(1,973,462)
Shareholder's Loan	117,000
Goodwill	3,695

According to an independent valuation report on 100% equity interest on Lapichevskaya, the fair value of 100% equity interest on Lapichevskaya for Lot 1 and Lot 1 Extension of Coal Mine is HK$3,132,480,000 (or US$401,600,000 equivalent). The valuation principally represented the value on the mining rights of Lapichevskaya which is recognised as intangible assets of the Enlarged Group accordingly. Valuation of HK$3,132,480,000 representing HK$4,121,684,000 on value of mining rights less deferred tax of HK$989,204,000 which is calculated at 24% corporate income tax rate in Russia. Effective interest on Lapichevskaya held by the Enlarged Group is 63% (i.e. 70% share by the Group less minority interest of 7% at Langfeld level which is calculated as 10% of 70% from Langfeld). The Enlarged Group's share of intangible assets and deferred tax liabilities are HK$2,596,661,000 and HK$623,199,000 (or, in aggregate, HK$1,973,462,000), respectively. Minority interest's share of intangible assets and deferred tax liabilities are HK$1,525,023,000 and HK$366,005,000 (or, in aggregate, HK$1,159,018,000), respectively.

3. A call option was granted by the Russian Shareholders to Langfeld, which is an option to acquire an additional 10% equity interest in Lapichevskaya at a consideration of US$4,000,000 (the "Call Option"). Pursuant to a valuation report prepared by an independent valuer on the Call Option, the fair value of the Call Option is approximately HK$282,048,000 (or US$36,160,000 equivalent). A 90% interest shared by the Enlarged Group is approximately HK$253,843,000 (or US$32,544,000 equivalent) and minority interest's share on valuation of the Call Option is HK$28,205,000. The independent valuer has applied binomial model to assess the market value of the Call Option.

   Upon the exercise of the Call Option, the Group will issue convertible notes of HK$249,600,000 (or US$32,000,000 equivalent) to the Vendor for an additional 10% equity interest in Lapichevskaya owned by Langfeld. Accordingly, the fair value of the Call Option, in the perspective of the Group is only HK$4,243,000 (or US$544,000 equivalent).

4. The adjustments represent the recognition of yearly imputed interest for the Convertible Notes. The interest rate used for the purpose of this adjustment is 8.99% per annum, being the effective interest rate used for the amortisation of discounted value of liability component of Convertible Notes and the date of issue is assumed to be 1 April 2007 for the purpose of the unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group, and 31 March 2008 for the purpose of the unaudited pro forma consolidated balance sheet of the Enlarged Group. The effective interest expense of the Convertible Notes amounted to HK$132,654,000 for the year ended 31 March 2008. For the purpose of preparing the unaudited pro forma consolidated income statement and cash flow statement, it is assumed that there is no change in fair value of the derivative component of the Convertible Notes.

5. Being share of fair value of the Call Option of approximately HK$28,205,000 (being 10% of HK$282,048,000 as note 3 above), intangible assets and deferred tax liabilities on Lapichevskaya of approximately HK$1,525,023,000 and HK$366,005,000 (being 10% of HK$282,048,000 as note 3 above) by minority shareholder, respectively and elimination of share capital of subsidiaries.

6. The adjustment represented legal and professional fees and other direct costs of approximately HK$8,000,000 directly attributable to the Acquisition.

7. The financial information of the Group as at 31 March 2008 has not included the effect of the acquisition of DTV China Inc. The financial information of DTV China Inc. is included in Appendix III to this circular.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report from Shu Lun Pan Horwath Hong Kong CPA Limited, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

Horwath

The Board of Directors
Rontex International Holdings limited
23rd Floor, Chun Wo Commercial Centre
23-29 Wing Wo Street
Central
Hong Kong

31 December 2008

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Rontex International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and Langfeld Enterprises Limited ("Langfeld") and its subsidiary (collectively the "Langfeld Group", together with the Group hereinafter referred to as the "Enlarged Group") as set out in Appendix IV to the Company's circular (the "Circular") dated 31 December 2008, which have been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the Group's proposed acquisition of (i) 90% equity interest in Langfeld; and (ii) the attributable loan due to and owing by Langfeld to the Vendor (the "Acquisition"), might have affected the financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix IV of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited 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 Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information as set out in Appendices II(A) and II(B) of the Circular with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

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 Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose 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 financial results and cash flows of the Enlarged Group for the year ended 31 March 2008 or for any future periods.

Opinion

In our opinion:

a) the Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
For and on behalf of
Shu Lun Pan Horwath Hong Kong CPA Limited
Certified Public Accountants
Hong Kong
Shiu Hong NG
Director
Practising Certificate number P03752

The following is the text of the summary report in the valuation of the Russia Subsidiary as at 30 October 2008 prepared by Vigers for the purposes of inclusion in this circular.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

31 December 2008

The Directors
Rontex International Holdings Ltd.,
23/F Chun Wo Commercial Centre,
23-29 Wing Wo Street,
Central,
Hong Kong.

Dear Sirs/Madams,

Valuation of 100% of Equity Interest of Lapichevskaya LLC

In accordance with the instruction from Rontex International Holdings Ltd. ("Rontex"), we have carried out a valuation of the Lapichevskaya LLC (the "Company") as at 30 Oct 2008 (the "Valuation Date"). The Company holds the coal mine (the "Mine") in Russian as the core asset. The Mine is located in Petrov region in the state of Kemerovo, Russian Federation which comprises Lot 1, Lot 1 Extension and Lot 2 that are adjacent to each other. The purpose of this report is to provide an independent opinion on the market value of the 100% of equity interest of the Company (the "Interest") as at the Valuation Date. We understand this valuation is required for interest transfer.

Based on our investigation, analysis, appraisal method employed and limitations as set out in this report, it is our opinion that, as of the Valuation Date, the 100% equity interest value of the Company can be reasonably and approximately stated as US Dollar Four Hundred One Million Six Hundred Thousand only (USD401,600,000), which has only taken into account the mining area within the boundary of the current license, which includes the Kemerovsky, Volkovsky and Vladimirovsky seams down to the level of -65m ("Lot 1") and the mining area within the boundary of Lot 1 and include seams below -65m down to -400m ("Lot 1 Extension"), without taking into account the mining area including the "Petrovsky" area to the west and the "Kemerovsky" area to the south, which is outside the boundary of the current license ("Lot 2").

We have also been asked to provide an opinion on the additional value ("Additional Value") of the Company under the condition that (1) the mining license for Lot 2 of the Mine is obtained by the Company; and (2) a technical report issued by a technical expert acceptable to the Purchaser and the Vendor confirming the probable and proved reserves of Lot 2 of the Mine being not less than 12,000,000 tonnes.

Our opinion on the Additional Value shall only consider as reference and is subject to the fulfilment of the aforesaid conditions. Assume the conditions are fulfilled, the Lot 2 area would provide an additional value to the 100% of the interest in the Company of US Dollar Four Hundred Five Million Two Hundred Thousand only (USD405,200,000).

The opinion of value was based on generally accepted appraisal 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.

In accordance with our standard practice, this report is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of the contents of this report.

We hereby certify that we have neither present nor prospective interests in the assets or the value reported.

Yours faithfully,

For and on behalf of
VIGERS APPRAISAL & CONSULTING LTD.

Raymond Ho Kai Kwong
Registered Professional Surveyor
Registered Business Valuer
MRICS, MHKIS, MSc (e-com)
Deputy Managing Director

Favian Kam Man Yin
Registered Business Valuer
CFA, MBA
Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS has seventeen years experience in undertaking valuation of properties, intangible and business in Hong Kong, Macau and the PRC and has extensive experience in business valuation in the Greater China region since 1993. Favian M. Y. Kam, CFA, has over nine years experience in business, intangible and financial assets valuation.

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1. INTRODUCTION

1.1 PURPOSE

We have been appointed by Rontex International Holdings Ltd. to appraise Lapichevskaya LLC (the "Company") as at 30 Oct 2008 (the "Valuation Date"). The purpose of this report is to provide an independent opinion on the market value of the Company for interest transfer.

1.2 SUBJECT OF VALUATION

The Company is incorporated in Russia at 02 Nov 2004 and the registered address is 650906, Kemerovo region, Kemerovo district, the industrial area of the mine Lapichevskaya as set out on the Principal State Registration no. 1044250005425. The Company is currently owned by Langfeld Enterprises Limited and three individuals. The Company holds the coal mine (the "Mine") in Russian as the core asset. The Mine is located in Petrov region in the state of Kemerovo, Russian Federation.

1.3 BASIS OF VALUE

Our appraisal has been carried out on a market value basis. Market value is defined as the estimated amount for which an asset 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.

1.4 DATE OF VALUATION

The date of the valuation is 30 Oct 2008.

1.5 LIMITATION OF THE VALUATION AND RISK FACTORS DISCLOSURE

- We observed no physical surveying on the mining as set out in the report provided by SRK. We understand the assessment of reserve is based on the estimation of "on balance" and "off balance" categories under the Russian States Reserve Committee (GKZ) classification system reviewed by SRK. We assume the methodology is generally acceptable and further assumed the conclusion provided by SRK remains hold given that no physical study of geology conducted.

- We observed the reserve assessment by SRK is based on the Run-of-Mine (ROM), as defined in the SRK Report, which is the as-mined material as it leaves the mine prior to any processing, quantities derived by the mine design institute's ("Kuzbass Giproshakht") current production schedule. Kuzbass Giproshakht is a Russian Mine Design Institute, and has been appointed by the current license owner to design the production plan for the Mine. It is the responsibility of SRK to verify and investigate and we can not verify the appropriateness of the estimate. We assumed the Kuzbass Giproshakht's current production schedule is a good estimate to reflect the quantities of the reserves.

- Our valuation for Lot 1 and Lot 1 Extension is based on the information of reserve and resources and production schedule provided by SRK. For the hypothetical value of Lot 2, assessment is based on the assumption that (i) the mining license of Lot 2 of the Mine will be obtained by the Company; and (ii) the total of the proved reserves and the probable reserves of Lot 2 of the Mine is not less than 12Mt.

- The valuation is based on the information available to us as at the Valuation Date. While the estimation of resource and reserve amount being reviewed by SRK represents the best estimate based on the information currently available, reader shall note that the actual resource and reserve amount has underlying risk of uncertainty and might be revised upward or downward if further borehole study or investigation suggest different resource or reserve amount. We reserve the right to revise the valuation if further study or evidence suggests substantial difference on the resource and reserve amount.

2. COMPANY PROFILE

2.1 BACKGROUND AND FACTUAL INFORMATION OF THE COMPANY

The Company is incorporated in Russia at 02 Nov 2004 and the registered address is 650906, Kemerovo region, Kemerovo district, the industrial area of the mine Lapichevskaya as set out on the Principal State Registration no. 1044250005425. The Company is currently owned by Langfeld Enterprises Limited and three individuals. The Company holds the coal mine (the "Mine") in Russian as the core asset. The Mine is located in Petrov region in the state of Kemerovo, Russian Federation.

The Mine consists of three portions. Based on the information available to us, the Company obtained the mining right of the Lot 1 Mine (the "Mining Right"). The mining field area within the license boundary is 123.7 ha approximately, with the approximate dimensions being 2.7 km along the strike and 1.6 km down the dip. The Mine is operating under the license KEM 13206 ТЭ registered on 27 June 2005 by Federal Subsoil Agency. The license expiry date is 31 December 2014. This license represents the existing Lot 1 area.

Rontex has employed SRK Consulting (Russia) Limited (the "SRK") to appraise the reserve amount of the Mine. In accordance with the report issued by SRK dated on 29 October 2008 (the "SRK Report"), resources and reserves stated by SRK is summarized in the table below.

SRK Statement of Resources and Reserves, 29 October 2008

Area	Seam	Resources (Mt)			Reserves (Mt)	
		Measured	Indicated	Inferred	Proved	Probable
Licence, excluding coal beyond -65m level - (Lot 1)	Kemerovsky	0.00	0.00	0.00	0.00	0.00
	Volkovsky	2.75	0.00	0.00	0.00	2.75
	Vladimirovsky	2.16	0.00	0.00	0.00	2.16
	Total	**4.91**	**0.00**	**0.00**	**0.00**	**4.91**
Coal below -65m level but within surface area of licence - (Lot 1 Extension)	Kemerovsky	0.00	0.00	0.44	0.00	0.00
	Volkovsky	0.00	0.29	0.87	0.00	0.29
	Vladimirovsky	1.10	0.39	0.75	0.00	1.49
	Total	**1.10**	**0.68**	**2.06**	**0.00**	**1.78**
Extension Areas beyond current licence - (Lot 2)	Kemerovsky	0.45	0.00	3.60	0.00	0.00
	Volkovsky	1.67	0.00	4.75	0.00	0.00
	Vladimirovsky	0.08	0.14	4.59	0.00	0.00
	Total	**2.20**	**0.14**	**12.94**	**0.00**	**0.00**

Source: SRK Report

The resources and reserves estimated in the SRK report is defined under the JORC code (the "Code"). The Code defined resource as the estimate of the quantity and quality of the mineralised material in-situ that has potential to be mined, while reserve as the economically mineable portion of the resource, including adjustments for dilution and mining losses and the application of modifying factors.

Under the definition from the Code, which is reclassified in the SRK Report, resources are defined under the below categories:

- An 'Inferred Coal Resource' is that part of a Coal Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

  - The Inferred category is intended to cover situations where a mineral concentration or occurrence has been identified and limited measurements and sampling completed, but where the data are insufficient to allow the geological and/or grade continuity to be confidently interpreted. Commonly, it would be reasonable to expect that the majority of Inferred Coal Resources would upgrade to Indicated Coal Resources with continued exploration.

- An 'Indicated Coal Resource' is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. The locations of data points are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

  - Mineralisation may be classified as an Indicated Coal Resource when the nature, quality, amount and distribution of data are such as to allow confident interpretation of the geological framework and to assume continuity of mineralisation.

  - Confidence in the estimate is sufficient to allow the application of technical and economic parameters, and to enable an evaluation of economic viability.

- A 'Measured Coal Resource' is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. The locations of data points are spaced closely enough to confirm geological and grade continuity.

  - Mineralisation may be classified as a Measured Coal Resource when the nature, quality, amount and distribution of data are such as to leave no reasonable doubt, in the opinion of the Competent Person determining the Coal Resource, that the tonnage and grade of the mineralisation can be estimated to within close limits, and that any variation from the estimate would be unlikely to significantly affect potential economic viability.

  - This category requires a high level of confidence in, and understanding of, the geology and controls of the mineral deposit.

  - Confidence in the estimate is sufficient to allow the application of technical and economic parameters and to enable an evaluation of economic viability that has a greater degree of certainty than an evaluation based on an Indicated Coal Resource.

The choice of the appropriate category of Coal Resource depends upon the quantity, distribution and quality of data available and the level of confidence that attaches to those data. The appropriate Coal Resource category must be determined by a Competent Person or Persons.

An 'Coal Reserve' is the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are sub-divided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves. A Probable Coal Reserve is the economically mineable part of an Indicated, and in some circumstances Measured, Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. A Proved Coal Reserve is the economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Usually Probable Coal Reserves are derived from Indicated Resources and Proved Coal Reserves from Measured Resources, although in situations where there is less confidence in the technical factors then a Measured Resource may be classified as a Probable Coal Reserve.

2.2 KEY FINDINGS, ASSUMPTIONS AS CONTAINED IN THE SRK REPORT

Based on the findings and comments from SRK Reports, we have carried out our appraisal and the following set out the factors that we have considered in the valuation:

- The SRK report showed the boundary of Lot 1 (including above and below -65m), possible future extensions to the license comprise (Lot 2), which is along the seam outcrops and included in the Kuzbass Institute mine design by the current license holder and to the deep of the current workings.

- As stated in the Report, there is no physical sampling on the Mine. The reserve assessment is based on the exploration record since 1982. SRK confirmed it is sufficient to issue a report that the estimation is based on historical and available information without physical sampling and not contravene the international standard.

- Definitions of the resources and reserves have make reference to the SRK Report. The distribution of the estimated resources and reserves under three different seams, i.e. Kemerovsky, Volkovsky and Vladimirovsky, within the existing license area (excluding coal beyond -65 level), coal beyond -65 level but within surface area of license and the extension areas (beyond current license) follows the same definition of the SRK Report.

- The classification of measured resources, indicated resources, inferred resources, proved reserves and probable reserves stated in the SRK Report follows the same definition as the JORC code published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia ("JORC").

- The report commented that license renewal to include additional reserve below -65 level could be granted so as to secure access to all resources and reserves within the licence boundary.

- The report has not conducted any legal due diligence on the coal license and recommended a legal check of the license document including the boundary and conditions attached to the license. It is assumed the legality of the licenses are free from defects.

- The report have not examined original borehole records but would anticipate the drilling results to be reasonably accurate and strict Russian standards to have been applied.

- As the water have not yet been pumped out, SRK have made reference to the borehole data to estimate the resources and reserves of the Mine. We assume their methodology meets the international standards and requirements.

- It is considered the 81% yield for washing of the coal assumed by IMC in 2006 is a reasonable estimate but further testing is required.

2.3 COAL MINE INDUSTRY

Introduction

According to the Organisation for Economic Co-operation and Development (OECD), coking coal refers to coal with a quality that allows the production of a coke suitable to support a blast furnace charge. Its gross calorific value is greater than 23,865kJ/kg (5,700 kcal/kg) on an ash-free but moist basis. Steam coal is defined as all other hard coal not classified as coking coal. Also included are recovered slurries, middlings and other low grade coal products not further classified by type. Coal of this quality is also commonly known as thermal coal.

With reference to World Coal Institute, coking coal is used for metallurgy for the manufacture of iron and steel, while the thermal coal (steam coal) is used for heating for electricity generation, cement manufacture and industrial use.

Coal Reserves

According to World Coal Institute, coal reserves are available in almost every country worldwide, and the proven coal reserves are sufficient to sustain production at current levels for 147 years. Globally, there are 53% of world reserve is classified as hard coal, and there are 47% of world reserve is classified as low rank coal. Coking coal and steam coal is account for 52% of world reserve.

Global Hard Coal Producers

According to the estimate from World Coal Institute in 2006, China is the major hard coal producer with the annual production at 2,482 Million tonnes (Mt) in 2006, Second is USA with 990Mt annual production, Russia is the top sixth with 233Mt hard coal production.

Global Hard Coal Consumption

According to the estimate from World Coal Institute in 2006, the hard coal consumption from 3,232Mt in 1986 increased to 3,773 Mt in 1996 and increased to 5,339Mt in 2006, which means that the worldwide hard coal consumption has increased approximate 65% in 20 years time.

Trend of the International Hard Coal Trade

With reference to the International Energy Agency (IEA) information, the international trading of the hard coal has been increase in the period between 1996 and 2006. The total trade volume of the hard coal is 513Mt, 609Mt and 815Mt in 1996, 2000 and 2006 respectively. The increased in the period between 1996 and 2006 is approximate 59%. The total trade volume of the coking coal is 196Mt, 188Mt and 222Mt in 1996, 2000 and 2006 respectively. The total trade volume of the steam coal is 318Mt, 421Mt and 593Mt in 1996, 2000 and 2006 respectively. It is generally observed that the trading of the steam coal is more that the coking in the international market.

Coal Export and Import

According to the estimate from World Coal Institute in 2006, Australia is the largest coal exporter worldwide with the annual total hard coal export volume at 231Mt, which approximate 48% is steam coal and approximate 52% is coking coal. The second larger exporter is Indonesia with the annual total hard coal export volume at 129Mt, which approximate 81% is steam coal and approximate 19% is coking coal. Russia is the third larger exporter with the annual total hard coal export volume at 92Mt, which approximate 89% is steam coal and approximate 11% is coking coal.

Regarding the major coal importers, World Coal Institute estimated that in 2006, Japan is the major coal importer with annual import volume at 178Mt, which approximate 59% is steam coal and approximate 41% is coking coal. Korea is the second large coal importer with annual import volume at 80Mt, which approximate 75% is steam coal and approximate 25% is coking coal.

Coal Market in Russia

With reference to the Brief on the Competition on the Coking Coal Market in October 2006 by the Federal Antimonopoly Service of the Russian Federation, Russian coal reserves are estimated at 278.4 billion tons. Coking coal constitutes 50.1 billion tons (18%), with 40.9 billion tons (81.6%) are explored reserves.

According to the Federal Antimonopoly Service of the Russian Federation, the specific feature of the Russian coal industry is that there is considerable control exercised by the metallurgical sector over the coking coal market. Russian metallurgy consumes over 50% of coking coals extracted in Russia and produces more than 80% of coke. It implied that there is strong correlation between the prices on coking coal and metal products.

In 2005, Russia extracted 69,892.80 thousand tons of coal, of which 39,761.10 thousand tons were sold on domestic market, 9,992.95 thousand tons sent for export while 866.10 thousand tons were imported.

Coal Price Analysis

According to Platts International Coal Report, the steam coal prices have increased significantly in these years. Steam coal prices for September 2008 is reported at approximate USD190/tonne for Japan (the largest hard coal importer), USD180/tonne for Korea (the second hard coal importer). Compared to the steam coal prices quoted in the end of 2007, steam coal prices is reported at approximate USD116/tonne and USD108/tonne for Japan and Korea respectively. The findings suggested that there was a 64% and 67% increase against the steam coal price in 2007 in Japan and Korea respectively. It is observed that the increase is appeared in February in 2008, which increase 50% more than the price at the end of in 2007. In 2007, the steam coal price also had recorded a more than 70% increase against 2006.

With reference to Platts International Coal Report, premium hard coking coal spot prices is reported at approximate USD350/tonne at September 2008 because of low supplies and continued strong demand. Until September 2008, the coking coal price have more than doubled against the end of 2007. Similar to the steam coal price trend stated above, the significant increase is happened in the first half of 2008. In 2007, the coking coal price is approximate USD140/tonne and USD127.5/tonne form Queensland and Russia respectively, it is observed that there was approximate 51% and 41% increase against the coking coal price in 2006 in Queensland and Russia respectively.

3. VALUATION

3.1 VALUATION THEORY

In arriving at our opinion of value, we make reference to three generally accepted approaches to value, namely; the Market Approach, the Cost Approach and the Income Approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to indicate market prices to reflect the condition and utility of the appraised assets relative to the comparable market transactions.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation as condition or obsolescence present, whether arising from physical, functional or economic causes.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for an asset than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent asset with similar risk.

Determination of the Valuation Approach

Income approach is being considered in this valuation given that (1) The Company can reasonably expected to run in 20 years and its future cash flow is based on the 15 year Production Plan that was provided by specialists at Lapichevskaya mine and Kuzbass Giproshakht reliably. (2) The additional 5 year ROM production estimated by SRK is reasonable. (3) The valuation of the Company involved assumptions that affect its timing of dewatering, different mix of coal type and the cost in association with the initial investment on mining equipment shall be properly addressed by cash flow projection. The market multiple of other listed companies cannot be directly compared since the scope of business mixed with other unrelated operation. In contrast, the subject is a company with its license on mining right as the only asset. In additional, different types and mix of coal being product further increase estimation error in the application of Market approach. Cost approach may not be appropriate for business can run to 20 years.

3.2 INFORMATION AND FACTORS CONSIDERED

Our valuation requires consideration of all relevant factors affecting the operation of the business and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the followings:

- The business nature of the enterprise, certificate of incorporation, articles of association, business contracts, and related documents;
- The resources and reserves amount of Lot 1, Lot 1 Extension and Lot 2 and the related plan on production and capital spending requirement, as contained in the SRK report;
- Discussion with the management in relation to the future business strategy, market position, customer segmenting, finance structure and tax applicable;
- Other market information on coal mine industry;
- The economic outlook in general and the specific economic environment where the Company and the competitors are located, market position and competitive advantages and disadvantages of the Company;
- Types and quality of the coals, market price that prevailing;
- Possible taxation arrangement and our discussion with the management on possible tax liability, if any;
- Discussion on the marketing strategy of the Company, the competition it might face and possible risk if any;
- Government regulation in relation to the mining business in Russia.

We have reviewed the information required and held discussions with the management, which is considered sufficient for the issue of the valuation report of the type in question and we believe no material factor has been intentionally omitted or withheld from the given information in order to reach an informed view.

3.3 INCOME APPROACH

3.3.1 Methodology

Under income approach, the operating values of the Company can be determined by the Discounted Cash Flow (DCF) method. In this appraisal, the market value of the interest of the Company was determined by the Income Approach with the use of the Free Cash Flows to Equity (FCFE). We consider that the use of the Free Cash Flow to Equity (FCFE) in Discounted Cash Flow Method is an appropriate measure in the evaluation of the Vendor's interest because of the following considerations:

— The Company, of which the interest to be considered, can reasonably expected to run the project in 20 years;

— The Free Cash Flow to Equity (FCFE) is a measure of operating cash flow after the deduction of operating expenses, possible financial charges, possible capital expenditure, net debt payment and working capital needs. Thus the FCFE fully reflect the cash flow being received by the shareholder in future through holding the interest being considered;

— The value of the business being considered is determined by the future benefit attributed to the shareholder, that is, the net present value of the FCFE.

The Free Cash Flow to Equity (FCFE) is giving by:

Free cash flow to equity = net income + depreciation – capital spending – change in working capital – principal repayments + new debt issues.

3.3.2 Assumptions

Assumptions considered to have significant sensitivity effects in this valuation were evaluated and validated in order to provide a more accurate and reasonable basis for arriving at our assessed value. Based on our experience in valuing businesses of similar nature, we consider the assumptions made in this valuation report to be reasonable.

- There will be no material adverse change in the political, legal, fiscal or economic condition or restrictive government policy in the Russia and other regions in which the Company carries on its business, that might adversely affect its operation as an open market participant.

- The Company will employ required professional and management, competent personnel and technical staff to support its ongoing operation.

- Market trend and conditions for the Company in related areas will not deviate significantly from the economic forecasts in general. Competitors in the neighborhood will not change their marketing strategies substantially in the future.

- The valuation assumed a project life of 20 years with reference to the amount of reserve and production volume that can be possibly generated from Lot 1, Lot 1 Extension and Lot 2. It is assumed the license of the mining can be renewed upon expiry. No terminal value has been considered after the 20 years project life.

- It is assumed the discount rate is 15%.

- Price of coal has been made reference to Platts International Coal Report. It is assumed the coal price as at the Valuation Date is USD355/tonne for Vladimirovsky seam, USD185/tonne for Volkovsky seam and USD320/tonne for Kemerovsky seam.

- Revenues of the Company have taken into account of the sales of coking coal (KSN) and steam coal (SS) only. We have not made any estimates on non-operating income or such items as reimbursement, interest income or other non-routine operations.

- We have taken into account the information provided by SRK with regard to the current coal price as well as the cost of construction. We have considered the revenue estimated by SRK based on the production schedule, associated technical and operating cost planning derived by Kuzbass Giproshakht. We have also considered the nature of the resources and reserves amount of the Mine, the operating performance of other similar companies as a comparison so to conclude our valuation. We rely heavily on the aforesaid production schedule, technical and operating cost planning derived by Kuzbass Giproshakht. We assumed the planning is reasonable and appropriate.

- In our investigation, we noted that the license of the Mine would be expired at 31 December 2014. We assume the license can be renewed throughout the valuation period.

- We have only considered a collection of operating incomes and related expenses such as direct costs, management costs, taxes, capital spending, etc. Unless stated otherwise, no provision was made on non-operating cash flow items such as exchange rate gain/loss, compensations on accidents, etc. in the valuation model.

- It is assumed that the profit tax rate in Russia remain at 24%

- The company currently has immaterial debt financing save for shareholder loan. It is assumed that the company will maintain its current gearing level in the valuation period.

We also assumed the reasonableness of information provided and relied to a considerable extent on such information in arriving at our opinion of value. We also assumed any material and information the rely on for this valuation is properly translated.

3.4.3 Determination of Discount (Rates of Return)

1. Systematic Risk

The valuation is derived from applying appropriate discount rate on the FCFE. The discount rate being applied in the DCF, also known as the required rate of return on equity, is derived by the Capital Asset Pricing Model ("CAPM"):

Required rate of return on equity = Risk Free Rate + Estimated Beta x Market Risk Premium

In applying the CAPM to estimate the discount rate, we have made reference, but not limited to, the followings in our estimation:

- The yields of the Hong Kong Exchange Fund Notes;
- The market return in the Hong Kong stock market of and beta of the coal mining industry.

Since the required rate of return on equity estimated by CAPM explains a portion of the total risk, the systematic risk, of an equity investment. We have considered appropriate adjustments to be made on the unsystematic risk, that is, the firm specified risk, or the possible risk factor in between the HK and Russia, which might affect the value of the subject being evaluated.

2. Other Risk Factors (Unsystematic Risk)

- **Country difference** — Possible difference on the required rate of return which due to the core operation is located in Russia while the measure of return is based on HK system. We will adjust the country difference by means of risk premium as required in Russia.
- **Firm specific risk** — The Company in questions is at its initial stage in the mining operation and hence a risk premium shall be considered to reflect the uncertainty of the business.

The measure of discount rate can be summarized as follow:

Items		**Reference**
Risk free rate	2.80%	Refer to long term Hong Kong EFN
Risk Premium	5.50%	Long term market risk premium in Hong Kong
Beta of Company	1.18	Industry Beta
Cost of Equity	9.29%	Risk free rate + risk premium x beta
Other risk	5.71%	Unsystematic risk estimation
Total	15.00%	

3.4.4 Opinion of Value under Income Approach

Based on the results from discounted cash flow analysis, the value of the 100% equity interest of the Company, which has only taken into account Lot 1 and Lot 1 Extension and without taking into account Lot 2 of the Mine, can be reasonably and approximately stated as US Dollar Four Hundred One Million Six Hundred Thousand only (USD401,600,000).

We have been asked to provide an opinion on the additional value of the Company under the situation that (1) the mining license for Lot 2 of the Mine is obtained by the Company; and (2) a technical report issued by a technical expert acceptable to the Purchaser and the Vendor confirming the probable and proved reserves of Lot 2 of the Mine being not less than 12,000,000 tonnes.

Our opinion on the Additional Value shall only consider as reference and is subject to the fulfilment of the aforesaid conditions. Assume the conditions are fulfilled, the Lot 2 area would provide an additional value to the 100% of the interest in the Company of US Dollar Four Hundred Five Million Two Hundred Thousand only (USD405,200,000).

(A) REPORT FROM SHU LUN PAN HORWATH HONG KONG CPA LIMITED

Set out below are texts of the reports from Shu Lun Pan Horwath Hong Kong CPA Limited and the Board in connection with the cash flow forecasts underlying the valuation on the Russia Subsidiary as at 30 October 2008 and are prepared for the purpose of inclusion in this circular.

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
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20th Floor, Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
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horwath@horwath.com.hk
www.horwath.com.hk

31 December 2008

The Directors
Rontex International Holdings Limited
23/F., Chun Wo Commercial Centre
23-29 Wing Wo Street
Central
Hong Kong

Dear Sirs

We have examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the business valuation on Lapichevskaya LLC ("Lapichevskaya") as of 30 October 2008 (hereinafter referred to as the "Underlying Forecast") which is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Underlying Forecast is set out in Appendix V to this circular.

RESPONSIBILITIES

The directors of the Company (the "Directors") are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast are prepared (the "Assumptions").

It is our responsibility to form an opinion, based on our work on the arithmetical accuracy of the calculation of the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation.

The Assumptions include hypothetical assumptions about future events as detailed in Appendix V to this circular and management actions that cannot be confirmed or verified in the same way as past results, and these assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation on Lapichevskaya.

OPINION

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the Underlying Forecast has been properly complied in accordance with the Assumptions made by the Directors.

Yours faithfully
For and on behalf of
Shu Lun Pan Horwath Hong Kong CPA Limited
Shiu Hong NG
Director

(B) REPORT FROM THE BOARD

RONTEX

RONTEX INTERNATIONAL HOLDINGS LIMITED

朗迪國際控股有限公司 *

(Stock Code: 1142)

23/F., Chun Wo Commercial Centre, 23-29 Wing Wo Street, Central, Hong Kong

Telephone: 2543 3036 Fax: 2543 7235

Date: 31 December 2008

The Stock Exchange of Hong Kong Limited
11th Floor,
One International Finance Centre,
1 Harbour View Street,
Hong Kong

Dear Sir/Madam,

Discounted Cash Flow Forecasts of 100% of interest of LLC "Shakhta Lapichevskaya"

We, the undersigned, being the directors of Rontex International Holdings Limited (the "Company"), hereby confirm that, in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, have reviewed the calculations for discounted cash flow forecasts in the valuation report issued by Vigers Appraisal & Consulting Limited (the "Valuer") regarding the fair values of 100% of interest of LLC "Shakhta Lapichevskaya" as at 30 October 2008 (the "Valuation Report") for which the Valuer is solely responsible for.

Pursuant to the Rule 14.62 of the Listing Rules, the reporting accountants of the Company, Shu Lun Pan Horwath Hong Kong CPA Limited, have examined the arithmetical accuracy of the calculation of the Valuation Report in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

We hereby confirm that the discounted cash flow forecast made pursuant to the Valuation Report as set out in Appendix V to this circular is made after due and careful enquiry.

Yours faithfully,
For and on behalf of
the board of directors of
Rontex International Holdings Limited
Lim Ho Sok
Executive Director

* *For identification purpose only*

The following is the text of the letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this circular, received from Vigers in relation to their valuation as at 12 December 2008 of the property interests of the Group.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

31 December 2008

The Directors
Rontex International Holdings Limited
23rd Floor,
Chun Wo Commercial Centre,
Nos. 23-29 Wing Wo Street,
Central,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Rontex International Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China ("the PRC") and the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at the 12 December 2008 ("date of valuation") for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interests which we would define market value 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".

For property interests in Group I and II which are leased by the Group in the PRC and Hong Kong, we have assigned no commercial value to them mainly due to the prohibition against assignment or sub-letting, or otherwise due to the lack of substantial profit rents.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. For the property interest in Hong Kong, we have caused searches to be made at the Land Registry. We have been provided with certain extracts of title documents relating to the property interest in the PRC. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interest, we have relied on the legal opinion provided by the Group's PRC legal adviser, DeBund Law Firm (the "PRC legal opinion").

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

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

In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (HKIS).

Unless otherwise stated, all money amounts stated are in Renminbi (RMB). The exchange rate used in valuing the property in the PRC as at 12 December 2008 was HK$1=RMB0.883. There has been no significant fluctuation in the exchange rate for RMB against Hong Kong Dollars (HK$) between that date and the date of this letter.

We enclose herewith a summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Deputy Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty years' experiences in undertaking valuations of properties in Hong Kong and has over fifteen years' experiences in valuations of properties in the PRC.

SUMMARY OF VALUATION

Group I — Property interest leased and occupied by the Group in the PRC

Property	**Market Value in existing state as at 12 December 2008**
1. 6th Floor (Level 5), Shanghai Rui Te Building, No. 1888 Yi Shan Road, Minhang District, Shanghai City, the PRC	No commercial value

Group II — Property interest leased and occupied by the Group in Hong Kong

Property	**Market Value in existing state as at 12 December 2008**
2. Office A on 19th Floor, Chun Wo Commercial Centre, No. 25 Wing Wo Street, Central, Hong Kong	No commercial value
Total :	**Nil**

VALUATION CERTIFICATES

Group I — Property interest leased and occupied by the Group in the PRC

Property	Description	Particulars of occupancy	Market Value in existing state as at 12 December 2008
1. 6th Floor (Level 5), Shanghai Rui Te Building, No. 1888 Yi Shan Road, Minhang District, Shanghai City, the PRC	The property comprises the whole of 6th Floor (Level 5) of a 14-storey commercial building completed in 2004. The property has a gross floor area of approximately 1,415.2 sq.m.	The property is leased to 影蒞馳信息技術(上海)有限公司 ("Lessee") by 上海皇星物業管理有限公司 ("Lessor") for a term from 3 April 2008 to 2 April 2010 at a monthly rent of RMB120,527.87, exclusive of management fees and other charges. The property is currently occupied by the Group for office use.	No commercial value

Notes:

1. The PRC legal opinion states, inter alia, the following:

    (i) The Lessor has the rights to lease the property to the Lessee.

    (ii) The lease agreement between the Lessor and the Lessee has not been registered. It cannot work against third parties under the PRC law.

    (iii) The property is subject to a mortgage in favour of Shanghai Rural Commercial Bank, Hongqiao Branch.

    (iv) The property has been leased and occupied for office use. This usage does not conform to the permitted usage of the property for industrial use as stated in the Certificate of Real Estate Ownership.

2. The Lessee is an indirect 51%-owned subsidiary of the Company.

Group II — Property interest leased and occupied by the Group in Hong Kong

Property	Description	Particulars of occupancy	Market Value in existing state as at 12 December 2008
2. Office A on 19th Floor, Chun Wo Commercial Centre, No. 25 Wing Wo Street, Central, Hong Kong	The property comprises an office unit on the 19th Floor of a 25-storey commercial building completed in 1993. The property has a saleable area of approximately 87.52 sq.m.	The property is leased to Rontex Apparel Limited ("Lessee") by Majestic Investment Company Limited ("Lessor") for a term from 15 August 2007 to 31 December 2009 at a monthly rent of HK$20,250, exclusive of Government rent, rates and management fees. The property is currently occupied by the Group for product display and meeting uses.	No commercial value

Notes:

1. According to the records in the Land Registry, the current registered owner of the property is the Lessor, Majestic Investment Company Limited.

2. The Lessee is an indirect wholly-owned subsidiary of the Company.

The following is the text of the letter and valuation certificate, prepared for the purpose of incorporation in this circular, received from Vigers in relation to their valuation as at 12 December 2008 of the property interest of the Target Group.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

31 December 2008

The Directors
Rontex International Holdings Limited
23rd Floor,
Chun Wo Commercial Centre,
Nos. 23-29 Wing Wo Street,
Central,
Hong Kong

Dear Sirs,

In accordance with Rontex International Holdings Limited (the "Company") instructions for us to value the property interest held by the Target Group in the Russian Federation ("Russia"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at the 12 December 2008 ("date of valuation") for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interest which we would define market value 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".

The property interest is leased by the Target Group in Russia. We have assigned no commercial value to it mainly due to the prohibition against assignment or sub-letting, or otherwise due to the lack of substantial profit rents.

Our valuation has been made on the assumption that the owner sells the property interest on the open market in its existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interest at the relevant government bureau in Russia. In undertaking our valuation for the property interest, we have relied on the legal opinions provided by the Company's Russia legal adviser, "Kuban" Law Firm (the "Russia legal opinion").

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property and other relevant matter. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property is free from defect. No tests were carried out on any of the services.

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

In valuing the property interest, we have complied with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (HKIS).

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK$).

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Deputy Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty years' experiences in undertaking valuations of properties in Hong Kong and has over fifteen years' experiences in valuations of properties in the PRC.

VALUATION CERTIFICATE

Property interest leased by the Target Group in Russia

Property	Description	Particulars of occupancy	Market Value in existing state as at 12 December 2008
A parcel of land located at Kemerovsky district, Kemerovo, Russia	The property comprises a parcel of land with a total site area of approximately 1,237,000 sq.m. together with certain structures erected thereon.	The property is leased to LLC "Shakhta Lapichevskaya" ("Lessee") by the Committee for Management of Municipal Property of Kemerovsky Municipal Region ("Lessor") for a term expiring on 31 December 2008. The monthly rent from 1 January 2008 to 31 August 2008 ("1st period") was Russia Ruble (RUR) 1,527,609.96. The Lessee is negotiating with the Lessor for a monthly rent to be lower than that of the 1st period regarding the period from 1 September 2008 to 31 December 2008 as advised by the Lessee. The property is currently vacant.	No commercial value

Notes:

1. The Russia legal opinion states, inter alia, the following:

   (i) According to a lease agreement entered between the Lessor and the Lessee (the "Lease Agreement") , the property is leased to the Lessee for a term expiring on 31 December 2008 for carrying out design and exploration works of mining. According to the conditions of the Lease Agreement, the lease will be further extended when it is expired.

   (ii) The Lessor is entitled to lease the property.

   (iii) The property cannot be subletted by the Lessee to other persons without the consent of the Lessor.

The following is the text of the technical report in respect of the Coal Mine prepared by SRK, for the purpose of inclusion in this circular.

AN INDEPENDENT EXPERTS' REPORT ON THE MINING ASSETS OF LAPICHEVSKAYA MINE

Report Prepared for

RONTEX INTERNATIONAL HOLDINGS LIMITED

Cricket square,
Hutchins Drive,
PO Box 2681,
Grand Cayman
KY1-1111,
Cayman Islands

Report Prepared by

SRK Project Number U3628
SRK Consulting (Russia) Ltd
5th Floor Churchill House
17 Churchill Way
Cardiff, UK
CF10 2HH

EXECUTIVE SUMMARY

Foreword

Lapichevskaya mine comprises an underground coal mine with mine areas containing coal reserves and coal resources located in Petrov region in the state of Kemerovo, Russia (see Figure 2-2) (Lapichevskaya Mine) which ceased working on 1 September 1998 and at which the previous workings were subsequently allowed to flood. Immediately adjacent to the old mine surface infrastructure is the village of Petrovsky for which the original mine water supply boreholes are still used.

The mining field area within the licence boundary (Lot1) is quoted in the licence provided to SRK as 123.7ha and on plans given to SRK has approximate maximum dimensions of 2.7km along the strike and 1.6km down the dip.

Unrecorded and abandoned open pit workings along seam outcrops can still be seen at the surface and their approximate limit should be located by survey. These open pit workings date from 1994-1998, just before closure, and are now flooded and SRK suspect that there is direct connection between these lakes and the flooded underground workings. It is estimated by Kuzbassgiproshakht that it would take less than twelve months to drain the old workings by pumping. However the restrictions on the quantities and quality of water required to be discharged during this dewatering process needs to be agreed with the authorities. The mine was allowed to flood in 1998. We now know about the discharge restrictions and need to notify the Company.

In accordance with the current project, all reserves contained in the Kemerovsky, Volkovsky and Vladimirovsky seams, quoted to be 20.605Mt and earlier written off and returned to Geological Fund accounts, have now been put back into the mine's assets. The mining project examined by SRK solely reflect future underground working of the coal.

The site is supplied by a 35kV power line and there could be a rail access into the federal system provided the original railway line of 2.5km length is restored.

Rehabilitation

To reclaim the underground part of the operation there is the immediate requirement to pump water out from the underground workings. This will include water which has accumulated in the open pit workings. SRK suspect that there is direct connection between these surface accumulations and the flooded underground workings.

The mine has estimated that 1.20Mm^3 of water needs to be pumped out of the underground workings and 150,000m^3 of water to be pumped out from the open pit area. The total volume of water to be pumped out is around 1.35Mm^3. According to VNIMI (Mine Mechanics and Surveying Institute) this task is likely to take between 250 and 300 days of pumping. Thereafter ongoing pumping requirements are expected to be light.

The mine management provided the development project produced by Kuzbassgiproshakht for Lapichevskaya Mine for review. However, this documentation, which is required for submission to the authorities, is only partially completed. This is a very complicated process and should not have any effect on the proposed project and resources/reserves estimation. These deficiencies are likely to present a significant delay to the submission of the necessary project design report to the state, environmental and industrial safety expertise.

Geology and Reserves

Lapichevskaya worked during the period 1948-1998, with a reported maximum annual output of 0.572Mt. Nearly all of the output was from underground extraction of three seams by longwall mining methods. The Kemerovsky Seam was the most extensively worked, the Volkovsky less so and the Vladimirovsky only close to outcrop. In addition there are some unrecorded open pit workings along the outcrop of the upper two seams.

The geological structure at Lapichevskaya Mine is complex with both major and minor folding and faulting. Five seams within the Kemerovsky Suite attain a thickness in excess of 1m and were included in the GKZ approved calculation of the Balanced Reserves. Only the upper three of these (Kemerovsky, Volkovsky and Vladimirovsky) are included in the Lapichevskaya Licence. The two underlying seams, the Lutuginsky 1 and Lutuginsky 2 are thinner and less regular than the upper seams.

Seam Characteristics

Seam Name	Interval to next seam (m)	Seam Thickness (m) Range/ Average (no. of intersections)	Seam Structure	Seam Persistence
Kemerovsky	25	0.86 - 11.95 5.49 (133)	Very complex Occasionally simple	Quite regular
Volkovsky	71	1.97 - 9.85 4.79 (93)	Complex Simple	Quite regular
Vladimirovsky	33	0.83 - 10.05 4.09 (83)	Complex Simple	Quite regular
Lutuginsky 1	15	0.54 - 11.83 3.65 (49)	Complex Simple	Irregular
Lutuginsky 2	—	0.38 - 5.36 1.69 (22)	Complex Simple	Irregular

SRK suspect that seam thicknesses at the upper and lower end of the ranges quoted may occasionally be the result of seam thinning or thickening resulting from thrust faulting and not a true representation of seam thickness. The exceptions to this are the Volkovsky Seam, which is known to locally thin and washout as the result of downcutting by an overlying sand body, and to split (so as to contain a thicker dirt band) in the eastern panels of Lot 1; and the Vladimirovsky Seam which also thins, particularly to the west of Lot 1. Generally seam thicknesses are close to the average figures quoted above.

SRK's resource and reserve statement below is based upon quantities derived by Kuzbassgiproshakht in the development of the current production plan on behalf of the current licence owner. SRK have checked these estimates and can confirm their general correctness.

SRK is of the opinion that designed panels which are in part marginally beyond the lateral extent of the licence area and also those lying beyond the current -65m level limit (Lot 1 Extension) can be considered for inclusion in the reserves statement relating to the Lapichevskaya Licence area since it appears extremely likely that a licence amendment would be granted to work this coal.

The Reserves quoted **include** the quoted Resources. SRK has **not** included any Resources outside the longwall panels in the Kuzbassgiproshakht design. However, there are likely to be further Inferred Resources (totalling tens of millions of tonnes) within the potential extension area (Lot 2). Most of these are likely to be at greater depth than those within the Kuzbassgiproshakht design. SRK recommend further investigation and assessment relating to the borehole data and any previous estimates carried out under the GKZ system to confirm whether these resources are worthy of further drilling and inclusion in a future mine plan or amendment to the existing mine plan.

SRK Statement of Resources and Reserves, 29 October 2008

Area	**Seam**	**Resources (Mt)**			**Reserves (Mt)**	
		Measured	Indicated	Inferred	Proved	Probable
Licence, excluding coal below -65m level (Lot 1)	Kemerovsky	0.00	0.00	0.00	0.00	0.00
	Volkovsky	2.75	0.00	0.00	0.00	2.75
	Vladimirovsky	2.16	0.00	0.00	0.00	2.16
	Total	**4.91**	**0.00**	**0.00**	**0.00**	**4.91**
Coal below -65m level but within surface area of licence (Lot 1 Extension)	Kemerovsky	0.00	0.00	0.44	0.00	0.00
	Volkovsky	0.00	0.29	0.87	0.00	0.29
	Vladimirovsky	1.10	0.39	0.75	0.00	1.49
	Total	**1.10**	**0.68**	**2.06**	**0.00**	**1.78**
Extension areas beyond current licence (Lot 2)	Kemerovsky	0.45	0.00	3.60	0.00	0.00
	Volkovsky	1.67	0.00	4.75	0.00	0.00
	Vladimirovsky	0.08	0.14	4.59	0.00	0.00
	Total	**2.20**	**0.14**	**12.94**	**0.00**	**0.00**

SRK are of the opinion that the Probable Reserves may be gradually upgraded in the future to Proved Reserves once the mine is active again and access has been developed to individual panels.

Mining

The mine plan envisages the simultaneous production from two fully mechanised longwall systems working in two of the three seams identified within the existing and extensions to the licence area.

The initial production is planned from the Vladimirovsky Seam with the second longwall planned to start some six months later in the Volkovsky Seam located some 70m above. These two longwalls are projected to provide (including development tonnage) an output of 1.5Mt/year.

The longwall face equipment proposed within the mine design project includes two standard sets of components each to the same specification for height extraction. SRK believe that this choice should be reviewed prior to any definite commitment to purchase is made. The review should consider the best options with regard to equipment choice and the need to cope with the varying seam sections as well as the likely move into the proposed licence extension areas where the coal seams appear in some areas, to thin significantly.

The mine has been categorised as being a low risk with regard to methane emissions. However, the three seams to be mined are deemed liable to spontaneous combustion. The mine project information states that the surrounding strata are risky when considering the liability for silicosis. In addition the seams are said to be liable to rock bumps from level ±0m about 250m depth from the surface and they tend to develop coal and gas outbursts below the -65m level.

SRK have reviewed the only recent detailed study in respect of washing the coal from Lapichevskaya Mine (by IMC in 2006) and considers that further test work and studies are required before construction of a preparation plant. Such studies and test work would include the following; review normal working pattern for processing plants in the area to decide upon capacity, study on the hardness of the coal in order to determine the possible need for an additional crusher, study on the effectiveness of the dry screening at -6mm, undertake sampling of coal sampling for washability characteristics for all seams and for different size factions.

Capital Investment Costs

Evaluation of the capital expenditure has been done according to the needs to achieve the 20 year Production Plan. These total US$117.5M for 4 years (mining construction costs for first 3 years will be US$107.7M, and first 2 years capital investment cost will be US$67M), plus sustaining capital of US$1M per year after the construction period over three years, plus additional capital expenses of US$67M for re-equipment of the deteriorating assets over the 20 years. In all, a total of US$201.5M.

Conclusions

SRK recommends that a scoping study to optimise design including possible rescheduling and layout of additional panels.

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INDEPENDENT REVIEW FOR LAPICHEVSKAYA MINE

1 INTRODUCTION

1.1 Purpose of Report

SRK Consulting (Russia) Limited ("SRK") is an associate company of the international group holding company, SRK Global Limited (the "SRK Group"). SRK has been commissioned by the representatives of Rontex International Holding Ltd. (also referred to as the "Company") to prepare an Independent Expert's Report ("the Report") on the Lapichevskaya Mine. This Report is intended to be included in the circular (the "Circular") to be published by the Company in connection with the acquisition of certain interests in the Lapichevskaya Mine ("the Acquisition").

1.2 Review Process

This Report is dependent upon technical, financial and legal input from the Company and their legal advisers from Kemerovo. In respect of the technical information as provided to, and taken in good faith by, SRK, this information has not been independently verified by means of re-calculation. SRK has, however, conducted a review and assessment of the material technical issues likely to influence the future performance which included the following:

- inspection visits to the site (mining and associated surface structures and infrastructure), most of which were visited in August 2008;
- discussion and enquiry following access to key project and head office personnel and Kuzbassgiproshakht mine design institute between August and October 2008;
- an examination of historical information and results made available by the Company; and
- a review and, where considered appropriate by SRK, modification of the Company's production forecasts as prepared by Kuzbassgiproshakht.

SRK has also assumed certain macro-economic parameters and commodity prices and relied on these as inputs to derive the Coal Resource and Coal Reserve Statements.

Where fundamental base data have been provided, such as the Life of Mine plan (LoMp) and capital expenditures, for the purposes of review, SRK has undertaken a series of checks to validate and verify the information in order to place an appropriate level of reliance on such information.

1.3 Requirement, Structure and Compliance

1.3.1 Requirement

The Report has been prepared by SRK in accordance with Chapter 18 of the Hong Kong Listing Rules of the HKSE and will be included in the Circular to be published by the Company in connection with the Acquisition.

The Report is addressed to Rontex International Holding Ltd..

Drafts of the Report were provided to the Company to confirm both the accuracy of factual information and the reasonableness of assumptions relied upon in this Report.

This Report has been structured to provide a brief description of the assets and key factors that can affect future performance, an explanation of how the Coal Resources and Coal Reserves were derived, the Company's projections for production, capital expenditure, and comments on health, safety and environmental performance.

For reporting purposes the asset reviewed was the Lapichevskaya mine.

All entries, including text, tables and other data, are quoted assuming 100% ownership within the tax entity, unless otherwise stated.

1.3.2 Compliance

This Report has been prepared in accordance with Chapter 18 of the Hong Kong Listing Rules. Specifically, the standard adopted for the reporting and classification of the Coal Resources and Coal Reserve statements for the Mining Assets is that defined by the terms and definitions given in the 2004 Australasian Code for Reporting of Exploration Results, Coal Resources and Coal Reserves (the "JORC Code") as published by the Joint Coal Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

This Report has been prepared under the direction of the Competent Persons as defined by the JORC code who assume overall professional responsibility for the document (Section 1.7 of this Report). The Report, however, is published by SRK, the commissioned entity, and accordingly SRK assumes responsibility for the views expressed herein. Consequently with respect to all references to Competent Person and SRK all references to SRK mean the Competent Person and vice-versa.

SRK is responsible for this Report, and declares that it has taken all reasonable care to ensure that the information contained in this report is, to the best of its knowledge, in accordance with the facts and that no material facts that SRK is aware of have been omitted which could affect the conclusions.

1.4 Effective Date

The effective date (the "Effective Date") of this Report is deemed to be 29 October 2008. To the knowledge of SRK, there has been no material change in respect of the Mining Assets since 29 October 2008.

The Coal Reserves are dependent upon the following:

- technical information as generated by the Company on the basis of a project design report prepared by Kuzbassgiproshakht mine design institute in 2008; and
- appropriate adjustments made by SRK to technical information which inter alia includes any additional material information provided by the Company over and above the project design report prepared by Kuzbassgiproshakht.

1.5 Verification, Validation and Reliance

SRK relies on the Company and its technical representatives to ensure all technical information provided to SRK as at 29 October 2008, is accurate.

1.6 Limitations, Reliance on Information, Declaration, Consent and Copyright

1.6.1 Limitations

The opinions expressed in this Report have been based on the information supplied to SRK by the Company. The opinions in this Report are provided in response to a specific request from the Company to do so. Whilst SRK has exercised due care in reviewing the supplied information by comparing 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.

The Company has verbally confirmed to SRK that to its knowledge the information provided by it was complete and not incorrect or misleading in any material respect. SRK has no reason to believe that any material facts have been withheld and the Company has confirmed in writing to SRK that it believes it has provided all material information.

1.6.2 Reliance on Information

SRK believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinions presented in the Report.

Further, SRK has no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this Report or to review, revise or update the Report or opinion.

1.6.3 Declaration

SRK will receive a fee for the preparation of this report in accordance with normal professional consulting practice. This fee is not contingent on the outcome of the Acquisition and SRK will receive no other benefit for the preparation of this report. SRK does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Coal Resources and Coal Reserves of the Mining Assets of the Company.

Neither SRK, the Competent Persons, nor any Directors of SRK has at the date of this report, nor has had within the previous two years, any shareholding in the Company, the Mining Assets or advisors of the Company.

Consequently, SRK, the Competent Persons and the Directors of SRK consider themselves to be independent of the Company.

This report includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider them to be material.

1.6.4 Consent

SRK has given and has not withdrawn its written consent to the inclusion of its Report in the Circular of the Company and references to its report and its name in the form and context in which they are respectively included and has authorised the contents of its report and context in which they are respectively included.

Subject to the foregoing, neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of SRK as to the form and context in which it appears.

1.6.5 Copyright

Copyright of all text and other matter in this document, including the manner of presentation, is the exclusive property of SRK. It is an offence to publish this document or any part of the document under a different cover, or to reproduce and/or use, without written consent, any technical procedure and/or technique contained in this document. The intellectual property reflected in the contents resides with SRK and shall not be used for any activity that does not involve SRK, without the written consent of SRK.

1.7 Disclaimers

Coal Reserve estimates are based on many factors, including, in this case, data with respect to drilling and sampling. Coal Reserves are derived from estimates of future technical factors, future production costs, future capital expenditure, future product prices and the exchange rate between the Russian Rouble and the US dollar. The Coal Reserve estimates contained in this report should not be interpreted as assurances of the economic life of the Mining Assets or the future profitability of operations. As Coal Reserves are only estimates based on the factors and assumptions described herein, future Coal Reserve estimates may need to be revised. For example, if production costs increase or product prices decrease, a portion of the current Coal Reserves may become uneconomical to recover and therefore reduces the Coal Reserve estimate.

Forward looking statements may be included in this report. These forward-looking statements are necessarily estimates and involve a number of risks and uncertainties that could cause actual results to differ materially.

1.8 Qualifications of Consultants

The SRK Group employs approximately 900 staff, offering expertise in a wide range of resource engineering disciplines. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, Independent Engineers Reports and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs. SRK also has specific experience in commissions of this nature.

This Report has been prepared based on a technical and economic review by a team of 8 consultants sourced from the SRK Group's offices in the United Kingdom and Russia. These consultants are specialists in the fields of geology, resource and reserve estimation and classification, open pit mining, metallurgical processing, environmental impact and mineral economics.

The individuals who have provided input to this Report, who are listed below, have extensive experience in the mining and smelting industry and most are members in good standing of appropriate professional institutions.

Project Management

- Andrey Melnikov, Principal Mineral Economist, MBA;
- Keith Philpott, Principal Geologist, Bachelor of Science (BSc), Master of Science (MSc). Fellow of Geological Society (FGS), Chartered Geologist (CGeol);
- David Pearce, Principal Mining Engineer, Master Engineering (Mining) (MEng), MBA. Fellow Australian Institute of Mining & Metallurgy (FAusIMM), Chartered Professional Mining (CPMin);
- Mike Strickland, Principal Mining Engineer, Bachelor of Science (engineering) (BSc). Charted Engineer (CEng); European Ingineering (EUR ING);
- Alexander Sokolov, Principal Mining Engineer PhD;
- Yuri Gurziy, Principal Infrastructure specialist;
- Ekaterina Vershinina, Senior Environmentalist
- Mikhail Sivkov, business evaluation consultant PhD,
- Svetlana Polutornaya, business evaluation consultant PhD

The Competent Person for the reporting of Coal Resources is Keith Philpott, who has more than 30 years of experience in the mining industry.

The Competent Person for the reporting of Coal Reserves is Mike Strickland who has more than 30 years of experience in the mining industry.

The Person who will take overall responsibility for the document is Mr Andrey Melnikov, who has 10 years of experience in the mining industry, 3 of which have been at SRK.

SRK has considerable experience at providing Independent Expert Reports for companies listing on the stock exchanges in Australia, United Kingdom, Canada, Hong Kong, South Africa and the USA. SRK has provided Independent Expert Reports for the following listings on the HKSE:

Table 1-1: Recent Reports by SRK for Companies listing on the HKSE

Company	**Year**	**Nature of Transaction**
Chalco (Aluminium Corporation of China)	2001	Listing on the HKSE and New York Stock Exchange
Fujian Zijin Gold Mining Company	2004	Listing on the HKSE
Lingbao Gold Limited	2005	Listing on the HKSE
Yue Da Holdings Limited (a company listed on the HKSE)	2006	Proposed acquisition of shareholding in mining projects in PRC
China Coal Energy Company Limited (China Coal)	2006	Listing on the HKSE
Sino Gold Mining Limited	2007	Dual listing on the HKSE
Xinjiang Xinxin Mining Industry Company Limited	2007	Listing on the HKSE
Hua Yi Copper Holdings Limited	31 December 2007	Acquisition of iron mine in Longhua County, PRC
Kiu Hung International Holding Limited	31 January 2008	Acquisition of mining rights and exploration rights of coal mine in Inner Mongolia, PRC
Wing Hing International (Holding) Limited	29 August 2008	Acquisition of mining rights of coal mines in Guizhou, PRC
V.S. International Group Limited	11 July 2008	Acquisition of silver mine in Heilongjiang, PRC
ESPCO Technology Holdings Limited	28 March 2008	Acquisition of gold mine in Shananxi, PRC
Linfair Holdings Limited	31 January 2008	Acquisition of iron mine in Hebei, PRC
Smart Union Group (Holdings) Limited	10 December 2008	Acquisition of gold mine in Fujiqn, PRC
Regent Pacific Group Limited	22 November 2007	Acquisition of coal mine, in Inner Mongolia, PRC

1.9 Information Provided and Basis of SRK's Evaluation

In summary, the report as presented herein has been based upon:

- Inspection visit to the Lapichevskaya mine site and the offices of the Lapichevskaya Licence holders by an SRK team comprising a Principal Geologist, two Principal Mining Engineers, and the Head of Financial Evaluation, together with a technical interpreter, during the period 04-06 August 2008.

- Discussions with and a presentation from the General Director of LLC Lapichevskaya (Lapichevskaya), Mr. Levchenko.

- Discussions with the technical managers responsible for the new Lapichevskaya Mine Design Project being developed by the Kuzbassgiproshakht Mine Design Institute in Kemerovo, and with mine geologists who had previous involvement with the Lapichevskaya Mine.

- Various plans and cross sections provided by LLC Lapichevskaya and showing drilling data, licence limits, underground areas previously worked or planned for future extraction according to the Kuzbassgiproshakht design.

- Exploration and Mining Reports for the mine.

- Report by International Mining Consultants (IMC) dated June 2006 and titled "Review of Rehabilitation and Future Operations at Mine Lapichevskaya", was provided be the owners of the mine.

1.10 Inherent Risks

Coal mining and processing are carried out in an environment where not all events are predictable. Whilst an effective management team can identify the known risks and take measures to manage and mitigate these risks, there is still the possibility for unexpected and unpredictable events to occur. It is not possible therefore to totally remove all risks or state with certainty that an event that may have a material impact on the operation of a coal mine will not occur. Similar considerations apply to the marketing of the coal.

2 BACKGROUND

2.1 General Description of Coal Assets

Lapichevskaya Mine comprises an underground coal mine which ceased working on 1 September 1998 and at which the previous workings were subsequently allowed to flood. The mine is located some 20km to the north of Kemerovo (Figure 2-1). Immediately adjacent to the old mine surface infrastructure is the village of Petrovsky for which the original mine water supply boreholes are still used. These boreholes were use to supply the mine previously but they were not used for the supply to a wash plant. The Company needs to review the water requirements for a wash plant and check the supply likely to come from these boreholes.

The mining field within the licence boundary (Lot 1) is quoted in the licence provided to SRK as having an area of 123.7ha whilst the plans given to SRK show that the mining field is up to 2.7km along the strike and up to 1.6km perpendicular to strike.

The mine opened in 1948 and closed in 1998 when the workings were allowed to flood. It had operated generally on an annual production of 450,000t with a maximum output of 572,000t achieved during the 1980s. Most of the surface infrastructure has been removed and mine entrances sealed. "Unofficial" open pit working of the upper two seams took place from 1994-1998. No plans seen by SRK show the extent or location of these workings. The abandoned open pit workings can still be seen at the surface and their approximate limit should be located by survey in. The open pit workings are now flooded and SRK suspect that there is direct connection between these lakes and the flooded underground workings. It is estimated by Kuzbassgiproshakht that it would take less than twelve months to drain the old workings by pumping.

In accordance with the current project, all reserves contained in the Kemerovsky, Volkovsky and Vladimirovsky seams, quoted to be 20.6Mt and earlier written off and returned to Geological Fund accounts, have now been put back into the mine's assets. The mining project examined by SRK solely reflects future underground working of the coal.

The site is supplied by a 35kV power line and there could be a rail access into the federal system once the original railway line of 2.5km length is restored.

2.2 Climate, Topography and Land Use

The highest absolute elevations are in the central part (up to 256m above sea level) and the lowest are in valleys, 233m above sea level. Coal mining activities are evidenced by abandoned open pit overburden dumps and flooded voids, former colliery buildings and waste tips etc.

The climate is extreme continental, with hot, dry summers and cold winters.

Figure 2-1: Location of Kemerovo Region and Lapichevskaya Mine

Lapichevskaya mine is located within the area highlighted in red in the figure above.

2.3 Mining Licence and Conditions

2.3.1 Overview

SRK has not carried out a legal due diligence of the coal licence for Lapichevskaya Mine. However, SRK has examined the licence documents and believes that the potential to update the licence needs to be discussed with appropriate state authorities, both from the point of view of bringing the Licence Agreement in accordance with the current standard and changing the licence boundaries to add additional reserves below -65m level (Lot 1 Extension).

The current Licence (Lot 1) KEM 13206 ТЭ was registered by the Federal Subsoil Agency on June 27, 2005. The right to use subsurface Coal Resources is granted to a subsoil user in the procedure of reassurance of the Licence KEM 00289 ТЭ due to the acquisition of the property of the bankrupt company OAO “Shakhta Lapichevskaya” by OOO “Shakhta Lapichevskaya”. Use of the subsurface Coal Resources implies permission for coal mining on the Petrovsky Block of the Kemerovsky coal deposit and the Company has already applied for this licence.

Possible future extensions to the licence comprise Lot 1 Extension, which would permit extraction down to a level of -65m within the surface confines of Lot 1, and Lot 2, which lies to the west and south of Lot 1. The area planned to be mined by the mine design being developed by the Kuzbassgiproshakht covers Lot 1 and Lot 2. These Lots are further defined below and shown in Figure 2-2.

2.3.2 Current Licence

For the purpose of this report SRK defines the following areas according to the current licence agreement and potential future extensions.

- Lot 1 includes three seams down to level -65m within the surface area boundaries of the current licence.
- Lot 1 Extension — covers the same three seams below -65m down to -400m within the surface area boundaries of the current licence. A letter to include this area has been sent to governmental officials.
- Lot 2 — is adjacent to the existing licence. It includes the “Petrovsky” area to the west and the “Kemerovsky” area to the south, and is bounded by the XII prospecting line to the west, and by the “Kluchevaya” exploration line to the south.

Lapichevskaya Mine (Figure 2-2) is operating under the licence KEM 13206 ТЭ, registered on 27 June 2005 by the Federal Subsoil Agency. The licence has been issued to the company OOO Shakhta Lapichevskaya for the mining of coal on the Petrovsky area of the Kemerovsky coal deposit. The licence expires in December, 2014. The right for land use was granted by the Administration of the Kemerovo area. The obligations of all parties involved in the construction, mining and processing of coal are specified in the licence agreement.

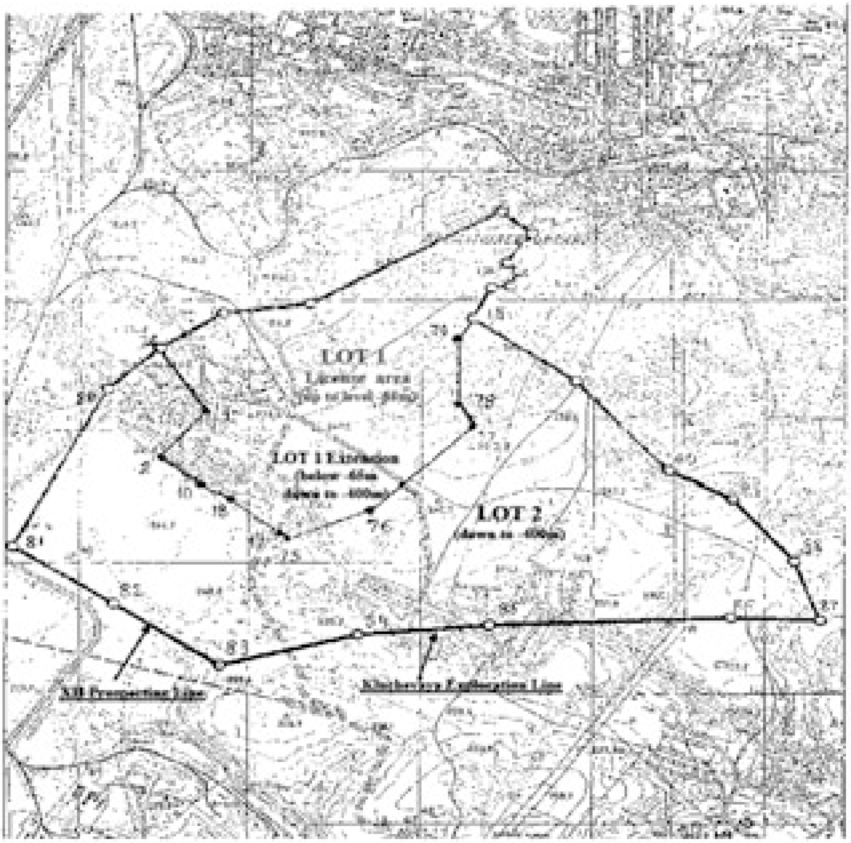

Figure 2-2: Lot Boundaries

Paragraph 3 of the Licence Agreement states that the approved coal production level, excluding coal losses, should be 250,000tpa. The conditions of the Licence Agreement signed in 2005 are thus not currently being met, but SRK consider that there is a low risk of the licence being withdrawn.

Paragraph 3 also states that Lapichevskaya has the mining rights to three seams: Kemerovsky, Volkovsky and Vladimirovsky and that these seams have KSN and SS coal grades with Balanced Reserves of 21.103Mt as of 01 January 1995. SRK have assumed that the licence boundary is as depicted on the plans given to them by Kuzbassgiproshakht (Figure 2-2), but recommends the Company commissions a legal check of the licence document including the boundary and conditions attached to the licence.

Other conditions of the licence agreement are typical for one signed in 2005. They define the procedure of liaison between the licence holder and the relevant authorities as regards the provision of statistical reports, making payments for the use of Coal Resources etc. and do not present, in SRK's opinion, any significant risks for the potential investor.

2.3.3 Proposed Licence Amendments

SRK has been informed that the Company has already applied for the licence for Lot 1- Extension and Lot 2. SRK considers that the legal entity of Lapichevskaya Mine, owning the existing surface and underground infrastructure, likely to be given priority in respect of any licence extension below the current licence as well as extensions to the southwest and to the south, though it may be a condition for Lot 2 that the Company commits to developing the mine.

SRK consider that there is a low risk of the licence being withdrawn. It appears that it will be necessary to start work on modifying the terms of the Licence Agreement especially since a new project design was commenced in 2007. SRK recommends the investigation of two options: firstly licence renewal under existing constraints and secondly licence renewal with the inclusion of additional reserves below -65m level. The second option is recommended by SRK since it secures access to all resources and reserves within the current licence boundary.

3 EXPLORATION

3.1 General

All drilling and reserve assessment has been carried out under the strict guidance of various protocols in line with GKZ requirements. Drilling was carried out along traverses with traverse and borehole spacing determined by GKZ guidelines and taking account of both structural and seam complexity. Reserve calculations were carried out manually utilising reserve blocks on paper based plans. As far as SRK is aware neither surface geophysical surveys, nor interpretation of aerial photographs or satellite images, nor surface trenching was carried out as part of any exploration works.

3.2 Exploration History

Surface boreholes have been drilled in a number of phases and are shown on seam plans at scale 1/5000 indicating areas of previous working and future panels. In all a total of 253 boreholes and a meterage of 37,362m (average depth 144m) were drilled (Figures 4-1, 4-2, 4-3) as below:

- 1952-1955. A total of 71 boreholes were drilled across the Lapichevskaya Licence area (Lot 1) and to the east and west in the wider area of the Petrovsky Block (part of Lot 2).

- 1968-1972 and 1974. Drilled mostly in the Lapichevskaya Licence area (Lot 1), many relatively close to seam outcrops. A total of 84 and 59 boreholes were drilled in two periods.

- 1978-1982. Mostly drilled in the main part of the Lapichevskaya Licence area where panels have already been extracted. A total of 35 boreholes were drilled.

- Boreholes have generally been located along northwest - southeast traverses, that is "down dip" of the seams.

Within the central part of the licence area there are some nine traverse lines approximately 200m apart (occasionally 150m); to the east three traverses at 300m apart; and to the west, three traverses approximately 500m apart. Most traverses in the centre and east stop approximately three quarters of the way to the southern boundary of the licence (Lot 1) and those to the west (part Lot 2) only about half way. Borehole spacing along the western traverses is 100-150m (occasionally less), along the central traverses 100-150m, and the eastern traverses 100-250m. It appears from the data presented on seam plans that most of the holes along the three most westerly traverses and those at the south end of the central traverses did not always reach the Volkovsky and rarely the Vladimirovsky Seams. Not all boreholes appear to be shown on all plans.

In summary, it means that the geology (seam thickness and geological structure) of the deepest panels within the current licence area, many of the panels to the west and all of the panels to the southwest is entirely conjectural and has not been proved by either boreholes or underground drivages.

The exploration report indicates that all boreholes were cored throughout most of their length, with an average core recovery in coal (for the 1978-1982 drilling) of 68-75% in the three seams. This is below what could normally be expected, probably due to the complex structural geology of the area. Downhole geophysical logging was carried out throughout the various periods of drilling with 83% of the 1978 - 1982 drilling programme logged. Most of the boreholes were drilled vertically. However, at many locations close to the seam outcrops (where the seams are steeply dipping) a second inclined borehole was drilled so that the borehole entered the seam sub-vertically, thus giving a more accurate reflection of true seam thickness. Seam thickness was primarily based on downhole geophysical logging. SRK anticipate the drilling results to be reasonably accurate and notes that Russian standards at this time were generally adhered to. All exploration work was carried out by Russian State Exploration teams.

Within the southern part of Lot 2 there is little or no borehole information and within the western part of Lot 2 there is only limited borehole information. There are however numerous borehole traverses along the northern margin of Lot 2 which end close to the boundary and also a borehole traverse along the southeast boundary. SRK has very briefly examined some of this data which seems to suggest that the three seams of interest continue below Lot 1 and that the seams get progressively deeper. A further close examination of this data is recommended by SRK.

4 GEOLOGY

4.1 Mining History

4.1.1 Nearby Mines

Lapichevskaya Mine lies within the Kuzbass Coal Basin which is currently increasing its overall production of coal. In 1980 some 160Mt was produced and this had risen to 187Mt in 2007, with a target production for 2020 of 270Mt.

The Lapichevskaya Mine lies within the less well developed northern part of the Kuzbass where different grades of coal are available from those extensively worked in the centre and south of the basin. When the mine was closed in 1998 all of the significant underground and surface equipment was removed and the mine entrance sealed.

Vladimirovsky Mine is thought to be the only mine in the area currently working the seams formerly worked by Lapichevskaya Mine. The seams have been worked in the past at Volkova, Severnaya and Butovskaya Mines, which were closed along with Lapichevskaya in the 1990's. The other mine in the area, Romanovskaya Mine, opened in 2007 and works different seams.

Coal is also currently worked at other slightly more distant mines (Berezovskaya and Pervomayskaya) and open pits (Kedrovsky and Chernigovsky) to the northeast and north. None are working the same seams as at Lapichevskaya.

When the mine was closed in 1998 all of the significant underground and surface equipment was removed and the mine entrance sealed.

4.1.2 Previous Working at Lapichevskaya Mine

Coal was mined using underground methods during the period 1948-1998, with a reported maximum annual output of 0.572Mtpa. The mine closed due to the poor economic conditions at the time. Average output was some 0.45Mtpa with only 0.20 - 0.25Mtpa production in the last few years before closure. Most of the output was from underground extraction of three seams: the Kemerovsky Seam was the most extensively worked, the Volkovsky less so and the Vladimirovsky only close to outcrop. Plans indicate longwall extraction first from the Volkovsky and the overlying Kemerovsky from 1959 and in the underlying Vladimirovsky from 1967 - 1972 only. Workings are shown in the Volkovsky until 1988 and in the Kemerovsky until 1997.

In addition there are recorded open pit workings close to the outcrop of the Volkovsky which postdate the shallowest longwall panels in the seam, and are approximately 10-50m wide. SRK understands that, in addition, the Volkovsky and, more extensively, the Kemerovsky Seams were mined using open pit truck-and-shovel methods from 1994 until closure.

The now flooded abandoned open pits can still be seen but are not shown on any plans viewed by SRK. Further, there is likely to have been very small scale extraction by local people from time to time. Overburden from the open pit workings was placed above the seam outcrops and has partially revegetated. It is essential in SRK's opinion, for the 1990's open pit workings to be shown on plans. This may require a new survey of the area.

The Kemerovsky Seam is presumed by SRK to have been worked by hand from 1948, presumably at shallow depth, but these workings are not shown on plans seen by SRK.

A visual inspection of the Kuzbassgiproshakht plans for the Kemerovsky Seam indicates that significant areas of coal were "written off" by the mine and that this was approved by the GKZ at various times. SRK assume that these areas were too difficult to work because of faulting of the seams and the seams disposition in relationship to the planned longwall layout. Some panels were certainly cut short when faulting was encountered in the drivages. In all, it appears that some 35% of the licensed area on the Kemerovsky Seam has been worked down to the -65m level at which working stopped. Kuzbassgiproshakht's design for the remainder of the licence area (Lot 1) and the extension areas (Lot 2) appears to assume a considerably higher rate of extraction. This is, in part, due to their assumption that the geological structure is simpler at depth. In SRK's opinion this has not yet been proved by boreholes or exploratory drivages.

4.2 General Stratigraphy

Lapichevskaya Mine lies within the Petrovsky Block of the Kemerovsky Coal Deposit within the northern part of the Kuzbass Basin. The three seams worked at the mine (in descending order) are the Kemerovsky, the Volkovsky and the Vladimirovsky. All lie within the Kemerovsky Suite which, together with the overlying Usyatsky Suite forms the Upper Balakhonsky Series of Lower Permian age. This strata is overlain by the non-coal bearing Kuznetsky Series and unconsolidated Tertiary age beds.

Within the upper part of the Kemerovsky Suite, sandstones are usually fine to medium grained with siltstone and mudstone intercalations. Iron siderite or calcite occurs as thin beds to 0.15m within the sandstones. The Volkovsky Seam roof normally comprises fine grained sandstone with coal scars and sometimes cuts down into the seam resulting in thinning or washing out. Siltstones are dark grey, strong and well bedded. Mudstones are generally dark grey to black with occasional coal traces. Some are carbonaceous and black and are often associated with the coal seams. The Kemerovsky Seam forms the upper boundary and the Gorlovsky Seam the lower boundary to the Kemerovsky Suite. The Vladimirovsky, Lutuginsky 1 and 2, and Bezymyany Seams lie within the lower siltstone - mudstone dominated succession.

4.3 Geological Structure

The geological structure at Lapichevskaya Mine is complex with both major and minor folding and faulting. The mine lies on the western limits of the Kemerovsky Syncline which trends approximately northeast to southwest and plunges to the south. The nose of the syncline lies some 2km to the northeast of the licence area.

Coal seams generally strike NNE to SSW to NE to SW and dip to the southeast, steepening from 5˚-25˚ at depth to 40˚-50˚ at outcrop. The seams subcrop beneath unconsolidated Tertiary strata along the north-western edge of the licence area. Smaller scale secondary folding, orientated in a similar direction to the Kemerovsky Syncline, occurs throughout the deposit and appears to postdate the main thrust faults. Secondary folding has been identified particularly in the northeast of the licence area.

The strata are cut by a number of thrust faults, generally orientated northeast to southwest and apparently associated with the primary period of compressional folding. The largest of these thrusts is shown on cross sections as "daylighting" along the north-western margin of the licence area beyond the outcrops of the seams of interest and lying beneath the Kemerovsky Suite and at a similar attitude to the overlying seams across much of the licence area. It rises and cuts through the seams to the southeast of the Lapichevskaya licence area "daylighting" just beyond borehole 5088, well to the southeast and within the extension area (Lot 2). It thrusts strata from the northwest over the strata to the southeast with a seam displacement of approximately 150m near to borehole 5088. The seam sequence is repeated as a result of the thrust in borehole 5202. Cross sections indicate a shear zones thickness in boreholes 5222, 5202, 5088 of 70-100m thickness.

Numerous smaller thrusts trending northeast to southwest and overthrusting strata to the southeast are shown on seam plans towards the seam outcrops. These have resulted in the repetition of seams along the outcrops, particularly in the centre of the Lapichevskaya licence area and to the west. Underground seam working appears to have taken place in the lower repetition of the seams. These thrusts are sub-parallel to the seam bedding and affected by the secondary folding. Less commonly, small scale reverse thrusting (resulting in strata being overthrust to the northwest rather than the southeast) and normal faulting has been recorded in the worked areas.

Structural interpretation by the Novokuznetsk and Kuzbass Giproshakhts assumes that faulting becomes less frequent "at depth", that is to the southeast within the deeper part of Lot 2. SRK strongly recommends a close examination of the detailed (large scale) seam plans for the worked area and borehole data in order to further analyse the structural geology of the area as faulting represents a significant risk to the full achievement of the proposed design of Kuzbassgiproshakht and the working of further coal within Lot 2.

4.4 Coal Seams

4.4.1 General Data

Five seams within the Kemerovsky Suite attain a thickness in excess of 1m and were included in the GKZ approved calculation of the Balanced Reserves. Only the upper three of these (Kemerovsky, Volkovsky and Vladimirovsky) are included in the Lapichevskaya Licence. The two underlying seams, the Lutuginsky 1 and Lutuginsky 2 are thinner and less regular than the upper seams. The 1982 Exploration Report gives the following seam data.

Table 4-1: Seam Characteristics

Seam Name	Interval to next seam (m)	Seam Thickness (m) Range/ Average (no. of intersections)	Seam Structure	Seam Persistence
Kemerovsky	25	0.86 - 11.95 5.49 (133)	Very complex Occasionally simple	Quite regular
Volkovsky	71	1.97 - 9.85 4.79 (93)	Sometimes complex Sometimes simple	Quite regular
Vladimirovsky	33	0.83 - 10.05 4.09 (83)	Complex Simple	Quite regular
Lutuginsky 1	15	0.54 - 11.83 3.65 (49)	Complex Simple	Irregular
Lutuginsky 2	—	0.38 - 5.36 1.69 (22)	Complex Simple	Irregular

SRK suspect that seam thicknesses at the upper and lower end of the ranges quoted may sometimes be the result of seam thinning or thickening resulting from thrust faulting and not a true representation of seam thickness. The exceptions to this are the Volkovsky Seam, which is known to locally thin and washout as the result of down-cutting by an overlying sand body, and to split (so as to contain a thicker dirt band) in the eastern panels of Lot 1; and the Vladimirovsky Seam which also thins, particularly to the west of Lot 1. Generally seam thicknesses are close to the average figures quoted above.

4.4.2 Kemerovsky Seam

The seam (Figure 4-1) has been worked in the mine to a level of approximately -60m and generally has a complex seam structure with rarely up to 9 lenticular dirt bands, usually thin and comprising carbonaceous mudstone or less frequently sandstone, mudstone or siltstone with iron concretions. One of the dirt bands is thicker (0.10-1.48m) and more persistent and lies towards the top of the seam section. The topmost section of the coal seam was previously referred to as the Novokemerovsky Seam and was not worked underground where a seam section of 3.5 - 4.0m was extracted from the bottom section of coal. The Novokemerovsky varies in thickness from 0.19m to 4.53m.

There are no boreholes or drivages within the two panels (3-1) planned to be worked within the Lapichevskaya Licence area or within most of the panels in the extension areas (3-2, 3-3, 3-6 to 3-11). Boreholes in or close to panels 3-4 and 3-5 show a similar seam section to the previously worked area.

The seam roof generally comprises sandstone or siltstone and the floor siltstone or rarely sandstone.

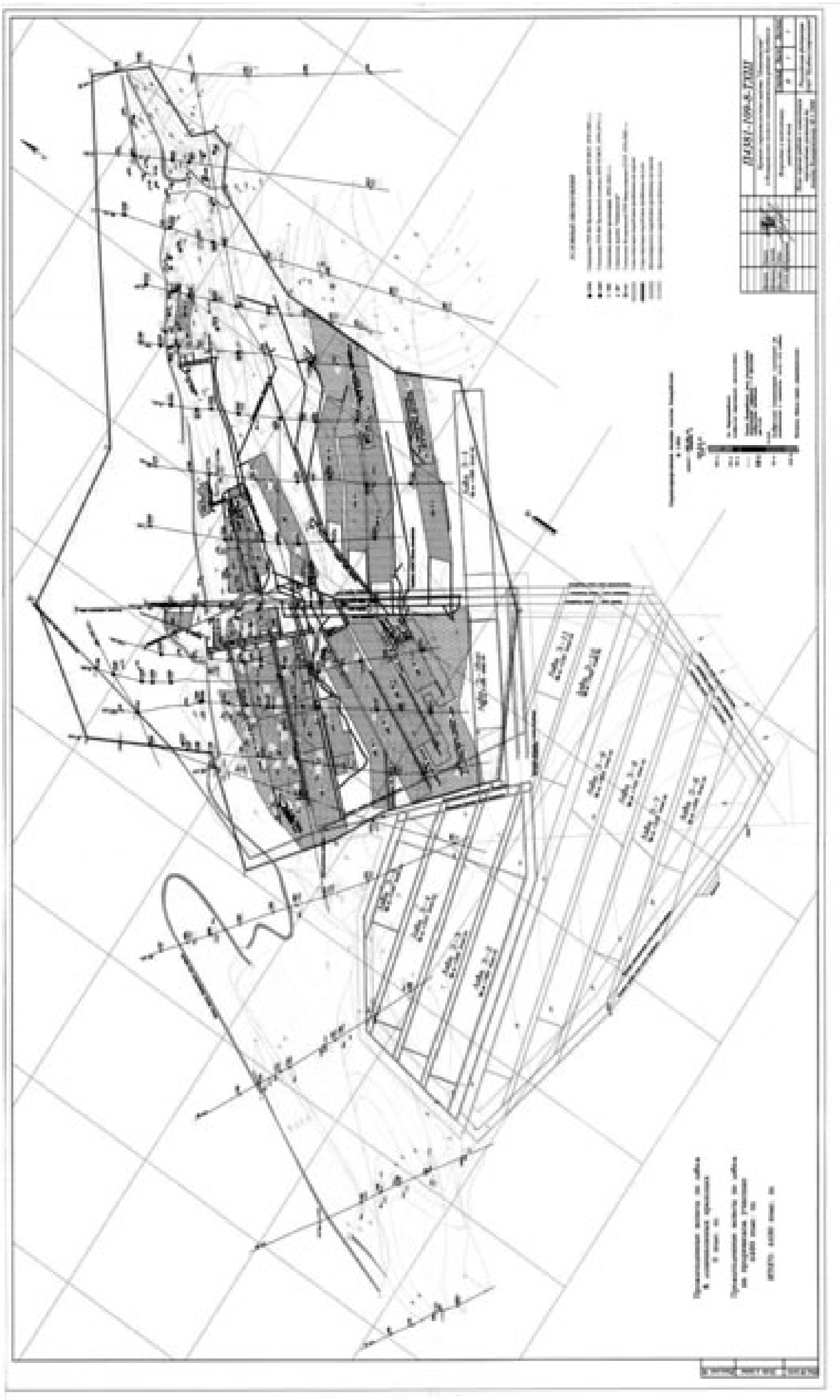

Figure 4-1: Kemerovsky Seam

4.4.3 Volkovsky Seam

The seam (Figure 4-2) has previously been worked at the mine to a level of approximately +180m (north) to +90m and has a simple seam structure in over 40% of the borehole intersections. Of the remainder nearly 10% show four or more dirt partings. Dirt bands comprise siltstone or carbonaceous mudstone, or rarely sandstone.

Where the seam structure is relatively simple, the seam thickness ranged from 2.07 - 9.24m (average 4.79m) but mining has revealed thicknesses down to 0.90m, and this is associated with a roof comprising coarse sandstones and conglomerates with siltstones inclusions. In the northeast of the licence area there is evidence of seam washouts and this was also a feature of the seam in the neighbouring Volkova and Severnaya Mines.

The seam roof usually comprises sandstone but it is rarely siltstone and the floor usually siltstone and rarely sandstone.

There is no borehole data within the deepest panels scheduled for working in the Lapichevskaya Licence area (2-7, 2-9) or within many of the panels in the extension area (2-10, 2-11, 2-17 to 2-22). Several boreholes within panels 2-5 and 2-6 show a split section with two relatively thin coal leaves, whilst an area to the north of panel 2-3 apparently worked through an area interpreted as having a seam washout as evidenced by the boreholes (1405, 7757, 10782). SRK recommends a closer examination of the seam section proposed to be worked in the area of panels 2-5 and 2-6 in particular.

4.4.4 Vladimirovsky Seam

The seam (Figure 4-3) has been worked in the mine to a level of approximately +120m in the east and +190m in the west. Some 40% of borehole intersections encountered a single seam with a thickness of 0.83 to 4.08m. Remaining intersections usually showed one or two thin dirt partings. Rarely, one dirt parting towards the upper section of the seam thickened to some 0.40m, or very rarely more.

There are no boreholes located within the deepest panels proposed in the Lapichevskaya Licence area (1-7, 1-9), nor in many of the panels within the extension areas (1-19 to 1-24). Several boreholes within the planned area of extraction show that the seam can thin to 1.06m (panels 1-5, 1-6, 1-12 — 1-17). SRK recommends that seam thickness variation is examined more closely to finalise the selection of the mining equipment .

Roof and floor measures generally comprise sandstone or siltstone and occasionally carbonaceous mudstone. SRK have no data regarding roof and floor strengths.

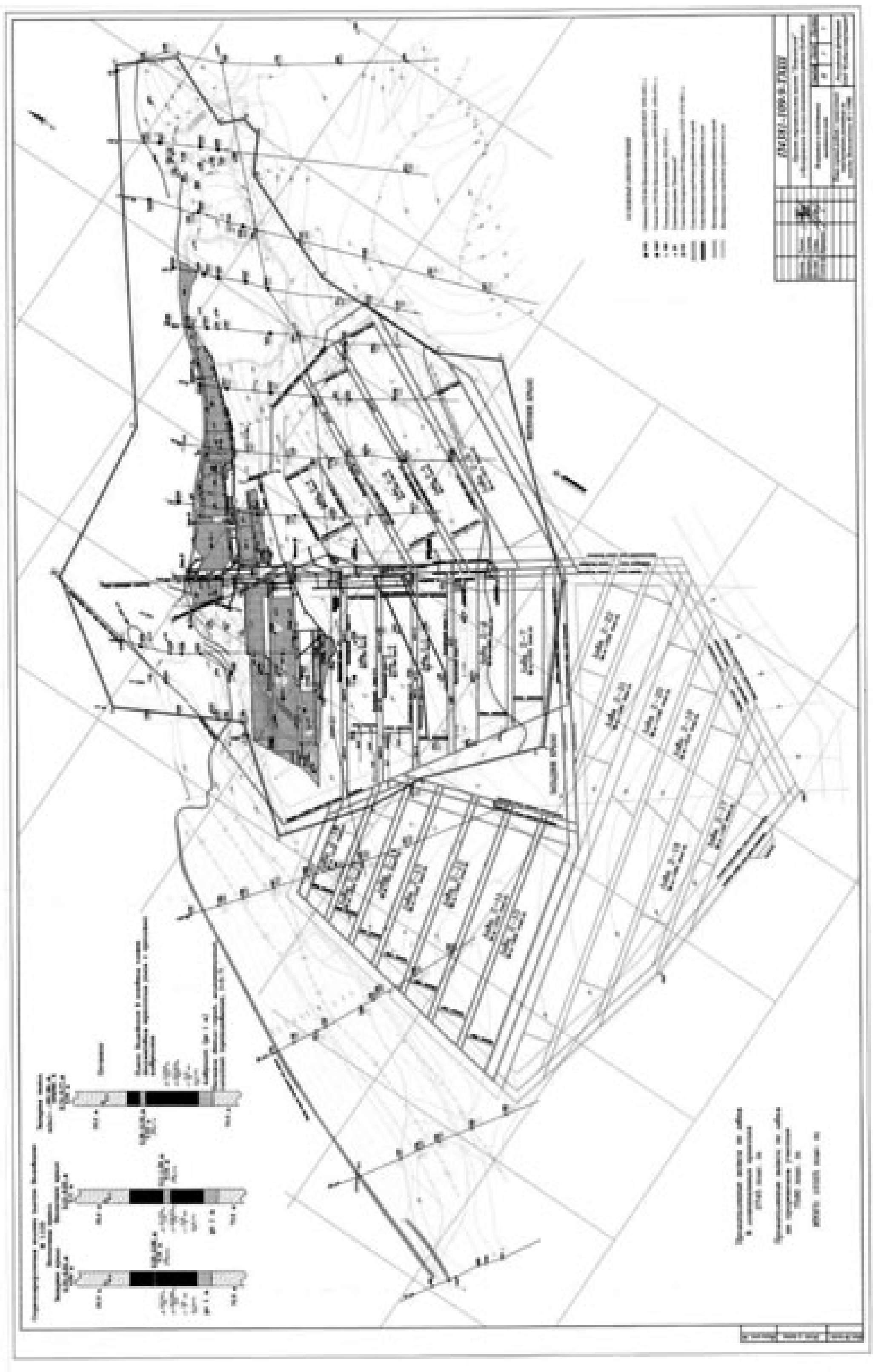

Figure 4-2: Volkovsky Seam

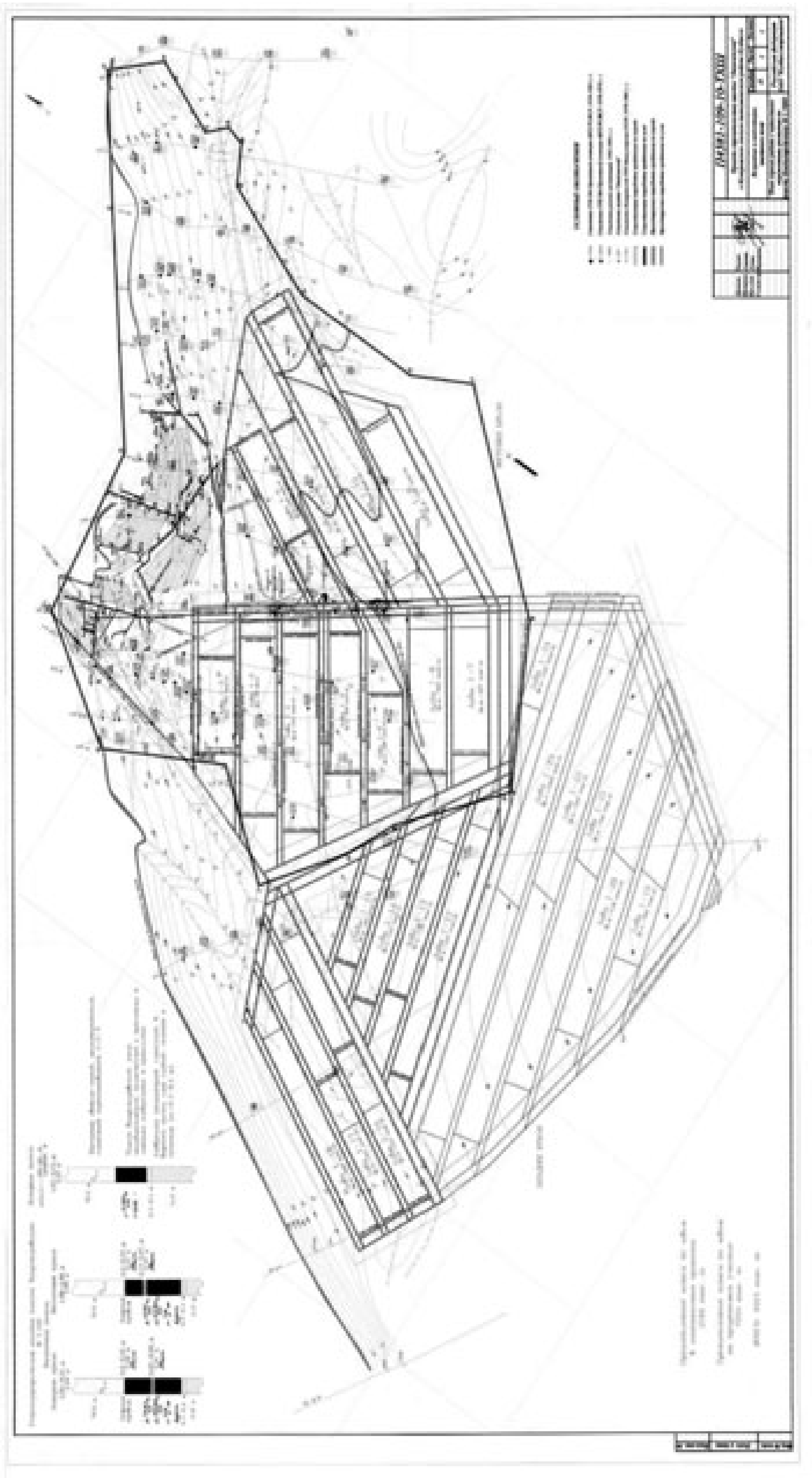

Figure 4-3: Vladimirovsky Seam

5 RESOURCES AND RESERVES

5.1 Resource Classifications

Coal Resources, in international resource and reserve code terminology, represent the in-situ quantity of coal within each mining licence area which has a reasonable prospect of economic extraction in the future.

Under the Russian (GKZ) classification system these resources are termed "Balanced Reserves" and are categorised according to the degree of geological certainty and are categorised as A (highest certainty), B, C1 and C2. The categorisation reflects a combination of geological complexity and amount of exploration. Those resources not expected to be workable within seams included in the Balanced Reserves are termed Off (or Out of) Balance and may have been excluded due to thinness or poor quality (high ash content) or probable sterilisation due to existing infrastructure.

Under international mineral reporting codes, such as those developed by the Institute of Mining, Minerals and Metallurgy (IMMM) and the Code for Reporting of Mineral Resources and Ore Reserves in Australia (JORC), resources are similarly classified according to geological certainty and are termed Measured (highest geological certainty), Indicated and Inferred Resources. SRK's experience of Russian and former CIS coal deposits is that the GKZ A category usually converts to Measured Resource; B category may convert to Measured or Indicated status; and C1 to Indicated or Inferred status. Initial examination of the Lapichevskaya data suggests a similar conversion.

5.2 Reserve Classifications

Under the GKZ system, Balanced Reserves (in situ resources) are converted to Industrial Reserves by the deduction of anticipated mining losses following the initial development of an outline or detailed mining plan to work the deposit. Losses may be due to the working method, the layout of the mine or the need to leave safety pillars. In SRK's experience, there is sometimes a need to deduct coal from the Industrial Reserve due to additional economic factors such as the unlikelihood of working areas of very thin or very poor quality coal or coal at high stripping ratios, to arrive at an internationally classified reserve. SRK has often found that part of the Industrial Reserve remains unworked when a mine closes, demonstrating that generally the Industrial Reserve is a an "optimistic" derivation of the true reserve.

A coal reserve in international terminology is the quantity of coal, usually expressed in saleable (marketable) tonnes that can be worked economically from the coal resource. Current capital costs, sales revenues, etc, apply; and the coal reserve should also satisfy other relevant "modifying factors" such as a valid mining licence, current environmental requirements and permissions, and geotechnical and safety considerations. To demonstrate that coal is economically workable over the life of the mine requires a properly constructed cash flow model with appropriate input for capex, opex, proceeds etc.

Coal reserves are classified as either Proved (with the highest degree of confidence) or Probable. Measured Resources may be classified as either a Proved or Probable Reserve (or not a reserve at all) depending on the "modifying factors". Indicated Resources may only be converted to a Probable Reserve. Inferred Resources cannot be classified as a Reserve.

5.3 Russian (GKZ) Estimates of Balanced Reserves at Lapichevskaya

Previous estimates obtained by SRK are as follows:

Protocol of the State Commission on Reserves under the Council of Ministers, USSR, No.616 dated 16 July 1955. This post dates the first phase of drilling for the Petrovsky Block (assumed to be the Lapichevskaya licence area plus the extension to the south west) and gives the following estimate of Balanced Reserves to a level of -65m on all seams:

Table 5-1: Balanced Reserves, Petrovsky Block, 1955

Kemerovsky Seam	38.9Mt including 4.0Mt in "shallow field"
Volkovsky Seam	39.3Mt including 2.4Mt in "shallow field"
Vladimirovsky Seam	26.2Mt
Total	96.3Mt including 6.4Mt in "shallow field"; and comprising 41.8Mt A class, 13.6Mt B class, 40.9Mt C1 class.

Since the time of this 1955 estimate there has been a considerable, but unknown to SRK, quantity of coal extracted as well as further exploration and reinterpretation of the geology.

The Balanced Reserves quoted in the 1983 Exploration Report and to a date of 1 October 1982. This estimate is believed to be to the 0m level and is presented below:

Table 5-2: Balanced Reserves, Lapichevskaya Licence, 1982

Seam	Balanced Reserves (Mt)				
	A	B	C1	A+B+C1	C2
Kemerovsky	0.18	2.44	5.35	7.97	1.82
Volkovsky	0.07	3.16	3.38	6.61	1.38
Vladimirovsky	0.13	2.32	3.43	5.88	0.00
Lutuginsky 1	-	-	2.53	2.53	0.66
Lutuginsky 2	-	-	0.11	0.11	2.03
Total excluding Lutuginsky	0.38	7.92	12.16	20.46	3.20

This estimate appears to relate to the current Lapichevskaya licensed area, but these quantities will have been further depleted by working between 1982 and 1998.

The current licence boundary shown on plans provided to SRK indicates a date of 4 August 1993. SRK have not been provided with any estimates relating to this or to a later date.

5.4 Previous Reserve Estimates

International Mining Consultants (IMC) previously reported (1 January 2005) on the coal reserves at Lapichevskaya and there has been no subsequent working at the mine. IMC's estimates are summarised below:

Table 5-3: IMC Reserves Estimate, 1 January 2005 (Mt)

Seam Name	Proved Reserve	Probable Reserve	Total Reserve
Kemerovsky	0.00	1.43	1.43
Volkovsky	2.56	4.14	6.70
Vladimirovsky	2.49	2.70	5.19
Total	5.05	8.27	13.32

IMC's assessment was based on a mine design by the Kuzbassgiproshakht which was the same within the current licence area as that presented to SRK, but different beyond the current licence boundary. IMC took the view that coal within panels inside the current licence could be categorised as Proved Reserves; and that within panels which marginally went outside of the current licence boundary or within panels which required a depth extension to the licence as Probable Reserves. SRK's opinion is that, at best, all of this coal could only be categorised as a Probable Reserve, providing formal steps are taken to amend the current licence.

5.5 Kuzbassgiproshakht Estimate of Industrial Reserves (GKZ system), 2008

SRK were presented with a mine plan designed by Kuzbassgiproshakht and commissioned by the current owner of the licence. Longwall panels lie both within and outside of the current licence area. Kuzbassgiproshakht has estimated the tonnage of in situ coal (clean coal plus dirt bands, but excluding roof and floor) available from each panel. This estimate is shown in Table 5-4. SRK have split the panels into those within the current licence; those largely within the lateral extent of the licence but beyond the -65m level; and those outside of the licence area, when compiling this table.

Table 5-4: Kuzbassgiproshakht Estimate of Industrial Reserves, 2008

Seam Name	Longwall number	ROM Ash%	In Panel (t)	Within existing licence, above -65m (t)	Within existing licence area (t) below -65m	Beyond current licence area (t)
Kemerovski Seam						
	3-1		280,000			
	3-1bis		160,000		440,000	
	3-2		360,000			
	3-3		325,000			
	3-4		300,000			
	3-5		145,000			
	3-6		260,000			
	3-7		520,000			
	3-8		730,000			
	3-9		920,000			
	3-10		340,000			
	3-11		150,000			4,050,000
	Total		**4,490,000**			
Volkovski Seam						
	2-1		375,000			
	2-2		340,000			
	2-3		335,000			
	2-4		250,000			
	2-5		790,000			
	2-6		660,000	2,750,000		
	2-7		255,000			
	2-8		290,000			
	2-9		615,000		1,160,000	
	2-10		600,000			
	2-11		550,000			
	2-12		500,000			
	2-13		445,000			
	2-14		325,000			
	2-15		250,000			
	2-16		145,000			
	2-17		180,000			
	2-18		580,000			
	2-19		910,000			
	2-20		1,190,000			
	2-21		490,000			
	2-22		255,000			6,420,000
	Total		**10,330,000**			
Vladimirovski Seam						
	1-1		515,000			
	1-2		455,000			
	1-3		305,000			
	1-4		290,000			
	1-5		350,000			
	1-6		245,000	2,160,000		
	1-7		325,000			
	1-8		390,000			
	1-9		430,000			
	1-10		780,000			
	1-11		315,000		2,240,000	
	1-12		240,000			
	1-13		150,000			
	1-14		140,000			
	1-15		85,000			
	1-16		210,000			
	1-17		165,000			
	1-18		205,000			
	1-19		290,000			
	1-20		530,000			
	1-21		740,000			
	1-22		940,000			
	1-23		1,000,000			
	1-24		120,000			4,815,000
	Total		**9,215,000**	**4,910,000**	**3,840,000**	**15,285,000**
	Grand total					**24,035,000**

5.6 SRK Reserve Assessment, 2008

SRK's statement below is based upon ROM quantities derived by Kuzbassgiproshakht in the development of the current production plan on behalf of the current licence owner. These quantities exclude pillars between panels and take account of seam dilution and losses in deriving the RoM quantities. SRK have checked these estimates and can confirm their general correctness. RoM has in the past been sold directly to the market without washing. SRK has excluded development coal from the reserve assessment because it is likely to require washing to meet market requirements for saleable end product.

SRK is of the opinion that designed panels which extend marginally beyond the lateral extent of the licence area and those lying beyond the current -65m level limit (Lot 1 Extension) can be considered for inclusion in the reserves statement relating to the Lapichevskaya Licence area since it appears extremely likely that a licence amendment would be granted to work this coal. Resources within the panels of the Kuzbassgiproshakht design which fall within Lot 2 have been shown in the Resource Statement below. However, SRK would point out that the licence for this area has not yet been acquired (Section 2.3.3).

The Resources quoted **include** the Reserves. SRK has **not** included any Resources outside the longwall panels in the Kuzbassgiproshakht design and has assumed that the quantity of Resources in **any** individual panel **is** the same as the quantity of Reserves **calculated for that same panel**. However, there are likely to be further Inferred Resources (totalling tens of millions of tonnes) within the remainder of Lot 2, beyond the Kuzbassgiproshakht design. Most of these are likely to be at greater depth than those within the Kuzbassgiproshakht design. SRK recommend further investigation and assessment relating to the borehole data and any previous estimates carried out under the GKZ system to confirm whether these resources are worthy of further drilling and inclusion in a future mine plan or whether the Kuzbassgiproshakht design will require future amendment.

Table 5-5: SRK Statement of Resources and Reserves, 29 October 2008

Area	Seam	Resources (Mt)			Reserves (Mt)	
		Measured	Indicated	Inferred	Proved	Probable
Licence, excluding coal beyond -65m level (Lot 1)	Kemerovsky	0.00	0.00	0.00	0.00	0.00
	Volkovsky	2.75	0.00	0.00	0.00	2.75
	Vladimirovsky	2.16	0.00	0.00	0.00	2.16
	Total	**4.91**	**0.00**	**0.00**	**0.00**	**4.91**
Coal below -65m level but within surface area of licence (Lot 1 Extension)	Kemerovsky	0.00	0.00	0.44	0.00	0.00
	Volkovsky	0.00	0.29	0.87	0.00	0.29
	Vladimirovsky	1.10	0.39	0.75	0.00	1.49
	Total	**1.10**	**0.68**	**2.06**	**0.00**	**1.78**
Extension areas beyond current licence (Lot 2)	Kemerovsky	0.45	0.00	3.60	0.00	0.00
	Volkovsky	1.67	0.00	4.75	0.00	0.00
	Vladimirovsky	0.08	0.14	4.59	0.00	0.00
	Total	**2.20**	**0.14**	**12.94**	**0.00**	**0.00**

5.7 Future Assessment

SRK are of the opinion that the Probable Reserves will be gradually upgraded in the future to Proved Reserves once the mine is active again and access has been developed to individual panels.

Further, surface and/or underground drilling within the area of Resources, should be carried out in order to ascertain the geological structure, seam sections, and coal quality, with the possibility that these Inferred Resources could then in part be upgraded to Measured and Indicated Resources. Exploration techniques to be used in the future will primarily comprise rotary core drilling from the surface to the three seams proposed for working together with downhole geophysical logging of the boreholes upon completion. Coals will be sampled and sent to approved laboratories for a variety of analyses. The work will be carried out to approved current Russian standards and in line with the requirements of GKZ. Currently the Company’s plan is to employ Kuzbass Giproshakht Mine Design Institute, a professional design institute specializing in coal mine project design in Russia, to carry out such explanation work. SRK can participate as drilling program reviewer and supervisor that it is can be acceptable internationally.

SRK strongly recommends that a drilling programme is undertaken once dewatering of the mine commences. Initially this should concentrate on the deeper panels within the licence area. This should be followed by outline drilling “to the deep” of these panels and to the southwest of the current licence area (within Lot 2). This may indicate that the mine plan could be optimised.

6 COAL QUALITY

SRK examined extracts from the 1982 Exploration Report and are confident that the data presented in Table 6-1 represents a true reflection of the coal analysis results obtained from the core samples taken during the exploration programme:

Table 6-1: Coal Quality Data, 1982

Seam Name	Coal Class	Moisture (%)	Ash (ad) (%)	VM (ad) (%)	Sulphur (ad) (%)	HighCV (daf) (Kcal/kg)	Low CV (Kcal/kg)
Kemerovsky	KSN	4.7 (3.4 - 7.6)	12.4 (3.1 - 22.2)	31.1 (27.3 - 34.0)	0.33 (0.20 - 0.60)	8260 (7960 - 8460)	6640
	SS	5.3 (3.1-7.9)	11.1 (3.0-15.9)	24.8 (22.5-31.2)	0.29 (0.25-0.33)	8100	—
Volkovsky	SS	6.6 (3.9 - 9.6)	9.2 (2.9 - 15.1)	27.0 (24.2 - 34.2)	0.41 (0.22 - 1.61)	8150 (7920 - 8310)	6640
Vladimirovsky	KSN	6.8 (4.2 - 9.1)	10.7 (4.0 - 19.3)	26.6 (21.5 - 32.2)	0.29 (0.26 - 0.49)	8180 (7930 - 8350)	6540
	SS	—	17.3 (12.4-20.6)	26.5 (24.2-30.3)	—	—	—
Lutuginsky 1	SS	8.2	19.0 (8.5 - 25.8)	27.6 (26.1 - 30.5)	0.42	8310 (8260 - 8390)	5850
Lutuginsky 2	KSN	—	13.3 (7.4 - 21.8)	26.0 (24.5 - 27.7)	—	—	6360

** daf - dry ash free ** ad- air dried*

The above table shows average and ranges (in brackets) of quality parameters for each seam. It can be seen that there are no major differences between the quality of the three seams. However, the two underlying Lutuginsky Seams are of considerable poorer quality. Few samples were taken from these lowest seams.

Under the Russian classification scheme in the 1982 Exploration Report coal is attributed to grades KSN (KSN being a subdivision of K grade), SS. The vast majority of the samples for the Vladimirovsky Seam are attributed to KSN grade and the minority to SS grade: those for the Volkovsky Seam SS grade; and the majority for the Kemerovsky Seam predominantly KSN grade and to a lesser extent SS grade.

Both the 1955 and the 1982 Exploration Reports have a statement that the "cut-off" values for the determination of coking coal is less than 30% VM (daf) (16-30%) and a combined Vitrinite and Liptonite Maceral content of 45-70%, that is a low fusinite content. The volatile matter (VM) content is shown in above and the values for Vt+L in the 1982 Exploration Report are 60, 48, 45% for the three seams. Fusinite content is very high at 29-31% and this cannot be removed by washing. Thus it appears that in terms of both volatile matter and maceral content the coals fall close to the limits designated for coking coals. In addition further information on swelling index (FSI), gray king assay (GK) and plastimetry should be sought.

7 SURFACE INFRASTRUCTURE

7.1 Current status

The surface structures have largely been cleared from the mine site. However the locations of the previous incline entrances and sub-surface material handling are clearly visible. This situation will permit an early start to any new construction on the site as there appears to be few constraints regarding the retention of any existing facilities and there is little work required before new foundation work can start.

However, there are likely to be a number of covered service ducts and conveyor galleries beneath the immediate surface of the original site which will require attention.

Prior to the start of coal production the following facilities should be considered as likely to be needed:

- Possible upgrade to and short new sections to the vehicle access road, mostly within the surface area of the mine. Requirements will be dependent upon the layout of new surface infrastructure;
- An amenity and mine management building suitable initially to service the development works and thereafter the working mine when in full production.
- A 14km high voltage line (35kW) connection into the local grid supply, together with electrical substations serving both the underground mine and the surface facilities;
- Secure stores and workshops.
- Coal stock yard from which coal can be loaded into trucks and, once the required rail spur is reconstructed, loaded into rail wagons.
- Rail spur track (approximately 2.5km to federal line link)
- Boiler house
- Portals and associated buildings for the auxiliary and conveyer shafts;
- Waste water and sewage treatment facilities and systems for domestic and mine effluents.
- Water supply and fire fighting facilities
- Main fan buildings and heating installations

7.2 Surface Transport

Currently the mine area is connected by a low quality hard-surface access road leading to the mine site. This requires restoration and an upgrade to provide for an improvement of the surface and allow for ready access to the site. There are no other transport links into the mining area.

The rail line into the mine site was removed and sold. There is an old embankment which is still visible but this has not been inspected to establish the extent of the rehabilitation work necessary. The length of track which is needed to be rebuilt in order to link the mine into the federal rail network is reported to be 2.5km.

The mine management believes there is unlikely to be any problems with this rail junction connection as the station-to-station block on the local line is not busy. However the formal issues concerning this rail junction and connection into the main line have not been completed. The issue has only been discussed between the mine and the relevant authorities on an informal basis and there are as yet no official records available to suggest a rail link is authorised.

7.3 Surface Engineering Requirements

7.3.1 Electric supply

The plans for the electrical supply into the mine site have not as yet been finalised by the design institute. However there is a requirement for a high voltage (35kV) link into the main electricity supply network.

The authorisation for this link has not as yet been acquired. The mine management believes that there would be no problems related to the connection to the regional electric system because when the mine was shut, the mine's substations were handed over (for use) to the electric supply organisation and they could not reclaim their right to use these facilities. However, there are no records of this transfer and this issue will need to be formally discussed with the authorities before the mine can be assured of a high voltage supply.

It is expected that about 14km of high voltage (35kW) line needs to be erected.

7.3.2 Electric supply for underground systems

The requirements for the underground electrical supply appears to have been designed by Kuzbassgiproshakht. It is assumed that at the time of tendering the specification for the system will be reviewed again in order to ensure that they cater adequately for the production and development equipment to be served by the systems.

The design appears to provide a supply to cover the workings in the Volkovsky and Vladimirovsky seams and in addition one conveyor gate. However, it is unclear how the electrical systems for the Kemerovsky Seam are to be organised.

7.3.3 Water supply

It is expected that the water requirements for the mine are likely to be supplied from two water wells. There are three wells which were used to supply the original mine and it is reported that the flows from two of these boreholes is likely to be sufficient to meet the mine's water demands.

SRK anticipates that the mine will need to obtain the licence for use of underground water.

8 ENVIRONMENT

8.1 Introduction

SRK's description and discussion of the environmental aspects in relation to the Lapichevskaya Mine operation is based on the following:

- An overview of Russian environmental legislative requirements applicable to the project;
- An assessment of the conformity of the project to legislative requirements;
- Basic obligations and risks related to the project.

The following data was provided for review:

- Environmental impact assessment to the act of land plots selection of Lapichevskaya Mine. Volume 1. Memorandum. Kuzbasgiproshaht. Kemerovo, 2006;
- Lapichevskaya Mine construction project. Volume 1. Memorandum. Kuzbasgiproshaht. Kemerovo, 2007;
- Copy of the licence for subsurface management for the purpose of bituminous coal mining at Petrovsky site of Kemerovo bituminous coal deposit in Kemerovo region.

8.2 General Information

Coal was mined at "Lapichevskaya" from 1948 until 1998, when the mine was closed and completely flooded up to the level +230m. Currently it is proposed to resume coal mining after pumping out of the flooded workings. The following activities are planned:

- Construction of a wash plant at the mine production area;
- Reconstruction of the existing railroad for further coal transportation;
- Construction of a water pipeline from the wells for utility and drinking water supply.

Lapichevskaya Mine is situated on the territory of Kemerovo region in 5km to the northeast from the administrative centre of the region, the city of Kemerovo. The access to the production area of Lapichevskaya Mine is provided by the existing network of roads from the side of Petrovsky settlement. The railroad line Kemerovo-Barzas- Anzherskaya lies 0.5km to the northwest of the area.

The licence area is a low watershed (elevation changes within the range of 233-256m) significantly disturbed as result of the earlier mining operations. The hydrogeological network of the area is represented by the Bolshaya Promyshlennaya River, flowing along the boundary of the area, and its tributary, the Osinovka River, crossing the mine field.

The regional climate is continental, with severe winters and short and warm summers. Average temperature in January is -18˚C, and in July is +20˚C. Southwest is the prevailing wind direction. The mine is situated in the northern forest steppe zone.

8.3 Legislative Requirements

The following Federal and other normative documents form the legislative basis in the sphere of environmental protection:

- Federal law on environmental protection (edit - July 2008);
- Water Code (version - July 2008);
- Land Code (version - July 2008);
- Forestry Code (version - July 2008);
- Provision on the environmental impact assessment of planned economic and other activities in Russian Federation, 2000;
- Federal law on atmospheric air protection (version - December 2005);
- Federal law on production and consumption wastes (version - November 2008);
- Federal subsurface law (version - April 2008);
- Federal law on industrial safety of dangerous production objects (version - December 2006).

Subordinate acts of the environmental legislation are generally divided by environmental components (including the atmospheric air, ground and surface waters, flora and fauna, land, subsurface, soils and others), and by different spheres, including wastes, natural areas of protection and some other aspects.

At the design phase environmental impact assessment (OVOS) is carried out and measures to decrease the impact are worked out. Currently the assessment is carried out on the basis of the “Provision on the environmental impact assessment of planned economic and other activities in Russian Federation”, approved by order of the state environmental protection body in 2000. The assessment results (OVOS materials) are part of the design documentation, which is given to the State Expertise for approval with the materials of the engineering and ecological studies.

During the production phase a company is required to regularly obtain and renew the permissions for water management (water withdrawal and discharge), air emissions and waste management. The permissions are given by the regional authorities on the basis of substantiating documents prepared by the company. The permissions must be obtained before the beginning of operation. The list of the basic permissions and licences is shown in Table 8-1.

Table 8-1: List of Basic Environmental Licences and Permissions

Environmental component or kind of activity	**The permission or document substantiating the permission**
Subsurface	Subsurface management licence
Atmospheric air	Air emission permit.
Water abstraction	Subsurface management licence (in the case of ground waters extraction);
	Agreement for the use of water object (in the case of water withdrawal from the surface sources);
Water discharge	Permit for contaminant discharge into water.
Waste management	Limit for the placement of production and consumption waste

In addition to the environmental permits, the company is required to carry out regular production environmental control (environmental monitoring). Monitoring of ground waters is part of this environmental monitoring programme.

According to the legislative requirements before the beginning of the operation the company must register documents for the right of land allotment use, and prepare the rehabilitation project. According to the russian legislation, land is provided to the mining companies after the registration of land allotment and the approval of the rehabilitation project.

8.4 Environmental Permits and Obligations of the Company

Currently the company has the licence # KEM 13206 TE as of 27 June 2005 and valid until 31 December 2014 for the subsurface management at the Petrovsky site of the Kemerovo coal deposit. According to the information available, the permits for emissions, discharge and wastes placement have not been obtained. Although such permits are not required at this phase, SRK points out that the permits must be obtained before the commencement of the production.

According to the information available, the Lapichevskaya Mine construction design has not been given to the state bodies. The section "Environmental Protection" developed in the design framework has not been provided for a review. The provided materials of "Environmental impact assessment" to the act of Lapichevskaya Mine land areas selection are in fact the materials of the preliminary environmental impact assessment which are not required at the phase of the selection of the areas. Nevertheless, the lack of materials for the impact assessment for the construction design is not a significant risk to the design approval.

The obligations of the company related to the environmental protection are mentioned in the licence agreement. Beside the generally accepted obligations to the conformity with the legislative requirements, the licence № KEM 13206 TE contains the following special requirements:

- The amount of filtered mine waters discharged into the Osinovka River should not exceed 1850m^3/day;
- The filtered mine waters should be used for technological needs;
- The issue of collection and filtration of rainwater should be resolved before 1 July 1995;
- The rehabilitation project of open pit operations in Yuzhsibgeolkom should be given for coordination before 1 September 1996;
- The rehabilitation of disturbed land;
- The development of a monitoring programme and the monitoring of ground waters;

SRK does not know whether the listed licence agreement conditions have been fulfilled.

The obligations on the rehabilitation of the previously disturbed land are also included into the land lease agreement (the agreement between the administration of Kemerovo region and Lapichevskaya Mine), that is:

- To include into the project (of construction or reconstruction of the mine) the rehabilitation of the earlier mined lands;

- To include into the project a special land use regime in the sanitary zone and in the boundaries of the land allotment.

8.5 Key Issues

8.5.1 Rehabilitation of Disturbed Land

As mentioned above, the Company is obliged to rehabilitate the previously disturbed land which includes the open pits. SRK notes that a program to rehabilitate the site was approved in 2001. This plan proposed to rehabilitate a total area of 44.9ha of which 6.9ha was rehabilitated before March 2003.

8.5.2 Risk of Spontaneous Combustion and Explosions

SRK notes that some seams of the deposit (Kemerovsky, Volkovsky and Vladimirovsky) are liable to spontaneous combustion. Also, the coal dust from mine operations is considered to be explosive. In addition, the enclosing strata are silicosis-causing which leads to additional health protection measures. The coal seams at the mine belong to the dangerous category of rock bumps and dangerous category of spontaneous coal and gas outbursts below the level -65m.

8.5.3 Monitoring of Ground Water Level and the Quality of Discharge

The obligation of ground water monitoring is included in the licence agreement and therefore a system of ground water level monitoring needs to be implemented before dewatering begins.

The pumped waters should be filtered before discharge and therefore the filtration units should be designed and started before pumping commences.

8.5.4 The Fulfillment of Licence Agreement Conditions

SRK is unaware whether Lapichevskaya Mine has met the license conditions or about any measures planned in relation to this.

8.6 Mine Rehabilitation & construction

8.6.1 Auxiliary and Design Works

To reclaim the underground part of the operation there is an immediate requirement to pump water out from the workings. This includes water which has accumulated in the open pit workings adjacent to the surface site. SRK suspect that there is direct connection between these surface accumulations and the flooded underground workings.

The mine has estimated that 1.20Mm^3 needs to be pumped out of the underground workings and 150,000m^3 of water pumped out from the open pit area. The total volume of water to be pumped out is around 1.35Mm^3. According to VNIMI (Mine Mechanics and Surveying Institute) this task is likely to take between 250 and 300 days of pumping to complete this task. Thereafter ongoing pumping requirements are expected to be light.

The management of Lapichevskaya Mine has presented a plan on how they propose to pump this water. They suggest installing pumps in the inclined auxiliary shaft, which they intend to reuse, and gradually reduce the water levels. Rehabilitation activities are expected to follow the water level, the incline itself is to be rehabilitated and used as an auxiliary incline into the mine workings.

The mine management provided the development project for Lapichevskaya Mine for review. However, this documentation, which is required for submission to the authorities, is only partially completed. The sections available are the geological section, the technical and mining section and the natural resource protection.

The sections that need to be prepared include:

- Infrastructure solutions, engineering equipment, networks and systems, general layout and external transport;
- Environmental management;
- Management of the operations;
- Labour organisation and safety;
- Management of the construction operations;
- Economic assessment of investment effectiveness; and
- Budgeting documentation.

This information is in process of preparation and will be available in 2009. These deficiencies are likely to present a significant delay to the submission of the necessary project design report to the state, environmental and industrial safety expertise. SRK believe that the environmental risks are manageable and should not affect implementation of the project.

9 MINE PLANNING

9.1 Production Systems

Lapichevskaya mine will be an underground mine and the mine plan envisages the simultaneous production from two fully mechanised longwall systems working in two of the three seams identified within the existing and extensions to the licence area.

The initial production is planned from the Vladimirovsky Seam with the second longwall planned to start some six months later in the Volkovsky Seam located some 70m above. These two longwalls are projected to provide (including development tonnage) an output of 1.5Mt/year.

9.2 Mine Access and Development

The mine is to be accessed via two central inclines; an auxiliary incline and the conveyor incline. There is also an incline on the flank for the mine haulage requirements. These mine accesses will be all serviced from the main mine site. All the power and other service requirements for the initial pumping, mine development and subsequent mine production will be provided from this single central site.

Development rates of between 120 and 200m/month have been used in the mining schedules for coal. The variations are dependent of the type of equipment to be used from the respective tasks. In rock drivages the rates are significantly lower at between 50 and 70m/month. SRK consider that these development rates are realistic provided the developments are properly served by the haulage systems and the machines run reliably.

The licence area has been blocked out by the planned development of longwall panels. Coal from these panels will be conveyed towards the centrally located conveyor incline.

At present the incline access on the western flank is shown outside of the existing licence area. SRK anticipates that the mine management will require an amendment to the licence in order that the mining plans can be realised.

9.3 System of mining

At present the mine has proposed one method of production, mechanised longwall. Without any other alternatives being offered, SRK considers it likely that significant volumes of coal in areas of high geological disturbance are likely to be abandoned. These areas are currently considered to lie outside of the panels designed by Kuzbassgiproshakht.

The mining area and geological conditions appear to limit the opportunities for large volume production from wide longwalls with lengthy runs. The mining plans accommodate longwalls which are between 100 and 130m wide with the runs ranging between 250m and 790m. These constraints to the longwall dimensions necessitate between two and three longwall moves per annum, each move likely to take around six weeks, during which time no production is possible from that longwall.

The panels in each seam are to be extracted in an ascending sequence. The coal is deemed to be liable to spontaneous combustion and the mine appears to be using the natural water inflows to flood the waste areas in order to prevent any remnant coal from heating.

9.4 Production Schedule

The Kuzbassgiproshakht production schedule anticipates that the western wing of Vladimirovsky Seam will be commissioned in around two years from the start of the mine construction. The Volkovsky Seam is scheduled to be commissioned within a further six to eight months. SRK have reviewed this design and schedule and consider it a reasonable plan, given the exploration data currently available. SRK, as requested, have made production plan for a period of 20 years. However, SRK points out that, of the coal within the 20 year plan, only some 6.7Mt (approximately 6-7 years production) is classified as a Coal Reserve, and an additional 2.3Mt as Measured and Indicated Resources with the remainder of the production plan relying on the Company acquiring the rights to develop Lot 2.

The table below shows the expected production schedule for the existing licence area only. These tonnages appear to be realistic but they are based on the assumptions that the geology of the seams allow the production through each longwall to be uninterrupted and that the face changeover times are accomplished in an efficient manner.

Table 9-1: Proposed Production from Existing Licence Area (Lot 1)

Seam	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Vladimirovsky Seam	595,000	655,000	480,000	430,000		
Volkovsky Seam	195,000	630,000	555,000	600,000	425,000	345,000
Total longwall production by year:	**790,000**	**1,285,000**	**1,035,000**	**1,030,000**	**425,000**	**345,000**
					Total longwall production for Lot 1:	**4,910,000**
Development	158,000	228,000	189,000	71,000	60,000	30,000
Output per year (t):	**948,000**	**1,513,000**	**1,224,000**	**1,101,000**	**485,000**	**375,000**

Kuzbassgiproshakht has calculated the likely development coal to be extracted whilst developing the roadways for each of the longwall panels in the respective seams. In normal circumstances the mine would attempt to sell development coal as a means for offsetting some of the costs associated with the in-seam development of the longwall panels.

SRK has excluded this development coal from the statement of resources and reserves because this coal would possibly (depending on its thickness within the development roadway) be of a different RoM quality and need to be processed differently from that coal mined from the longwall panels.

The assumptions made in the proposed mining design presented to SRK appear to have been made on the basis that the planned longwall panels are relatively consistent in terms of thickness and have few faults that are likely to disrupt production. However, it is unlikely that conditions in the Vladimirovsky or Volkovsky seams will be significantly better than those previously experienced in the upper levels of the Kemerovsky Seam where large areas of the deposit were abandoned due to difficult geological conditions. In these circumstances, it is recommended that the mine planning and consequent production schedule is made on the assumption that there will need to be some flexibility should the longwalls encounter anomalies which may mean a halt or a significant reduction to production output.

9.5 Factors Likely to Complicate Mining Operations

9.5.1 Gas, Coal Dust, Spontaneous Combustion & Safety Issues

The mine has been categorised as being a low risk with regard to methane emissions. However, the three seams to be mined (Kemerovsky, Volkovsky and Vladimirovsky) are deemed liable to spontaneous combustion. Historically there has been a single case of spontaneous combustion recorded in the mine as well as one case of a heating incidence. At a neighbouring mine, Severnaya Mine, there have also been cases of underground fires.

VostNII made a statement dated 15th October 1966 that Lapichevskaya Mine is in a hazardous category with regard to dust explosion.

The mine project information states that the surrounding strata are risky when considering the liability for silicosis.

In addition the seams are said to be liable to rock bumps from level ±0m about 250m depth from the surface and they tend to develop coal and gas outbursts below the -65m level.

9.5.2 Seam Interaction

Kuzbassgiproshakht has predicted areas of high stress in the Volkovsky Seam as a result of remnant pillars left in the previously worked areas of the Kemerovsky Seam. All the longwalls (2-1 to 2-6) to be mined in the existing licence area are liable to be affected by high concentrations of stress and it will be important for the mine design to position longwall gate roads and strategic junctions (if possible) outside these areas.

9.5.3 Thinning Seams

There are areas in both the Vladimirovsky and Volkovsky seams where the coal thickness appears to thin significantly during a panel run. From the plans and where there is borehole data available these areas affect longwalls 1-5, 1-6, 1-12, 1-14, 1-15 and 1-16 in the Vladimirovsky Seam and longwall 2-5 in the Volkovsky Seam.

The seam thickness in these identified longwalls thins down to around 2.0m. However in the longwalls 1-14, 1-15 and 1-16 it thins to below 2.0m.

10 MINE EQUIPMENT

10.1 Production Equipment

The longwall face equipment proposed within the mine design project includes two standard sets of components each to the same specification for height extraction. SRK believe that this choice should be reviewed prior to any definite commitment to purchase is made because there are significant changes in seam thickness through the longwall panels in both the Vladimirovsky and Volkovsky seams. The review should consider the best options with regard to equipment choice and the need to cope with the varying seam sections as well as the likely move into the proposed licence extension areas where the coal seams would appear in some areas, to thin significantly.

The two sets of equipment currently proposed within the mine design project comprise:

- The powered roof supports (2M142M/2) with 2.5m to 5.5m scope of height. This support will be good with regard to roof control. The resistance of each support is 1,269 tons.
- Face conveyer《Anzhera-30》.
- Gate conveyer ПСП-308.
- Crusher ДУ-910.
- Shearer Eickhoff SL-500. A heavy duty machine, with the capability of working seams of up to 5.2m thick. Rated voltage 3.3kW. This item is the only nondomestic component specified within the set of face equipment.

There would appear to be no questions about the ability of this equipment to cope with the mining conditions however, the range of seam heights which can be worked may restrict its use and require that rock is cut through the longwall on some panels.

Due to the nature of the coal seam SRK considers that it will be necessary to provide facilities for the injection of water as a means of controlling the dust generation.

10.2 Development Equipment

The mining development, which is expected to be mainly within coal will be carried out utilising traditional roadheader systems, with the mined material being taken away on scraper and belt conveyors. The roadway sizes of the developments range between $15.5m^2$ and $22.9m^2$ finished dimension, which would appear to be the norm for the mines in the Kuzbass.

Current plans propose to purchase of four sets of development. SRK considers that four more sets may be needed to develop the flank roads in the licence extension area as well as for development in the Kemerovsky Seam. SRK considers that locally supplied equipment will be adequate.

SRK considers that it will be necessary to add drill and blast equipment to cope with mining any areas which comprise mainly of rock such as faulted areas.

Supplies into the headings are to be hauled into the headings using winches. In SRK's opinion this mode of operation is likely to increase the costs and time needed for the transport of materials. The company has plans to install a mono rail, roof suspended haulage system at a later date. SRK considers that this equipment should be planned to be fitted into the developments as soon as practically possible in order to optimise the operations.

The gates roads are to be supported mainly with roof bolts. Long standing gates and other permanent roadways and workings located in faulted zones as well as in zones of enhanced ground pressure will be supported by steel arches.

10.3 Underground Transport

As there are no surge bunkers proposed within the coal conveying systems the conveyors from the longwalls will need to be sized to cope with peak loads. The conveyor equipment proposed is from local sources and in SRK's opinion is generally considered to be reliable and capable of the duties required.

Development operations will utilise auxiliary conveyor systems from the development headings to the trunk conveyor roads lines. For these purposes it is anticipated that 800mm and 1000mm wide conveyer belts could be used as well as scraper conveyors immediately behind the road headers.

Diesel powered monorail transport systems DZ-2000 have been proposed for use for man riding and the haulage of materials and equipment. These systems are capable of carrying the heavy loads and powered roof supports during face moves efficiently. However at present the introduction of these systems would appear to be delayed until the start of production. SRK recommends installing the monorail haulage system sooner to optimise the efficiencies in the development headings.

Locally sourced winches have been selected for the development headings. SRK considers that the use of winches is likely to lower the efficiency of the transport system. Using the monorail transport systems throughout the mine is likely to be more efficient particularly because there is unlikely to be any trans-shipment between systems necessary.

10.4 Mine Safety

10.4.1 Water pumping

As soon as water is pumped out of the underground workings the water table profile will be restored and water ingress will return to normal. Maximum water inflows into the mine are expected to be around 150m^3/hour with the minimum rate around 50m^3/hour. This is considered to be a low inflow and it unlikely to threaten the operations. However, rolls of the seam mean that there might be locations where water is liable to collect. In those locations low capacity water pumps need to be installed to pump water towards the main pumping system.

The bulk of water pumping work will be performed by old mine's water pumping station installed at ±0m elevation mark. As both pumping tank and water collectors are fixed with concrete material, no repairs are likely to be needed, only the job of cleaning.

10.4.2 Ventilation & Gas Drainage

Due to the low predicted methane emissions, no gas drainage provisions have been planned for Lapichevskaya mine. To ventilate the underground workings the proposal is for a main ventilation station installed with two ВДК-№8-32В (Chinese manufactured) fans (one in operation and one stand by) and an air heating device.

It is proposed that the development headings will be ventilated by standard booster fans ВМЭ-6, ВМЭ-2-10.

The ventilation system covers the whole mine and the three seams. The scheme uses the central inclines as well as the flank roadway. The method of ventilation is forced.

10.4.3 Spontaneous Combustion

There is likely to be a definite requirement to control spontaneous combustion within the Lapichevskaya Mine workings. Tests have shown the coal to be liable to spontaneous combustion and there is a history of such occurrences. In order to control spontaneous combustion basic safety principles need to be observed, these include:

- The introduction of a forced mode of ventilation;
- An ascending sequence of extracting panels;
- Observing a minimum rate of retreat for production faces;
- U-mode of ventilation;
- Limitations on maximum depression factor;
- Leaving fire prevention pillars;
- Limitations on amounts of fresh air to be supplied to the faces;
- Driving the main air supply gate into the mine in rock.

If a strict approach is adopted with regard to this problem then the probability of spontaneous combustion is likely to be significantly reduced.

10.4.4 Rock Bumps

The VNIMI institute has drawn up a series of recommendations with regard to the mine design as well as a number of measures which need to be adopted in order to prevent rock bumps.

10.4.5 Dust Control

The Lapichevskaya Mine operation will need to make provisions with regard to the control of coal dust. These measures are common practice within the industry and provided they are fully implemented this is likely to be sufficient in the prevention coal dust explosions.

11 CONSTRUCTION COSTS

SRK has examined the documents presented during visits to the owners of Lapichevskaya Mine and during discussions at the mine design institute Kuzbassgiproshakht with a view to estimating the likely costs involved in getting the mine to a production stage. A summary of these estimates is presented in the Table 11-1 below.

Table 11-1: Estimated Capital Costs th. RUB

Activity	**Cost** *RUR'000*	**Cost** *US$'000*
Mine dewatering	4,065	166
Major development of the mining area	802,267	32,746
Vladimirovsky Seam - transport, development & longwall equipment	845,877	34,526
Volkovsky Seam - transport, development & longwall equipment	479,178	19,558
Surface loading facilities	89,387	3,648
Mine buildings (Administration block, stores & workshops, mine fans, water treatment & industrial safety and health)	221,008	9,021
Power supply facilities (electrical and heating systems)	144,502	5,898
Transport and communication facilities (rail links, roads and telephone systems)	63,136	2,577
Off-site supply networks and facilities (water & fire-fighting supply, sewage system and heat supply)	96,712	3,947
Landscaping and site improvements	8,893	363
	RUR	*US$'000*
Total Estimated Construction Cost (without VAT or contingencies)	2,755,025	112,450

12 COAL PREPARATION

SRK has reviewed the only recent detailed study in respect of washing the coal from Lapichevskaya Mine (prepared by IMC in 2006).

The suggested basic design of the plant as a modular concept on a concrete raft, surrounded by a separate structural building to withstand the climatic conditions.

The capacity calculations are based on 90h/week and 4500h/year, which appear to reflect a 18h/day, 5 day/week, 50 week per year scenario. The normal working pattern for Coal Preparation Plants in this area needs to be confirmed to calculate the required capacity. The IMC scenario results in a plant capacity capable of processing 266t/h ROM and a washing capacity of 173t/h. The plant would be designed as a closed-loop water circuit to minimise water requirements and potential environmental issues. The water treatment circuit using a high rate thickener and multi-roll belt filter (MRF) is fairly standard and ideal for this simple plant.

SRK and IMC both conclude that it is essential to undertake sampling for washability characteristics (coal quality and yield) for all seams and for different size factions and at different densities. This should preferably be from samples taken at the mine during the start up phase or from nearby mines working the same seams. Further information should be obtained regarding the coking characteristics of the clean coal. This will determine likely market prices and in turn the decision on whether to dry screen at 6mm, 9mm, or even 12mm.

IMC have assumed a yield of 81% for an 8% ash product at all size ranges from 6 to 150mm. These appear reasonable but needs confirming by the testing outlined above. RoM sizing analysis will be dependent upon the HGI (Hardgrove Index) of the coal and this is not currently known.

The proposal to dry screen the fine raw coal and only wash the larger coal is sound, but it is not possible at this stage to determine at what size this should be done. The largest size coal could be sold into the local graded coal market if proved commercially viable. Previously coal was sold unwashed from the Kemerovsky Seam into the local power station market.

13 CAPITAL INVESTMENT COSTS

Evaluation of the capital expenditure has been done according to the needs to achieve the 20 year Production Plan. Estimates of capital costs for the mine construction are shown in Section 11 Construction Costs. These total US$117.5M for 4 years (mining construction costs for first 3 years will be US$107.7M, and first 2 years capital investment cost will be US$67M), plus sustaining capital of US$1M per year after the construction period of three years, plus additional capital expenses of US$67M for re-equipment of the deteriorating assets over the 20 years. In all this totals US$201.5M.

In their 2005 design Kuzbassgiproshakht assumed capital costs of US$40M.

14 CONCLUDING REMARKS

SRK consider that it is essential to obtain the licenses for Lot 1 Extension and Lot 2 in order for the full potential of the mine to be realized and before commitments are made to the outlay of large amounts of capital expenditure.

For and on behalf of SRK Consulting (Russia) Ltd

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Appendix 1

GKZ and JORC Resource/Reserve Reporting — a Comparison

GKZ REPORTING

Resources and reserve estimates of all EIA mines are estimated and reported following GKZ guidelines. This system was established in the former Soviet Union and, with minor adjustments, is used in most of the CIS countries, including Kazakhstan, and Russia. The GKZ classification system consists of 7 categories reflecting increasing level of confidence (P_3, P_2, P_1, C_2, C_1, B and A). The amount of data required for blocks to be classified according to the different reporting categories depends on the geological complexity and ore-body geometry and is prescribed in detail, including defining the drill spacing and studies.

The resources with the highest confidence are categorised as A and B resources, the former representing such detailed knowledge required to design a stope or bench blast, the latter comprising well delineated parts of the deposit. The C_1 category is conferred on those areas which are outlined to a lower level of confidence, sufficient to support long term mine planning, whilst C_2 resources represent sparsely drilled areas and extensions to drilled parts of a deposit model which often require more information before mine planning might be considered.

The GKZ estimates are usually reported in "on balance" and "off balance" categories, whereby the "on balance" resources form the portion of the deposit which a company contracts to the State to mine. "Off balance" material is either considered "sub-economic" or outside of the envisaged mining area (in the case of open pit mines).

The resource calculation and technical studies relating to mining projects are generally undertaken by approved technical institutes independent from the individual mining companies. Once the study is completed, it requires approval by the State, and is verified in detail by a group of professionals licensed by the relevant State committee — in case of Kazakhstan, by the State Subsoil Resources Committee under the Ministry of Energy and Coal Resources of the Republic of Kazakhstan.

Upon approval, a mining contract will be concluded between the state and the mining company, and all future production is reported essentially against the initial GKZ estimate. The sum of all GKZ estimates provides the State Committees with an overall mineral inventory of the country in question.

INTERNATIONAL RESOURCE/RESERVE REPORTING CODES

Several different resource reporting codes exist on the international arena, but the main definitions were standardised in 1997. The most wide-spread codes used are the JORC (Australasian), CIM (Canadian), the Reporting Code (Europe) and SAMREC (South African) codes.

These codes all distinguish between resources and reserves as follows:

- Resource: the estimate of the quantity and quality of the mineralised material in-situ that has potential to be mined.

- Reserve: the economically mineable portion of the resource, including adjustments for dilution and mining losses and the application of modifying factors.

SRK has reclassified the reported resources and reserves using the JORC code. The JORC code defines resources as follows:

- An "Inferred Coal Resource" is that part of a Coal Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

  - The Inferred category is intended to cover situations where a mineral concentration or occurrence has been identified and limited measurements and sampling completed, but where the data are insufficient to allow the geological and/or grade continuity to be confidently interpreted. Commonly, it would be reasonable to expect that the majority of Inferred Coal Resources would upgrade to Indicated Coal Resources with continued exploration. However, due to the uncertainty of Inferred Coal Resources, it should not be assumed that such upgrading will always occur.

  - Confidence in the estimate of Inferred Coal Resources is usually not sufficient to allow the results of the application of technical and economic parameters to be used for detailed planning. For this reason, there is no direct link from an Inferred Resource to any category of Coal Reserves.

- An "Indicated Coal Resource" is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. The locations of data points are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

  - Mineralisation may be classified as an Indicated Coal Resource when the nature, quality, amount and distribution of data are such as to allow confident interpretation of the geological framework and to assume continuity of mineralisation.

  - Confidence in the estimate is sufficient to allow the application of technical and economic parameters, and to enable an evaluation of economic viability.

- A "Measured Coal Resource" is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. The locations of data points are spaced closely enough to confirm geological and grade continuity.

  - Mineralisation may be classified as a Measured Coal Resource when the nature, quality, amount and distribution of data are such as to leave no reasonable doubt, in the opinion of the Competent Person determining the Coal Resource, that the tonnage and grade of the mineralisation can be estimated to within close limits, and that any variation from the estimate would be unlikely to significantly affect potential economic viability.

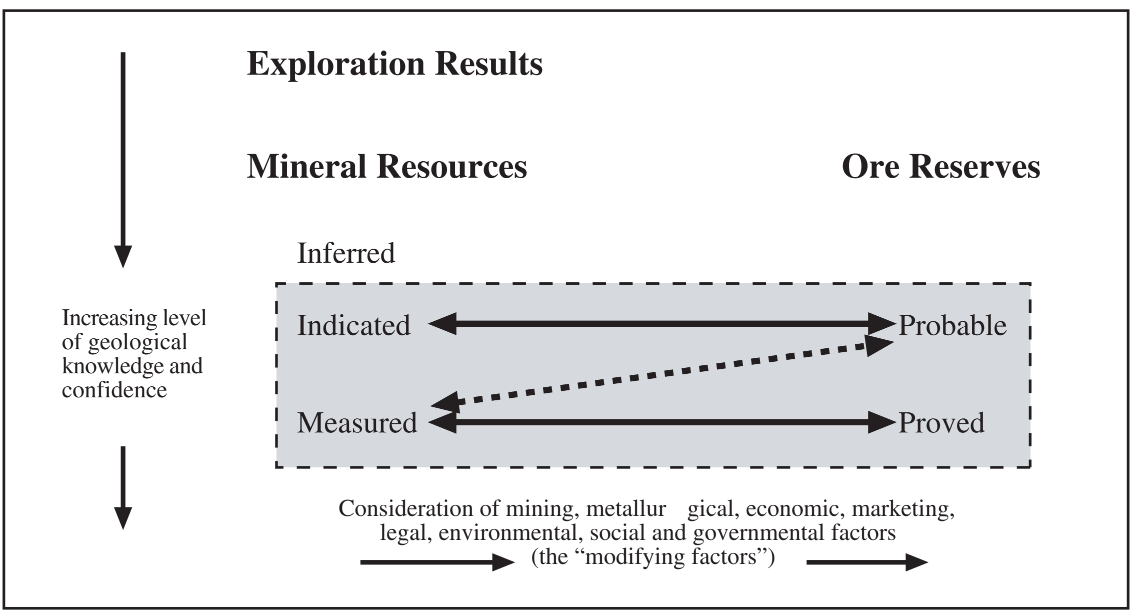
- This category requires a high level of confidence in, and understanding of, the geology and controls of the mineral deposit.

- Confidence in the estimate is sufficient to allow the application of technical and economic parameters and to enable an evaluation of economic viability that has a greater degree of certainty than an evaluation based on an Indicated Coal Resource.

The choice of the appropriate category of Coal Resource depends upon the quantity, distribution and quality of data available and the level of confidence that attaches to those data. The appropriate Coal Resource category must be determined by a Competent Person or Persons.

An "Coal Reserve" is the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are sub-divided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves. Usually Probable Coal Reserves are derived from Indicated Resources and Proved Coal Reserves from Measured Resources, although in situations where there is less confidence in the technical factors then a Measured Resource may be classified as a Probable Coal Reserve. This relationship is shown graphically in the diagram below.

Relation between Coal Resources and Coal Reserves in the JORC Code



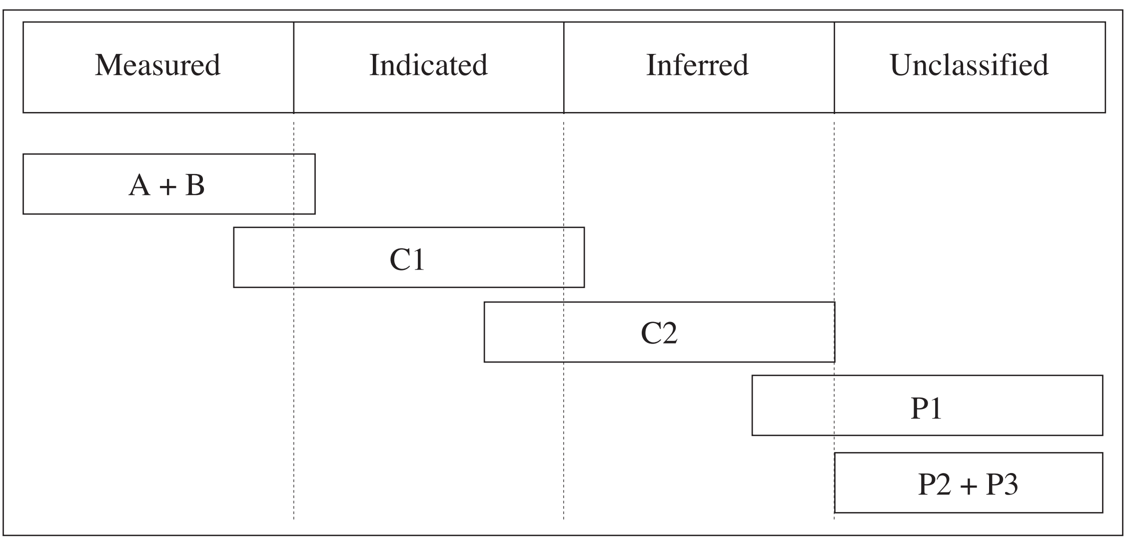
A Competent Person is a suitably experienced professional who has a minimum of five years experience which is relevant to the style of mineralization, type of deposit under consideration and to the activity which that person is undertaking (that is, either exploration or the estimation, assessment and evaluation of either Coal Resources or Coal Reserves). The Competent Person must also be a member of a recognised professional association and subject to disciplinary procedures should any complaint be made against the individual.

Companies listed on the principal international stock exchanges are obliged to follow the guidelines defined by these codes.

RECLASSIFICATION OF GKZ RESOURCES FOLLOWING THE JORC CODE GUIDELINES

The process of reclassifying GKZ Resources to comply with international codes requires the Competent Persons to review the quantity and quality of the data collected and determine the level of confidence in establishing tonnage, densities, shape, physical characteristics, grade and mineral content. This enables the resource blocks to be classified according the appropriate resource category. As the GKZ system is highly prescriptive, it is usually possible to convert whole categories to their international equivalent though SRK has identified situations where specific blocks may be classified into a category with higher or lower confidence. This is shown graphically in the Figure. Note that this figure should be considered as guideline only.

"Rule of thumb" conversion of GKZ classification classes into the JORC classification for Coal Resources.



The "on-balance" GKZ resource is approximately equivalent to the international reserve category, though SRK has identified the following differences:

- The definition of "on-balance" resources is usually defined during the initial study using cost and revenue parameters which may no longer be relevant. Whilst there are provisions to reclassify "on-balance" resources as "off-balance" during operation, it is SRK's experience that this either not done or limited to specific parts of a deposit scheduled for mining that year. Consequently, the remaining "on-balance" resource may contain sub-economic material.

- Technical studies sometimes lack the level of detail required to provide the necessary level of confidence required to classify an Coal Reserve.

Also, SRK notes that deposits which are unlikely to be economic to develop may be classified as a GKZ "Off-balance" resource, but would not be classified by international codes.

Appendix 2

Australian Guidelines for the Reporting of Inventory Coal, Coal Resources and Coal Reserves (2003)

1. PREFACE

1.1 Prior to September 1999 the estimating and reporting of Coal Resources and Coal Reserves in Australia were prescribed by the "Australian Code for Reporting Identified Coal Resources and Reserves (February 1986)". This code was ratified by the Government Geologists' Conference in April 1986 and appended to the "Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves" (the Joint Ore Reserve Committee or JORC Code) in February 1989; and subsequently in the revised JORC Code (July 1996). The JORC Code was further revised and reissued in September 1999 under the title of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". The 1999 JORC Code, herein referred to as "the Code", provides minimum standards for public reporting to the investment community.

1.2 The Code is currently being reviewed. The new version of the Code is expected to be ratified and issued in 2003. The "Australian Guidelines for the Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves", herein referred to as "the Guidelines", will be referred to in the new Code, and will be reviewed and re-issued when the new Code is released, to ensure consistency between the two documents.

1.3 Adherence to the processes and procedures outlined in the Guidelines is not considered compulsory, but is strongly recommended. Some of the wording in the Guidelines has been copied from the Code and the reader should note that requirements of the Code are mandatory if an estimate is to be compliant with the Code.

2. SCOPE

The Guidelines are broad in nature to accommodate the wide variation of Australian coal deposits, in terms of rank, quality and geological environment.

The scope of this document is to:—

- Outline the methodology, reflecting best industrypractice, that should be followed when estimating the quantity and quality of Inventory Coal, Coal Resources and Coal Reserves;
- Provide guidelines for reporting to government and other non-public organisations; and
- Provide guidelines for preparing supporting technical documents.

Italicised explanatory notes are provided in the Guidelines to provide a clearer understanding of their intent. Where these notes occur they are indented and written in a slightly smaller italicised font, as illustrated in this example.

3. DEFINITIONS

3.1 An Estimator is a person responsible for the estimation of Inventory Coal, Coal Resources and/or Coal Reserves. The Estimator should have tertiary qualifications in geology or mining engineering and must have a minimum of five years experience in the relevant coal industry activity. If the Estimator is estimating or supervising the estimation of Inventory Coal and/or Coal Resources, the relevant experience must be in the estimation, assessment and evaluation of Inventory Coal and/or Coal Resources. If the Estimator is estimating or supervising the estimation of Coal Reserves, the relevant experience must be in the estimation, assessment, evaluation and economic extraction of Coal Reserves. In reporting for statutory purposes, it is the Estimator's responsibility to comply with any special conditions or requirements of relevant State Government.

To sign off on Public Reports in accordance with the Code (i.e. reports prepared for the purpose of informing investors or potential investors and their advisers), an Estimator must qualify as a "Competent Person" under the Code and ensure that all requirements of the Code are satisfied.

3.2 Points of Observation are intersections of coal-bearing strata, at known locations, which provide information, to varying degrees of confidence, about the coal by observation, measurement and/or testing of the following: surface or underground exposures, bore cores, downhole geophysical logs and/or drill cuttings in non-cored boreholes. Points of Observation shall allow the presence of coal to be unambiguously determined. Points of Observation for coal quantity estimation may not necessarily be used for coal quality evaluation. A Point of Observation for coal quality evaluation is normally obtained by testing samples obtained from surface or underground exposures, or from bore core samples having an acceptable level of recovery (normally >95 per cent linear recovery).

3.3 Interpretive Data are observations supporting the existence of coal, gathered by interpretive or indirect methods. Interpretive Data may include results from mapping, seismic, magnetic, gravity and other geophysical and geological surveys, but should not be used to estimate coal quantity or quality. A company, when reporting Interpretive Data, shall state the technical basis of the interpretation. Interpretive Data may be used in conjunction with Points of Observation to improve confidence levels.

3.4 Exploration Results are reports of coal occurrences that, due to insufficient information, cannot be assigned specific tonnages or quality.

3.5 Inventory Coal is any occurrence of coal in the ground that can be estimated and reported without necessarily being constrained by economic potential, geological or other modifying factors. By definition, it includes all Coal Resources. The location, quantity, quality, geological characteristics and continuity of Inventory Coal are known, estimated or interpreted from specific geological evidence and knowledge.

Inventory Coal is sub-divided in order of increasing geological confidence into Inferred, Indicated and Measured categories.

Inventory Coal is a new term that enables a more complete estimate of coal "in ground" to be reported for Government or internal company purposes.

Inventory Coal is a category of coal not recognised by the Code.

Inventory Coal falls outside the ambit of the Code as it is not constrained by the phrase "...reasonable prospects for eventual economic extraction." used in the Code to define the term Coal Resource. The category of Inventory Coal enables the quantification and reporting of coal which, in the opinion of the Estimator (at the time the estimate was made), has potential significance, but may not have potential for economic development in the foreseeable future.

The category also serves another important function by enabling the reporting of coal tonnage and grade estimates in "non-public" reports to government departments and other statutory authorities where the primary focus of the estimation and reporting is not only for statutory compliance purposes but also to provide the basis for establishing an inventory that may be used for land use or strategic planning purposes.

While the Estimator has ultimate discretion regarding the coal included in this category, minor coal occurrences should be excluded. Examples of Inventory Coal estimates may include coal: that is not accessible for mining because of land access restrictions (e.g. proposed or gazetted national parks); that is alienated because of infrastructure or urbanisation; that is compromised because of technical feasibility issues (e.g. too deep, too steeply dipping, too thin etc.); or perhaps that is in an extremely remote area devoid of any infrastructure and where potential development in a reasonable timeframe may be difficult to justify.

3.6 A Coal Resource is that portion of a deposit in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

3.7 A Coal Reserve is the economically mineable part of a Measured or Indicated Coal Resource. Coal Reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined. Appropriate assessments, which may include feasibility studies, have been carried out. These assessments should include proper consideration of all relevant "modifying factors" such as: mining methods, beneficiation, and economic, marketing, legal, environmental, social and governmental factors. These assessments should demonstrate that at the time of reporting, economic extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.

3.8 Marketable Coal Reserves are the tonnages of coal, at specified moisture and quality, available for sale after beneficiation of Coal Reserves. Marketable Coal Reserves may be reported in conjunction with, but not instead of, reports of Coal Reserves. If the coal is to be marketed without any beneficiation, Marketable Coal Reserves may be the same as the Coal Reserves. The basis of the predicted yield to achieve Marketable Coal Reserves should be stated, particularly whether the yields and ash values are from laboratory float/sink results, or if they are practical results that take the planned beneficiation process into consideration, or if they are reconciled historical data from an operating mine. Marketable Coal Reserves should be reported in terms of Probable Marketable Coal Reserves or Proved Marketable Coal Reserves.

3.9 Confidence Categories for Inventory Coal and Coal Resources

3.9.1 Inferred Inventory Coal or an Inferred Coal Resource is that part of the total Inventory Coal or Coal Resource estimate for which quantity and quality can only be estimated with low levels of confidence. The quantity and quality are inferred using Points of Observation that may be supported by Interpretive Data. Estimates for this confidence category are likely to change significantly with further exploration.

3.9.2 Indicated Inventory Coal or an Indicated Coal Resource is that part of the total Inventory Coal or Coal Resource for which quantity and quality can be estimated with reasonable levels of confidence, based on information gathered from Points of Observation that may be supported by Interpretive Data. The Points of Observation are sufficient for continuity to be assumed; but are too widely or inappropriately spaced to confirm geological and/or quality continuity.

3.9.3 Measured Inventory Coal or a Measured Coal Resource is that part of the total Inventory Coal or Coal Resource for which quantity and quality can be estimated with a high level of confidence, based on information gathered from Points of Observation that may be supported by Interpretive Data. The Points of Observation are spaced closely enough to confirm geological and/or quality continuity.

3.10 Confidence Categories for Coal Reserves

3.10.1 A Probable Coal Reserve is the economically mineable part of an Indicated Coal Resource. It can also be the economically mineable part of a Measured Coal Resource if the modifying factors (referred to in Section 3.7) need to be further resolved before the Estimator can confidently place the Coal Reserve in the Proved category.

3.10.2 A Proved Coal Reserve is the economically mineable part of a Measured Coal Resource for which the modifying factors (referred to in Section 3.7) have been satisfied.

3.11 Diagram 1 sets out the framework for classifying quality and quantity estimates to reflect different levels of confidence in the geology and the modifying factors. Reports of Inventory Coal, Coal Resources and Coal Reserves should only use the terms set out in Diagram 1.

4. ESTIMATION AND DOCUMENTATION OF INVENTORY COAL AND COAL RESOURCES

4.1 Inventory Coal and Coal Resources can only be estimated from data obtained from Points of Observation. Interpretive Data are not Points of Observation but may increase confidence in the continuity of seams between Points of Observation.

4.2 Inventory Coal and Coal Resource tonnage estimates are prepared using the area, thickness and in situ density determined by the Estimator. The Estimator should ensure that the in situ density applied is clearly stated and can be justified on technical grounds.

4.3 Inventory Coal and Coal Resources should be estimated and reported for individual seams or seam groupings within a deposit. They should also be subdivided and reported on the basis of "key variables"; such as thickness, depth range, strip ratio, coal quality parameters, geographic constraints and geological or technical considerations. The key variables and assumptions for each deposit should be clearly stated in order to ensure clarity and transparency of the report.

Seam groupings comprise seams located in stratigraphic proximity that may be considered a single entity for the purposes of estimation.

4.4 If any key variable or combination of variables does not meet a level for which there are reasonable prospects of eventual economic extraction over a persistent area, then Coal Resources should not be reported for the seam in that area. If there are compelling reasons to report resources in these areas (e.g. the area has to be mined through to access a more prospective seam or higher quality resources), the Estimator should provide the necessary explanation.

4.5 The following are broad guidelines to assist the Estimator when determining the relevant confidence categories for estimates of Inventory Coal and Coal Resources. In areas where seams are faulted, intruded, split, lenticular, or subject to significant variations in thickness or quality, more closely spaced Points of Observation, which may be supported by Interpretive Data, will be required.

4.5.1 For an Inferred confidence level, the number and distribution of Points of Observation, which may be supported by Interpretive Data, should provide sufficient understanding of the geological conditions to infer continuity of seams between Points of Observation. They should also allow an estimate of the range of coal thickness as well as coal quality to be made to a low level of confidence (i.e. insufficient for mine planning purposes). Inferred Inventory Coal and Inferred Coal Resources may be estimated using data obtained from Points of Observation up to 4 kilometres apart. Trends in coal thickness and quality should not be unreasonably extrapolated beyond the last line of Points of Observation.

"Extrapolated" refers to the distance the estimate is extended past the last line of Points of Observation into areas for which no data are available.

4.5.2 For an Indicated confidence level, the number, distribution and integrity of Points of Observation, which may be supported by Interpretive Data, are sufficient to allow a realistic estimate of average coal thickness, areal extent, depth range, quality and in situ quantity. They provide a level of confidence in the deposit sufficient to generate mine plans and determine the likely washplant yield and quality of product coal. Indicated Inventory Coal and Indicated Coal Resources may be estimated using data obtained from Points of Observation normally less than 1 kilometre apart, but the distance may be extended if there is sufficient technical justification to do so; for example, if supported by geostatistical analysis. Trends in coal thickness and quality should not be extrapolated more than half the distance between Points of Observation.

4.5.3 For a Measured confidence level, the number, distribution and integrity of Points of Observation, which may be supported by Interpretive Data, are sufficient to allow a reliable estimate of average coal thickness, areal extent, depth range, quality and in situ quantity. They provide a level of confidence in the deposit sufficient to generate detailed mine plans, determine mining and beneficiation costs, washplant yield estimates and specifications for a marketable product. Measured Inventory Coal and Measured Coal Resources may be estimated using data obtained from Points of Observation normally less than 500 metres apart, but the distance may be extended if there is sufficient technical justification to do so; for example, if supported by geostatistical analysis. Trends in coal thickness and quality should not be extrapolated more than half the distance between Points of Observation.

4.6 Estimates of Inventory Coal and Coal Resources should reflect the order of accuracy of the estimate as set out in Clause 25 of the Code.

Tabulations of estimates should normally be rounded to two significant figures (N.B. not decimal places).

4.7 Where estimates of Inventory Coal and Coal Resources are presented together, a clarifying statement must be included in the report which clearly indicates whether the Inventory Coal, as reported, is inclusive of, or additional to the Coal Resources. A resource report including Inventory Coal would not be JORC compliant for public reporting.

4.8 Notwithstanding all of the above, it is the responsibility of the Estimator to determine and justify the Inventory Coal and/or Coal Resource categories for any given deposit. The Estimator should prepare a technical document that fully describes the estimation process and assumptions used. The document should include:

- Project/deposit name

- Status of tenure over the Inventory Coal or Coal Resources being reported

- Tenure holder(s) and/or operators

- Outline of the geology of the area

- Summary of the status of the database and the geological model used and the steps taken by the Estimator to validate them

- Outline of the estimation methodology including the criteria used to differentiate between Inventory Coal and Coal Resources

- An explanation of how the confidence categories were defined

- Plans and cross-sections for each seam or seam grouping at appropriate scales, showing:

  tenures, the location and areal extent of each confidence category, including the boundary between open cut and underground (if applicable), the factors used to limit the estimates, the Points of Observation (with the coal quality holes for that seam clearly differentiated) and any Interpretive Data on which the resource estimates for that seam were based.

- Tables of the estimates displaying:

  tenures, confidence categories, areas used in the estimates, seam thickness ranges, in situ densities, depth ranges and coal quality ranges relevant to the estimate for each seam or seam grouping. Reference should also be made to the probable mining method.

- The moisture basis of the estimate(s) and the moisture adjustment factor (if applied)

- A description of all factors used to limit the estimate(s)

- A comparison of the estimate(s) with previous estimates prepared for the deposit
- A comparison of the estimate(s) with current estimates prepared by alternative methods or during the process of peer review
- A declaration as to whether or not the resource report is JORC compliant
- The name, qualifications and experience of the Estimator and the relationship of the Estimator with the tenure holder(s) and/or operators
- The date of the estimate.

5. ESTIMATION AND DOCUMENTATION OF COAL RESERVES

5.1 Coal Reserves can only be derived from Indicated and/or Measured Resources contained within a mine plan. They represent the tonnages of coal, at specified moisture, expected to be mined and delivered as run of mine (ROM) coal.

5.2 In estimating Coal Reserves, mining recovery and mining dilution must be applied to the Coal Resources. Adjustments for changes in moisture are also strongly recommended. Mining recovery and dilution may be expressed in terms of specific coal losses and/or dilution for each seam or, alternatively, as a percentage mining recovery. Unless a specific factor has been determined from conceptual studies, the historically proven mining recovery and dilution for the proposed mining method in the particular area should be used. The Estimator should report and justify the mining recovery and dilution factors used.

5.3 Coal Reserves must be reported separately for those parts of deposits mineable by surface and underground methods.

5.4 Marketable Coal Reserves are estimated by applying the predicted yield and product moisture factors to the Coal Reserves. They should be reported by broad product type; for example, coking, PCI or thermal.

5.5 Estimates of Coal Reserves must clearly state all factors used in the estimation, including: the Coal Resource estimates, proposed mining methods, the modifying factors limiting mining, allowances for mining loss and dilution, and moisture adjustment factors (if applied). For Marketable Coal Reserves, if reported, the predicted quality, yield and basis for predicting the yield should be stated. Tonnage estimates of Coal Reserves should be rounded, commensurate with the precision of the estimate.

5.6 Where estimates of Coal Resources and Coal Reserves are presented together, a clarifying statement must be included in the report that clearly states whether the Coal Resources are inclusive of, or additional to, the Coal Reserves.

5.7 The choice of the appropriate category of Coal Reserve is determined primarily by the confidence level of the corresponding Coal Resource and must be made by the Estimator. In the case of a Measured Resource the uncertainties in any modifying factor(s) may result in a Probable confidence level being applied to the Coal Reserve. The Estimator should prepare a technical document that fully describes the estimation process and assumptions used. As a guide only, the document should include:

- Project/deposit name
- Status of tenure over the reserves being reported
- Tenure holder(s) and/or operators
- The resource category(ies) on which the reserve estimate is based
- Plans and cross-sections for each seam or seam grouping, at appropriate scales, showing:

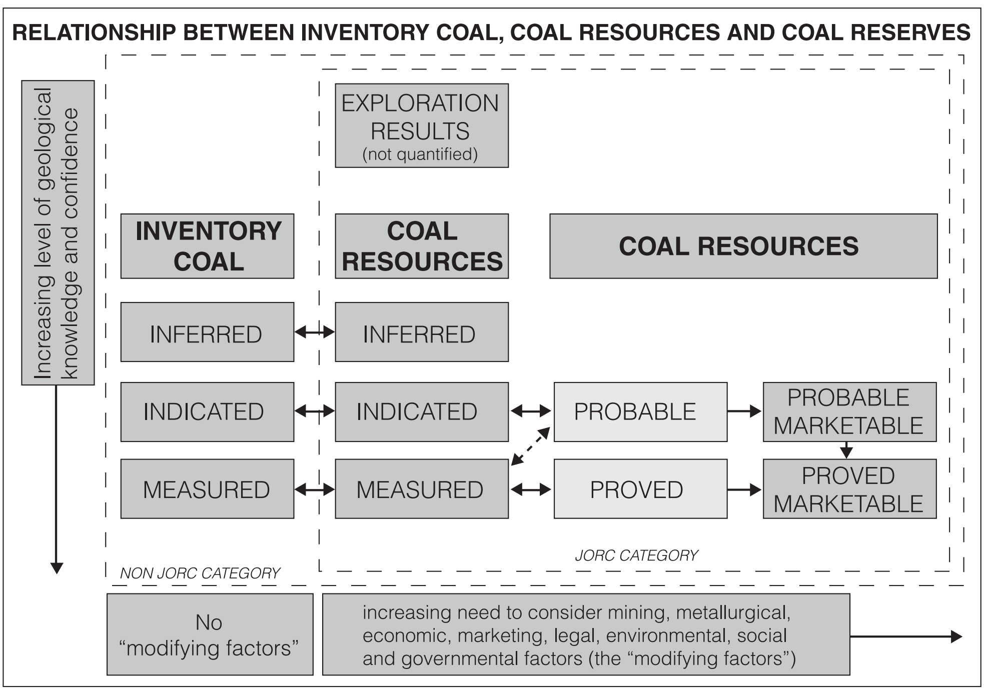
  tenure boundaries, mine plan, reserve blocks, working sections and the resource categories
- Seams to be mined
- The proposed mining method(s)
- Criteria used to limit the reserves such as strip ratio or economic cut-offs
- Mining recovery and dilution factors and their derivation
- The moisture basis of the estimate(s) and the moisture adjustment factors (if applied)
- The basis for predicting preparation plant yield(s)
- The quality specification(s) of the product coal(s)
- The basis for categorising product types
- Tabulation of reserves itemised on a pit/panel/strip/block/seam basis, showing total Coal Reserves and, if reported, Marketable Coal Reserves, waste volumes, preparation plant yields and product qualities
- A comparison with previous Coal Reserve estimates for the deposit
- A comparison with peer reviews of the current estimate

- The status and/or impact of the modifying factors on the Coal Reserves
- A declaration as to whether or not the Coal Reserve estimate is JORC compliant
- The name, qualifications and experience of the Estimator and the relationship of the Estimator to the owner/operator of the project/mine
- The date of the estimate.

6. FUTURE REVIEWS

These Guidelines will be reviewed, in conjunction with future reviews of the Code, by a committee of industry and government representatives authorised by the Coalfield Geology Council of NSW, the Queensland Mining Council and representatives from other coal producing states. The aim of subsequent revisions will be to provide any clarification considered appropriate and to extend the level of commentary within the Guidelines. Submissions in writing should be directed to the Secretary of the Coalfield Geology Council of NSW, c/o New South Wales Department of Mineral Resources, P.O. Box 536, St Leonards, NSW, 1590; or the Director of Operations, Queensland Mining Council, 133 Mary Street, Brisbane, Qld, 4000.

Diagram 1



FOREWORD

1. The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code" or "the Code") sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The Joint Ore Reserves Committee ("JORC") was established in 1971 and published several reports containing recommendations on the classification and Public Reporting of Ore Reserves prior to the release of the first edition of the JORC Code in 1989.

Revised and updated editions of the Code were issued in 1992, 1996 and 1999. This 2004 edition supersedes all previous editions.

Concurrently with the evolution of the JORC Code, the Combined Reserves International Reporting Standards Committee ("CRIRSCO"), initially a committee of the Council of Mining and Metallurgical Institutions ("CMMI"), has, since 1994, been working to create a set of standard international definitions for reporting Mineral Resources and Mineral (Ore) Reserves, modelled on those of the JORC Code.

Representatives of bodies from participating countries (Australia, Canada, South Africa, USA and UK) reached provisional agreement on standard definitions for reporting in 1997. This was followed in 1998 by an agreement to incorporate the CMMI definitions into the International Framework Classification for Reserves and Resources — Solid Fuels and Mineral Commodities, developed by the United Nations Economic Commission for Europe ("UN-ECE").

As a result of the CRIRSCO/CMMI initiative, considerable progress has been made towards widespread adoption of consistent reporting standards throughout the world. These are embodied in the similar codes, guidelines and standards published and adopted by the relevant professional bodies in Australia, Canada, South Africa, USA, UK, Ireland and many countries in Europe. The definitions in this edition of the JORC Code are either identical to, or not materially different from, those international definitions.

INTRODUCTION

2. In this edition of the JORC Code, important terms and their definitions are highlighted in bold text. The guidelines are placed after the respective Code clauses using indented italics. They are intended to provide assistance and guidance to readers. They do not form part of the Code, but should be considered persuasive when interpreting the Code. Indented italics are also used for Appendix 1 — "Generic Terms and Equivalents", and Table 1 — "Check List of Assessment and Reporting Criteria" to make it clear that they are also part of the guidelines, and that the latter is not mandatory for reporting purposes.

3. The Code has been adopted by The Australasian Institute of Mining and Metallurgy ("The AusIMM") and the Australian Institute of Geoscientists ("AIG") and is therefore binding on members of those organisations. It is endorsed by the Minerals Council of Australia, and the Securities Institute of Australia as a contribution to good practice. The Code has also been adopted by and included in the listing rules of the Australian ("ASX") and New Zealand ("NZX") Stock Exchanges.

   The ASX and NZX have, since 1989 and 1992 respectively, incorporated the Code into their listing rules. Under these listing rules, a Public Report must be prepared in accordance with the Code if it includes a statement on Exploration Results, Mineral Resources or Ore Reserves. The incorporation of the Code imposes certain specific requirements on mining or exploration companies reporting to the ASX and NZX. The 2004 edition of the Code has included much of the relevant material previously found only in the listing rules concerning the reporting of Exploration Results and the naming of the Competent Person. Despite the inclusion of this material in the Code it is strongly recommended that users of the Code familiarise themselves with those listing rules which relate to Public Reporting of Exploration Results, Mineral Resources and Ore Reserves.

The JORC Code requires the Competent Person(s), on whose work the Public Report of Exploration Results, Mineral Resources or Ore Reserves is based, to be named in the report. The report or attached statement must say that the person consents to the inclusion in the report of the matters based on their information in the form and context in which it appears, and must include the name of the person's firm or employer. Refer to Clause 8 of the Code.

SCOPE

4. The main principles governing the operation and application of the JORC Code are transparency, materiality and competence.

   - Transparency requires that the reader of a Public Report is provided with sufficient information, the presentation of which is clear and unambiguous, to understand the report and is not misled.

   - Materiality requires that a Public Report contains all the relevant information which investors and their professional advisers would reasonably require, and reasonably expect to find in the report, for the purpose of making a reasoned and balanced judgement regarding the Exploration Results, Mineral Resources or Ore Reserves being reported.

   - Competence requires that the Public Report be based on work that is the responsibility of suitably qualified and experienced persons who are subject to an enforceable professional code of ethics.

5. Reference in the Code to a Public Report or Public Reporting is to a report or reporting on Exploration Results, Mineral Resources or Ore Reserves, prepared for the purpose of informing investors or potential investors and their advisers. This includes a report or reporting to satisfy regulatory requirements.

   The Code is a required minimum standard for Public Reporting. JORC also recommends its adoption as a minimum standard for other reporting. Companies are encouraged to provide information in their Public Reports which is as comprehensive as possible.

   Public Reports include but are not limited to: company annual reports, quarterly reports and other reports to Australian and New Zealand Stock Exchanges, or as required by law. The Code applies to other publicly released company information in the form of postings on company web sites and briefings for shareholders, stockbrokers and investment analysts. The Code also applies to the following reports if they have been prepared for the purposes described in Clause 5: environmental statements; Information Memoranda; Expert Reports, and technical papers referring to Exploration Results, Mineral Resources or Ore Reserves.

   For companies issuing concise annual reports, or other summary reports, inclusion of all material information relating to Exploration Results, Mineral Resources and Ore Reserves is recommended. In cases where summary information is presented it should be clearly stated that it is a summary, and a reference attached giving the location of the Code-compliant Public Reports or Public Reporting on which the summary is based.

It is recognised that companies can be required to issue reports into more than one regulatory jurisdiction, with compliance standards that may differ from this Code. It is recommended that such reports include a statement alerting the reader to this situation. Where members of The AusIMM and the AIG are required to report in other jurisdictions, they are obliged to comply with the requirements of those jurisdictions.

The term "regulatory requirements" as used in Clause 5 is not intended to cover reports provided to State and Federal Government agencies for statutory purposes, where providing information to the investing public is not the primary intent. If such reports become available to the public, they would not normally be regarded as Public Reports under the JORC Code (see also guidelines to Clauses 19 and 37).

Reference in the Code to "documentation" is to internal company documents prepared as a basis for, or to support, a Public Report.

It is recognised that situations may arise where documentation prepared by Competent Persons for internal company or similar non-public purposes does not comply with the JORC Code. In such situations, it is recommended that the documentation includes a prominent statement to this effect. This will make it less likely that non-complying documentation will be used to compile Public Reports, since Clause 8 requires Public Reports to fairly reflect Exploration Results, Mineral Resource and/or Ore Reserve estimates, and supporting documentation, prepared by a Competent Person.

While every effort has been made within the Code and Guidelines to cover most situations likely to be encountered in Public Reporting, there may be occasions when doubt exists as to the appropriate form of disclosure. On such occasions, users of the Code and those compiling reports to comply with the Code should be guided by its intent, which is to provide a minimum standard for Public Reporting, and to ensure that such reporting contains all information which investors and their professional advisers would reasonably require, and reasonably expect to find in the report, for the purpose of making of a reasoned and balanced judgement regarding the Exploration Results, Mineral Resources or Ore Reserves being reported.

6. The Code is applicable to all solid minerals, including diamonds, other gemstones, industrial minerals and coal, for which Public Reporting of Exploration Results, Mineral Resources and Ore Reserves is required by the Australian and New Zealand Stock Exchanges.

   The JORC Code is cited by the "Code and Guidelines for Technical Assessment and/or Valuation of Mineral and Petroleum Assets and Mineral and Petroleum Securities for Independent Expert Reports" (the "VALMIN Code") as the applicable standard for the public reporting of Exploration Results, Mineral Resources and Ore Reserves. References to "technical and economic studies" and "feasibility studies" in the JORC Code are not intended as references to Technical Assessments or Valuations as defined in the VALMIN Code.

7. JORC recognises that further review of the Code and Guidelines will be required from time to time.

COMPETENCE AND RESPONSIBILITY

8. A Public Report concerning a company's Exploration Results, Mineral Resources or Ore Reserves is the responsibility of the company acting through its Board of Directors. Any such report must be based on, and fairly reflect the information and supporting documentation prepared by a Competent Person or Persons. A company issuing a Public Report shall disclose the name(s) of the Competent Person or Persons, state whether the Competent Person is a full-time employee of the company, and, if not, name the Competent Person's employer. The report shall be issued with the written consent of the Competent Person or Persons as to the form and context in which it appears.

   Appropriate forms of compliance statements may be as follows (delete bullet points which do not apply):

   - If the required information is in the report:

     "The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by (insert name of Competent Person), who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists or a "Recognised Overseas Professional Organisation" ("ROPO") included in a list promulgated by the ASX from time to time (select as appropriate and if a ROPO insert name of ROPO)": or

   - If the required information is included in an attached statement:

     "The information in the report to which this statement is attached that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by (insert name of Competent Person), who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists or a "Recognised Overseas Professional Organisation" ("ROPO") included in a list promulgated by the ASX from time to time (select as appropriate and if a ROPO insert name of ROPO)".

   - If the Competent Person is a full-time employee of the company:

     "(Insert name of Competent Person) is a full-time employee of the company".

   - If the Competent Person is not a full-time employee of the company:

     "(Insert name of Competent Person) is employed by (insert name of Competent Person's employer)".

- For all reports:

  "(Insert name of Competent Person) has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he (or she) is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". (Insert name of Competent Person) consents to the inclusion in the report of the matters based on his (or her) information in the form and context in which it appears".

9. Documentation detailing Exploration Results, Mineral Resource and Ore Reserve estimates, on which a Public Report on Exploration Results, Mineral Resources and Ore Reserves is based, must be prepared by, or under the direction of, and signed by, a Competent Person or Persons. The documentation must provide a fair representation of the Exploration Results, Mineral Resources or Ore Reserves being reported.

10. A "Competent Person" is a person who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a "Recognised Overseas Professional Organisation" ("ROPO") included in a list promulgated from time to time.

    A "Competent Person" must have a minimum of five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which that person is undertaking.

    If the Competent Person is preparing a report on Exploration Results, the relevant experience must be in exploration. If the Competent Person is estimating, or supervising the estimation of Mineral Resources, the relevant experience must be in the estimation, assessment and evaluation of Mineral Resources. If the Competent Person is estimating, or supervising the estimation of Ore Reserves, the relevant experience must be in the estimation, assessment, evaluation and economic extraction of Ore Reserves.

    The key qualifier in the definition of a Competent Person is the word "relevant". Determination of what constitutes relevant experience can be a difficult area and common sense has to be exercised. For example, in estimating Mineral Resources for vein gold mineralisation, experience in a high-nugget, vein-type mineralisation such as tin, uranium etc. will probably be relevant whereas experience in (say) massive base metal deposits may not be. As a second example, to qualify as a Competent Person in the estimation of Ore Reserves for alluvial gold deposits, considerable (probably at least five years) experience in the evaluation and economic extraction of this type of mineralisation would be needed. This is due to the characteristics of gold in alluvial systems, the particle sizing of the host sediment, and the low grades involved. Experience with placer deposits containing minerals other than gold may not necessarily provide appropriate relevant experience.

The key word "relevant" also means that it is not always necessary for a person to have five years experience in each and every type of deposit in order to act as a Competent Person if that person has relevant experience in other deposit types. For example, a person with (say) 20 years experience in estimating Mineral Resources for a variety of metalliferous hard-rock deposit types may not require five years specific experience in (say) porphyry copper deposits in order to act as a Competent Person. Relevant experience in the other deposit types could count towards the required experience in relation to porphyry copper deposits.

In addition to experience in the style of mineralisation, a Competent Person taking responsibility for the compilation of Exploration Results or Mineral Resource estimates should have sufficient experience in the sampling and analytical techniques relevant to the deposit under consideration to be aware of problems which could affect the reliability of data. Some appreciation of extraction and processing techniques applicable to that deposit type may also be important.

As a general guide, persons being called upon to act as Competent Persons should be clearly satisfied in their own minds that they could face their peers and demonstrate competence in the commodity, type of deposit and situation under consideration. If doubt exists, the person should either seek opinions from appropriately experienced colleagues or should decline to act as a Competent Person.

Estimation of Mineral Resources may be a team effort (for example, involving one person or team collecting the data and another person or team preparing the estimate). Estimation of Ore Reserves is very commonly a team effort involving several technical disciplines. It is recommended that, where there is clear division of responsibility within a team, each Competent Person and his or her contribution should be identified, and responsibility accepted for that particular contribution. If only one Competent Person signs the Mineral Resource or Ore Reserve documentation, that person is responsible and accountable for the whole of the documentation under the Code. It is important in this situation that the Competent Person accepting overall responsibility for a Mineral Resource or Ore Reserve estimate and supporting documentation prepared in whole or in part by others, is satisfied that the work of the other contributors is acceptable.

Complaints made in respect of the professional work of a Competent Person will be dealt with under the disciplinary procedures of the professional organisation to which the Competent Person belongs.

When an Australian or New Zealand Stock Exchange listed company with overseas interests wishes to report overseas Exploration Results, Mineral Resource or Ore Reserve estimates prepared by a person who is not a member of The AusIMM, the AIG or a ROPO, it is necessary for the company to nominate a Competent Person or Persons to take responsibility for the Exploration Results, Mineral Resource or Ore Reserve estimate. The Competent Person or Persons undertaking this activity should appreciate that they are accepting full responsibility for the estimate and supporting documentation under Stock Exchange listing rules and should not treat the procedure merely as a "rubber-stamping" exercise.

REPORTING TERMINOLOGY

11. Public Reports dealing with Exploration Results, Mineral Resources or Ore Reserves must only use the terms set out in Figure 1.

    The term "Modifying Factors" is defined to include mining, metallurgical, economic, marketing, legal, environmental, social and governmental considerations.

    Figure 1 sets out the framework for classifying tonnage and grade estimates to reflect different levels of geological confidence and different degrees of technical and economic evaluation. Mineral Resources can be estimated mainly by a geologist on the basis of geoscientific information with some input from other disciplines. Ore Reserves, which are a modified sub-set of the Indicated and Measured Mineral Resources (shown within the dashed outline in Figure 1), require consideration of the Modifying Factors affecting extraction, and should in most instances be estimated with input from a range of disciplines.

    Measured Mineral Resources may convert to either Proved Ore Reserves or Probable Ore Reserves. The Competent Person may convert Measured Mineral Resources to Probable Ore Reserves because of uncertainties associated with some or all of the Modifying Factors which are taken into account in the conversion from Mineral Resources to Ore Reserves. This relationship is shown by the broken arrow in Figure 1. Although the trend of the broken arrow includes a vertical component, it does not, in this instance, imply a reduction in the level of geological knowledge or confidence. In such a situation these Modifying Factors should be fully explained.

    Refer also to the guidelines to Clause 31.

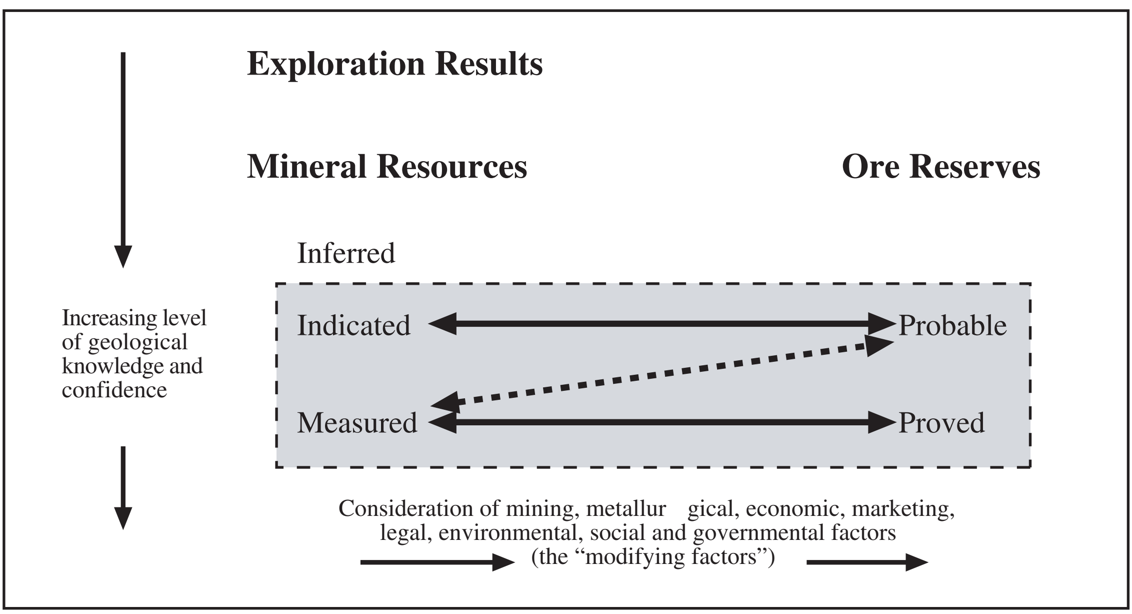


Figure 1. General relationship between Exploration Results, Mineral Resources and Ore Reserves

REPORTING — GENERAL

12. Public Reports concerning a company's Exploration Results, Mineral Resources or Ore Reserves should include a description of the style and nature of the mineralisation.

13. A company must disclose any relevant information concerning a mineral deposit that could materially influence the economic value of that deposit to the company. A company must promptly report any material changes in its Mineral Resources or Ore Reserves.

14. Companies must review and publicly report on their Mineral Resources and Ore Reserves at least annually.

15. Throughout the Code, if appropriate, "quality" may be substituted for "grade" and "volume" may be substituted for "tonnage". (Refer Appendix 1 — Table of Generic Terms and Equivalents).

REPORTING OF EXPLORATION RESULTS

16. Exploration Results include data and information generated by exploration programmes that may be of use to investors. The Exploration Results may or may not be part of a formal declaration of Mineral Resources or Ore Reserves.

    The reporting of such information is common in the early stages of exploration when the quantity of data available is generally not sufficient to allow any reasonable estimates of Mineral Resources.

    If a company reports Exploration Results in relation to mineralisation not classified as a Mineral Resource or an Ore Reserve, then estimates of tonnages and average grade must not be assigned to the mineralisation unless the situation is covered by Clause 18, and then only in strict accordance with the requirements of that clause.

    Examples of Exploration Results include results of outcrop sampling, assays of drill hole intercepts, geochemical results and geophysical survey results.

17. Public Reports of Exploration Results must contain sufficient information to allow a considered and balanced judgement of their significance. Reports must include relevant information such as exploration context, type and method of sampling, sampling intervals and methods, relevant sample locations, distribution, dimensions and relative location of all relevant assay data, data aggregation methods, land tenure status plus information on any of the other criteria listed in Table 1 that are material to an assessment.

    Public Reports of Exploration Results must not be presented so as to unreasonably imply that potentially economic mineralisation has been discovered. If true widths of mineralisation are not reported, an appropriate qualification must be included in the Public Report.

Where assay and analytical results are reported, they must be reported using one of the following methods, selected as the most appropriate by the Competent Person:

- either by listing all results, along with sample intervals (or size, in the case of bulk samples), or
- by reporting weighted average grades of mineralised zones, indicating clearly how the grades were calculated.

Reporting of selected information such as isolated assays, isolated drill holes, assays of panned concentrates or supergene enriched soils or surface samples, without placing them in perspective is unacceptable.

Table 1 is a check list and guideline to which those preparing reports on Exploration Results, Mineral Resources and Ore Reserves should refer. The check list is not prescriptive and, as always, relevance and materiality are overriding principles which determine what information should be publicly reported.

18. It is recognised that it is common practice for a company to comment on and discuss its exploration in terms of target size and type. Any such information relating to exploration targets must be expressed so that it cannot be misrepresented or misconstrued as an estimate of Mineral Resources or Ore Reserves. The terms Resource(s) or Reserve(s) must not be used in this context. Any statement referring to potential quantity and grade of the target must be expressed as ranges and must include (1) a detailed explanation of the basis for the statement, and (2) a proximate statement that the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

REPORTING OF MINERAL RESOURCES

19. A "Mineral Resource" is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

    Portions of a deposit that do not have reasonable prospects for eventual economic extraction must not be included in a Mineral Resource. If the judgement as to "eventual economic extraction" relies on untested practices or assumptions, this is a material matter which must be disclosed in a public report.

    The term "Mineral Resource" covers mineralisation, including dumps and tailings, which has been identified and estimated through exploration and sampling and within which Ore Reserves may be defined by the consideration and application of the Modifying Factors.

The term "reasonable prospects for eventual economic extraction" implies a judgement (albeit preliminary) by the Competent Person in respect of the technical and economic factors likely to influence the prospect of economic extraction, including the approximate mining parameters. In other words, a Mineral Resource is not an inventory of all mineralisation drilled or sampled, regardless of cut-off grade, likely mining dimensions, location or continuity. It is a realistic inventory of mineralisation which, under assumed and justifiable technical and economic conditions, might, in whole or in part, become economically extractable.

Where considered appropriate by the Competent Person, Mineral Resource estimates may include material below the selected cut-off grade to ensure that the Mineral Resources comprise bodies of mineralisation of adequate size and continuity to properly consider the most appropriate approach to mining. Documentation of Mineral Resource estimates should clearly identify any diluting material included, and Public Reports should include commentary on the matter if considered material.

Any material assumptions made in determining the "reasonable prospects for eventual economic extraction" should be clearly stated in the Public Report.

Interpretation of the word "eventual" in this context may vary depending on the commodity or mineral involved. For example, for some coal, iron ore, bauxite and other bulk minerals or commodities, it may be reasonable to envisage "eventual economic extraction" as covering time periods in excess of 50 years. However for the majority of gold deposits, application of the concept would normally be restricted to perhaps 10 to 15 years, and frequently to much shorter periods of time.

Any adjustment made to the data for the purpose of making the Mineral Resource estimate, for example by cutting or factoring grades, should be clearly stated and described in the Public Report.

Certain reports (eg: inventory coal reports, exploration reports to government and other similar reports not intended primarily for providing information for investment purposes) may require full disclosure of all mineralisation, including some material that does not have reasonable prospects for eventual economic extraction. Such estimates of mineralisation would not qualify as Mineral Resources or Ore Reserves in terms of the JORC Code (refer also to the guidelines to Clauses 5 and 37).

20. An "Inferred Mineral Resource" is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource.

The Inferred category is intended to cover situations where a mineral concentration or occurrence has been identified and limited measurements and sampling completed, but where the data are insufficient to allow the geological and/or grade continuity to be confidently interpreted. Commonly, it would be reasonable to expect that the majority of Inferred Mineral Resources would upgrade to Indicated Mineral Resources with continued exploration. However, due to the uncertainty of Inferred Mineral Resources, it should not be assumed that such upgrading will always occur.

Confidence in the estimate of Inferred Mineral Resources is usually not sufficient to allow the results of the application of technical and economic parameters to be used for detailed planning. For this reason, there is no direct link from an Inferred Resource to any category of Ore Reserves (see Figure 1).

Caution should be exercised if this category is considered in technical and economic studies.

21. An "Indicated Mineral Resource" is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource, but has a higher level of confidence than that applying to an Inferred Mineral Resource.

Mineralisation may be classified as an Indicated Mineral Resource when the nature, quality, amount and distribution of data are such as to allow confident interpretation of the geological framework and to assume continuity of mineralisation.

Confidence in the estimate is sufficient to allow the application of technical and economic parameters, and to enable an evaluation of economic viability.

22. A "Measured Mineral Resource" is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Mineralisation may be classified as a Measured Mineral Resource when the nature, quality, amount and distribution of data are such as to leave no reasonable doubt, in the opinion of the Competent Person determining the Mineral Resource, that the tonnage and grade of the mineralisation can be estimated to within close limits, and that any variation from the estimate would be unlikely to significantly affect potential economic viability.

This category requires a high level of confidence in, and understanding of, the geology and controls of the mineral deposit.

Confidence in the estimate is sufficient to allow the application of technical and economic parameters and to enable an evaluation of economic viability that has a greater degree of certainty than an evaluation based on an Indicated Mineral Resource.

23. The choice of the appropriate category of Mineral Resource depends upon the quantity, distribution and quality of data available and the level of confidence that attaches to those data. The appropriate Mineral Resource category must be determined by a Competent Person or Persons.

Mineral Resource classification is a matter for skilled judgement and Competent Persons should take into account those items in Table 1 which relate to confidence in Mineral Resource estimation.

In deciding between Measured Mineral Resources and Indicated Mineral Resources, Competent Persons may find it useful to consider, in addition to the phrases in the two definitions relating to geological and grade continuity in Clauses 21 and 22, the phrase in the guideline to the definition for Measured Mineral Resources: ".... any variation from the estimate would be unlikely to significantly affect potential economic viability".

In deciding between Indicated Mineral Resources and Inferred Mineral Resources, Competent Persons may wish to take into account, in addition to the phrases in the two definitions in Clauses 20 and 21 relating to geological and grade continuity, the guideline to the definition for Indicated Mineral Resources: "Confidence in the estimate is sufficient to allow the application of technical and economic parameters and to enable an evaluation of economic viability", which contrasts with the guideline to the definition for Inferred Mineral Resources: "Confidence in the estimate of Inferred Mineral Resources is usually not sufficient to allow the results of the application of technical and economic parameters to be used for detailed planning." and "Caution should be exercised if this category is considered in technical and economic studies".

The Competent Person should take into consideration issues of the style of mineralisation and cut-off grade when assessing geological and grade continuity.

Cut-off grades chosen for the estimation should be realistic in relation to the style of mineralisation.

24. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. Reporting of tonnage and grade figures should reflect the relative uncertainty of the estimate by rounding off to appropriately significant figures and, in the case of Inferred Mineral Resources, by qualification with terms such as "approximately".

In most situations, rounding to the second significant figure should be sufficient. For example 10,863,000 tonnes at 8.23 per cent should be stated as 11 million tonnes at 8.2 per cent. There will be occasions, however, where rounding to the first significant figure may be necessary in order to convey properly the uncertainties in estimation. This would usually be the case with Inferred Mineral Resources.

To emphasise the imprecise nature of a Mineral Resource estimate, the final result should always be referred to as an estimate not a calculation.

Competent Persons are encouraged, where appropriate, to discuss the relative accuracy and/or confidence of the Mineral Resource estimates. The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnage or volume. Where a statement of the relative accuracy and/or confidence is not possible, a qualitative discussion of the uncertainties should be provided (refer to Table 1).

25. Public Reports of Mineral Resources must specify one or more of the categories of "Inferred", "Indicated" and "Measured". Categories must not be reported in a combined form unless details for the individual categories are also provided. Mineral Resources must not be reported in terms of contained metal or mineral content unless corresponding tonnages and grades are also presented. Mineral Resources must not be aggregated with Ore Reserves.

Public Reporting of tonnages and grades outside the categories covered by the Code is not permitted unless the situation is covered by Clause 18, and then only in strict accordance with the requirements of that clause.

Estimates of tonnage and grade outside of the categories covered by the Code may be useful for a company in its internal calculations and evaluation processes, but their inclusion in Public Reports could cause confusion.

26. Table 1 provides, in a summary form, a list of the main criteria which should be considered when preparing reports on Exploration Results, Mineral Resources and Ore Reserves. These criteria need not be discussed in a Public Report unless they materially affect estimation or classification of the Mineral Resources.

It is not necessary, when publicly reporting, to comment on each item in Table 1, but it is essential to discuss any matters which might materially affect the reader's understanding or interpretation of the results or estimates being reported. This is particularly important where inadequate or uncertain data affect the reliability of, or confidence in, a statement of Exploration Results or an estimate of Mineral Resources or Ore Reserves; for example, poor sample recovery, poor repeatability of assay or laboratory results, limited information on bulk densities etc.

If there is doubt about what should be reported, it is better to err on the side of providing too much information rather than too little.

Uncertainties in any of the criteria listed in Table 1 that could lead to under- or over-statement of resources should be disclosed.

Mineral Resource estimates are sometimes reported after adjustment from reconciliation with production data. Such adjustments should be clearly stated in a Public Report of Mineral Resources and the nature of the adjustment or modification described.

27. The words "ore" and "reserves" must not be used in describing Mineral Resource estimates as the terms imply technical feasibility and economic viability and are only appropriate when all relevant Modifying Factors have been considered. Reports and statements should continue to refer to the appropriate category or categories of Mineral Resources until technical feasibility and economic viability have been established. If re-evaluation indicates that the Ore Reserves are no longer viable, the Ore Reserves must be reclassified as Mineral Resources or removed from Mineral Resource/Ore Reserve statements.

It is not intended that re-classification from Ore Reserves to Mineral Resources or vice versa should be applied as a result of changes expected to be of a short term or temporary nature, or where company management has made a deliberate decision to operate on a non-economic basis. Examples of such situations might be commodity price fluctuations expected to be of short duration, mine emergency of a non-permanent nature, transport strike etc.

REPORTING OF ORE RESERVES

28. An "Ore Reserve" is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

In reporting Ore Reserves, information on estimated mineral processing recovery factors is very important, and should always be included in Public Reports.

Ore Reserves are those portions of Mineral Resources which, after the application of all mining factors, result in an estimated tonnage and grade which, in the opinion of the Competent Person making the estimates, can be the basis of a viable project, after taking account of all relevant Modifying Factors.

Ore Reserves are reported as inclusive of marginally economic material and diluting material delivered for treatment or dispatched from the mine without treatment.

The term "economically mineable" implies that extraction of the Ore Reserve has been demonstrated to be viable under reasonable financial assumptions. What constitutes the term "realistically assumed" will vary with the type of deposit, the level of study that has been carried out and the financial criteria of the individual company. For this reason, there can be no fixed definition for the term "economically mineable".

In order to achieve the required level of confidence in the Modifying Factors, appropriate studies will have been carried out prior to determination of the Ore Reserves. The studies will have determined a mine plan that is technically achievable and economically viable and from which the Ore Reserves can be derived. It may not be necessary for these studies to be at the level of a final feasibility study.

The term "Ore Reserve" need not necessarily signify that extraction facilities are in place or operative, or that all necessary approvals or sales contracts have been received. It does signify that there are reasonable expectations of such approvals or contracts. The Competent Person should consider the materiality of any unresolved matter that is dependent on a third party on which extraction is contingent. If there is doubt about what should be reported, it is better to err on the side of providing too much information rather than too little.

Any adjustment made to the data for the purpose of making the Ore Reserve estimate, for example by cutting or factoring grades, should be clearly stated and described in the Public Report.

Where companies prefer to use the term "Mineral Reserves" in their Public Reports, e.g. for reporting industrial minerals or for reporting outside Australasia, they should state clearly that this is being used with the same meaning as "Ore Reserves", defined in this Code. If preferred by the reporting company, "Ore Reserve" and "Mineral Resource" estimates for coal may be reported as "Coal Reserve" and "Coal Resource" estimates.

JORC prefers the term "Ore Reserve" because it assists in maintaining a clear distinction between a "Mineral Resource" and an "Ore Reserve".

29. A "Probable Ore Reserve" is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit.

30. A "Proved Ore Reserve" is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Proved Ore Reserve represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that Proved Ore Reserves are not achievable in some deposits.

31. The choice of the appropriate category of Ore Reserve is determined primarily by the relevant level of confidence in the Mineral Resource and after considering any uncertainties in the Modifying Factors. Allocation of the appropriate category must be made by a Competent Person or Persons.

The Code provides for a direct two-way relationship between Indicated Mineral Resources and Probable Ore Reserves and between Measured Mineral Resources and Proved Ore Reserves. In other words, the level of geological confidence for Probable Ore Reserves is similar to that required for the determination of Indicated Mineral Resources, and the level of geological confidence for Proved Ore Reserves is similar to that required for the determination of Measured Mineral Resources.

The Code also provides for a two-way relationship between Measured Mineral Resources and Probable Ore Reserves. This is to cover a situation where uncertainties associated with any of the Modifying Factors considered when converting Mineral Resources to Ore Reserves may result in there being a lower degree of confidence in the Ore Reserves than in the corresponding Mineral Resources. Such a conversion would not imply a reduction in the level of geological knowledge or confidence.

A Probable Ore Reserve derived from a Measured Mineral Resource may be converted to a Proved Ore Reserve if the uncertainties in the Modifying Factors are removed. No amount of confidence in the Modifying Factors for conversion of a Mineral Resource to an Ore Reserve can override the upper level of confidence that exists in the Mineral Resource. Under no circumstances can an Indicated Mineral Resource be converted directly to a Proved Ore Reserve (see Figure 1).

Application of the category of Proved Ore Reserve implies the highest degree of confidence in the estimate, with consequent expectations in the minds of the readers of the report. These expectations should be borne in mind when categorising a Mineral Resource as Measured.

Refer also to the guidelines in Clause 23 regarding classification of Mineral Resources.

32. Ore Reserve estimates are not precise calculations. Reporting of tonnage and grade figures should reflect the relative uncertainty of the estimate by rounding off to appropriately significant figures. Refer also to Clause 24.

To emphasise the imprecise nature of an Ore Reserve, the final result should always be referred to as an estimate not a calculation.

Competent Persons are encouraged, where appropriate, to discuss the relative accuracy and/or confidence of the Ore Reserve estimates. The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnage or volume. Where a statement of the relative accuracy and/or confidence is not possible, a qualitative discussion of the uncertainties should be provided (refer to Table 1).

33. Public Reports of Ore Reserves must specify one or other or both of the categories of "Proved" and "Probable". Reports must not contain combined Proved and Probable Ore Reserve figures unless the relevant figures for each of the categories are also provided. Reports must not present metal or mineral content figures unless corresponding tonnage and grade figures are also given.

Public Reporting of tonnage and grade outside the categories covered by the Code is not permitted unless the situation is covered by Clause 18, and then only in strict accordance with the requirements of that clause.

Estimates of tonnage and grade outside of the categories covered by the Code may be useful for a company in its internal calculations and evaluation processes, but their inclusion in Public Reports could cause confusion.

Ore Reserves may incorporate material (dilution) which is not part of the original Mineral Resource. It is essential that this fundamental difference between Mineral Resources and Ore Reserves is borne in mind and caution exercised if attempting to draw conclusions from a comparison of the two.

When revised Ore Reserve and Mineral Resource statements are publicly reported they should be accompanied by reconciliation with previous statements. A detailed account of differences between the figures is not essential, but sufficient comment should be made to enable significant changes to be understood by the reader.

34. In situations where figures for both Mineral Resources and Ore Reserves are reported, a statement must be included in the report which clearly indicates whether the Mineral Resources are inclusive of, or additional to the Ore Reserves.

Ore Reserve estimates must not be aggregated with Mineral Resource estimates to report a single combined figure.

In some situations there are reasons for reporting Mineral Resources inclusive of Ore Reserves and in other situations for reporting Mineral Resources additional to Ore Reserves. It must be made clear which form of reporting has been adopted. Appropriate forms of clarifying statements may be:

"The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves." or "The Measured and Indicated Mineral Resources are additional to the Ore Reserves."

In the former case, if any Measured and Indicated Mineral Resources have not been modified to produce Ore Reserves for economic or other reasons, the relevant details of these unmodified Mineral Resources should be included in the report. This is to assist the reader of the report in making a judgement of the likelihood of the unmodified Measured and Indicated Mineral Resources eventually being converted to Ore Reserves.

Inferred Mineral Resources are by definition always additional to Ore Reserves.

For reasons stated in the guidelines to Clause 33 and in this paragraph, the reported Ore Reserve figures must not be aggregated with the reported Mineral Resource figures. The resulting total is misleading and is capable of being misunderstood or of being misused to give a false impression of a company's prospects.

35. Table 1 provides, in a summary form, a list of the criteria which should be considered when preparing reports on Exploration Results, Mineral Resources and Ore Reserves. These criteria need not be discussed in a Public Report unless they materially affect estimation or classification of the Ore Reserves. Changes in economic or political factors alone may be the basis for significant changes in Ore Reserves and should be reported accordingly.

    Ore Reserve estimates are sometimes reported after adjustment from reconciliation with production data. Such adjustments should be clearly stated in a Public Report of Ore Reserves and the nature of the adjustment or modification described.

REPORTING OF MINERALISED FILL, REMNANTS, PILLARS, LOW GRADE MINERALISATION, STOCKPILES, DUMPS AND TAILINGS

36. The Code applies to the reporting of all potentially economic mineralised material. This can include mineralised fill, remnants, pillars, low grade mineralisation, stockpiles, dumps and tailings (remnant materials) where there are reasonable prospects for eventual economic extraction in the case of Mineral Resources, and where extraction is reasonably justifiable in the case of Ore Reserves. Unless otherwise stated, all other clauses of the Code (including Figure 1) apply.

    Any mineralised material as described in this clause can be considered to be similar to in situ mineralisation for the purposes of reporting Mineral Resources and Ore Reserves. Judgements about the mineability of such mineralised material should be made by professionals with relevant experience.

If there are no reasonable prospects for the eventual economic extraction of all or part of the mineralised material as described in this clause, then this material cannot be classified as either Mineral Resources or Ore Reserves. If some portion of the mineralised material is currently sub-economic, but there is a reasonable expectation that it will become economic, then this material may be classified as a Mineral Resource. If technical and economic studies have demonstrated that economic extraction could reasonably be justified under realistically assumed conditions, then the material may be classified as an Ore Reserve.

The above guidelines apply equally to low grade in situ mineralisation, sometimes referred to as "mineralised waste" or "marginal grade material", and often intended for stockpiling and treatment towards the end of mine life. For clarity of understanding, it is recommended that tonnage and grade estimates of such material be itemised separately in Public Reports, although they may be aggregated with total Mineral Resource and Ore Reserve figures.

Stockpiles are defined to include both surface and underground stockpiles, including broken ore in stopes, and can include ore currently in the ore storage system. Mineralised material in the course of being processed (including leaching), if reported, should be reported separately.

REPORTING OF COAL RESOURCES AND RESERVES

37. Clauses 37 to 39 of the Code address matters that relate specifically to the Public Reporting of Coal Resources and Reserves. Unless otherwise stated, Clauses 1 to 36 of this Code (including Figure 1) apply. Table 1, as part of the guidelines, should be considered persuasive when reporting on Coal Resources and Reserves.

    For purposes of Public Reporting, the requirements for coal are generally similar to those for other commodities with the replacement of terms such as "mineral" by "coal" and "grade" by "quality".

    For guidance on the estimation of Coal Resources and Reserves and on statutory reporting not primarily intended for providing information to the investing public, readers are referred to the 2003 edition of the "Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves". These guidelines do not override the provisions and intentions of the JORC Code for Public Reporting.

    Because of its impact on planning and land use, governments may require estimates of inventory coal that are not constrained by short to medium term economic considerations. The JORC Code does not cover such estimates. Refer also to the guidelines to Clauses 5 and 19.

38. The terms "Mineral Resource(s)" and "Ore Reserve(s)", and the subdivisions of these as defined above, apply also to coal reporting, but if preferred by the reporting company, the terms "Coal Resource(s)" and "Coal Reserve(s)" and the appropriate subdivisions may be substituted.

39. "Marketable Coal Reserves", representing beneficiated or otherwise enhanced coal product where modifications due to mining, dilution and processing have been considered, may be publicly reported in conjunction with, but not instead of, reports of Ore (Coal) Reserves. The basis of the predicted yield to achieve Marketable Coal Reserves should be stated.

REPORTING OF DIAMOND EXPLORATION RESULTS, MINERAL RESOURCES AND ORE RESERVES

40. Clauses 40 to 43 of the Code address matters that relate specifically to the Public Reporting of Exploration Results, Mineral Resources and Ore Reserves for diamonds and other gemstones. Unless otherwise stated, Clauses 1 to 36 of this Code (including Figure 1) apply. Table 1, as part of the guidelines, should be considered persuasive when reporting Exploration Results, Mineral Resources and Ore Reserves for diamonds and other gemstones.

    For the purposes of Public Reporting, the requirements for diamonds and other gemstones are generally similar to those for other commodities with the replacement of terms such as "mineral" by "diamond" and "grade" by "grade and average diamond value". The term "quality" should not be substituted for "grade", since in diamond deposits these have distinctly separate meanings. Other industry guidelines on the estimation and reporting of diamond resources and reserves may be useful but will not under any circumstances override the provisions and intentions of the JORC Code.

    A number of characteristics of diamond deposits are different from those of, for example, typical metalliferous and coal deposits and therefore require special consideration. These include the generally low mineral content and variability of primary and placer deposits, the particulate nature of diamonds, the specialised requirement for diamond valuation and the inherent difficulties and uncertainties in the estimation of diamond resources and reserves.

41. Reports of diamonds recovered from sampling programs must provide material information relating to the basis on which the sample is taken, the method of recovery and the recovery of the diamonds. The weight of diamonds recovered may only be omitted from the report when the diamonds are considered to be too small to be of commercial significance. This lower cut-off size should be stated.

    The stone size distribution and price of diamonds and other gemstones are critical components of the resource and reserve estimates. At an early exploration stage, sampling and delineation drilling will not usually provide this information, which relies on large diameter drilling and, in particular, bulk sampling.

    In order to demonstrate that a resource has reasonable prospects for economic extraction, some appreciation of the likely stone size distribution and price is necessary, however preliminary. To determine an Inferred Resource in simple, single-facies or single-phase deposits, such information may be obtainable by representative large diameter drilling. More often, some form of bulk sampling, such as pitting and trenching, would be employed to provide larger sample parcels.

In order to progress to an Indicated Resource, and from there to a Probable Reserve, it is likely that much more extensive bulk sampling would be needed to fully determine the stone size distribution and value. Commonly such bulk samples would be obtained by underground development designed to obtain sufficient diamonds to enable a confident estimate of price.

In complex deposits, it may be very difficult to ensure that the bulk samples taken are truly representative of the whole deposit. The lack of direct bulk sampling, and the uncertainty in demonstrating spatial continuity of size and price relationships should be persuasive in determining the appropriate resource category.

42. Where diamond Mineral Resource or Ore Reserve grades (carats per tonne) are based on correlations between the frequency of occurrence of micro-diamonds and of commercial size stones, this must be stated, the reliability of the procedure must be explained and the cut-off sieve size for micro-diamonds reported.

43. For Public Reports dealing with diamond or other gemstone mineralisation, it is a requirement that any reported valuation of a parcel of diamonds or gemstones be accompanied by a statement verifying the independence of the valuation. The valuation must be based on a report from a demonstrably reputable and qualified expert.

If a valuation of a parcel of diamonds is reported, the weight in carats and the lower cut-off size of the contained diamonds must be stated and the value of the diamonds must be given in US dollars per carat. Where the valuation is used in the estimation of diamond Mineral Resources or Ore Reserves, the valuation must be based on a parcel representative of the size, shape and colour distributions of the diamond population in the deposit.

Diamond valuations should not be reported for samples of diamonds processed using total liberation methods.

Table 1 provides in summary form, a list of the main criteria which should be considered when preparing reports on Exploration Results, Mineral Resources and Ore Reserves for diamonds and other gemstones.

REPORTING OF INDUSTRIAL MINERALS EXPLORATION RESULTS, MINERAL RESOURCES AND ORE RESERVES

44. Industrial minerals are covered by the JORC Code if they meet the criteria set out in Clauses 5 and 6 of the Code. For the purpose of the JORC Code, industrial minerals can be considered to cover commodities such as kaolin, phosphate, limestone, talc etc.

When reporting information and estimates for industrial minerals, the key principles and purpose of the JORC Code apply and should be borne in mind. Assays may not always be relevant, and other quality criteria may be more applicable. If criteria such as deleterious minerals or physical properties are of more relevance than the composition of the bulk mineral itself, then they should be reported accordingly.

The factors underpinning the estimation of Mineral Resources and Ore Reserves for industrial minerals are the same as those for other deposit types covered by the JORC Code. It may be necessary, prior to the reporting of a Mineral Resource or Ore Reserve, to take particular account of certain key characteristics or qualities such as likely product specifications, proximity to markets and general product marketability.

For some industrial minerals, it is common practice to report the saleable product rather than the "asmined" product, which is traditionally regarded as the Ore Reserve. JORC's preference is that, if the saleable product is reported, it should be in conjunction with, not instead of, reporting of the Ore Reserve. However, it is recognised that commercial sensitivities may not always permit this preferred style of reporting. It is important that, in all situations where the saleable product is reported, a clarifying statement is included to ensure that the reader is fully informed as to what is being reported.

Some industrial mineral deposits may be capable of yielding products suitable for more than one application and/or specification. If considered material by the reporting company, such multiple products should be quantified either separately or as a percentage of the bulk deposit.

TABLE 1
CHECK LIST OF ASSESSMENT AND REPORTING CRITERIA

Table 1 is a check list and guideline which those preparing reports on Exploration Results, Mineral Resources and Ore Reserves should use as a reference. The check list is not prescriptive and, as always, relevance and materiality are overriding principles that determine what information should be publicly reported. It is, however, important to report any matters that might materially affect a reader's understanding or interpretation of the results or estimates being reported. This is particularly important where inadequate or uncertain data affect the reliability of, or confidence in, a statement of Exploration Results or an estimate of Mineral Resources or Ore Reserves.

The order and grouping of criteria in Table 1 reflects the normal systematic approach to exploration and evaluation. Criteria in the first group "Sampling Techniques and Data" apply to all succeeding groups. In the remainder of the table, criteria listed in preceding groups would often apply to succeeding groups and should be considered when estimating and reporting.

Criteria	**Explanation**
Sampling Techniques and Data *(criteria in this group apply to all succeeding groups)*	
Sampling techniques.	• Nature and quality of sampling (eg. cut channels, random chips etc.) and measures taken to ensure sample representivity.
Drilling techniques.	• Drill type (eg. core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka etc.) and details (eg. core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method, etc.).

Criteria	Explanation
Sampling Techniques and Data *(criteria in this group apply to all succeeding groups)*	
Drill sample recovery.	• Whether core and chip sample recoveries have been properly recorded and results assessed. • Measures taken to maximise sample recovery and ensure representative nature of the samples. • Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material.
Logging.	• Whether core and chip samples have been logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies. • Whether logging is qualitative or quantitative in nature. Core (or costean, channel etc.) photography.
Sub-sampling techniques and sample preparation.	• If core, whether cut or sawn and whether quarter, half or all core taken. • If non-core, whether riffled, tube sampled, rotary split etc. and whether sampled wet or dry. • For all sample types, the nature, quality and appropriateness of the sample preparation technique. • Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples. • Measures taken to ensure that the sampling is representative of the in situ material collected. • Whether sample sizes are appropriate to the grainsize of the material being sampled.
Quality of assay data and laboratory tests.	• The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total. • Nature of quality control procedures adopted (eg. standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (ie. lack of bias) and precision have been established.
Verification of sampling and assaying.	• The verification of significant intersections by either independent or alternative company personnel. • The use of twinned holes.
Location of data points.	• Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation. • Quality and adequacy of topographic control.

Criteria	Explanation
Sampling Techniques and Data *(criteria in this group apply to all succeeding groups)*	
Data spacing and distribution.	• Data spacing for reporting of Exploration Results. • Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied. • Whether sample compositing has been applied.
Orientation of data in relation to geological structure.	• Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type. • If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.
Audits or reviews.	• The results of any audits or reviews of sampling techniques and data.
Reporting of Exploration Results *(criteria listed in the preceding group apply also to this group)*	
Mineral tenement and land tenure status.	• Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings. • The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area.
Exploration done by other parties.	• Acknowledgment and appraisal of exploration by other parties.
Geology.	• Deposit type, geological setting and style of mineralisation.
Data aggregation methods.	• In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (eg. cutting of high grades) and cut-off grades are usually material and should be stated. • Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail. • The assumptions used for any reporting of metal equivalent values should be clearly stated.

Criteria	Explanation
Reporting of Exploration Results *(criteria listed in the preceding group apply also to this group)*	
Relationship between mineralisation widths and intercept lengths.	• These relationships are particularly important in the reporting of Exploration Results. • If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported. • If it is not known and only the down-hole lengths are reported, there should be a clear statement to this effect (eg. "downhole length, true width not known").
Diagrams.	• Where possible, maps and sections (with scales) and tabulations of intercepts should be included for any material discovery being reported if such diagrams significantly clarify the report.
Balanced reporting.	• Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practised to avoid misleading reporting of Exploration Results.
Other substantive exploration data.	• Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples — size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances.
Further work.	• The nature and scale of planned further work (eg. tests for lateral extensions or depth extensions or large-scale step-out drilling).
Estimation and Reporting of Mineral Resources *(criteria listed in the first group, and where relevant in the second group, apply also to this group)*	
Database integrity.	• Measures taken to ensure that data has not been corrupted by, for example, transcription or keying errors, between its initial collection and its use for Mineral Resource estimation purposes. • Data validation procedures used.
Geological interpretation.	• Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit. • Nature of the data used and of any assumptions made. • The effect, if any, of alternative interpretations on Mineral Resource estimation. • The use of geology in guiding and controlling Mineral Resource estimation. • The factors affecting continuity both of grade and geology.
Dimensions.	• The extent and variability of the Mineral Resource expressed as length (along strike or otherwise), plan width, and depth below surface to the upper and lower limits of the Mineral Resource.

Criteria	Explanation
Estimation and Reporting of Mineral Resources *(criteria listed in the first group, and where relevant in the second group, apply also to this group)*	
Estimation and modelling techniques.	• The nature and appropriateness of the estimation technique(s) applied and key assumptions, including treatment of extreme grade values, domaining, interpolation parameters, maximum distance of extrapolation from data points. • The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data. • The assumptions made regarding recovery of by-products. • Estimation of deleterious elements or other non-grade variables of economic significance (e.g. sulphur for acid mine drainage characterisation). • In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed. • Any assumptions behind modelling of selective mining units. • Any assumptions about correlation between variables. • The process of validation, the checking process used, the comparison of model data to drillhole data, and use of reconciliation data if available.
Moisture.	• Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content.
Cut-off parameters.	• The basis of the adopted cut-off grade(s) or quality parameters applied.
Mining factors or assumptions.	• Assumptions made regarding possible mining methods, minimum mining dimensions and internal (or, if applicable, external) mining dilution. It may not always be possible to make assumptions regarding mining methods and parameters when estimating Mineral Resources. Where no assumptions have been made, this should be reported.
Metallurgical factors or assumptions.	• The basis for assumptions or predictions regarding metallurgical amenability. It may not always be possible to make assumptions regarding metallurgical treatment processes and parameters when reporting Mineral Resources. Where no assumptions have been made, this should be reported.
Bulk density.	• Whether assumed or determined. If assumed, the basis for the assumptions. If determined, the method used, whether wet or dry, the frequency of the measurements, the nature, size and representativeness of the samples.

Criteria	Explanation
Estimation and Reporting of Mineral Resources *(criteria listed in the first group, and where relevant in the second group, apply also to this group)*	
Classification.	• The basis for the classification of the Mineral Resources into varying confidence categories. • Whether appropriate account has been taken of all relevant factors. i.e. relative confidence in tonnage/grade computations, confidence in continuity of geology and metal values, quality, quantity and distribution of the data. • Whether the result appropriately reflects the Competent Person(s)' view of the deposit.
Audits or reviews.	• The results of any audits or reviews of Mineral Resource estimates.
Discussion of relative accuracy/confidence.	• Where appropriate a statement of the relative accuracy and/or confidence in the Mineral Resource estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the resource within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate. • The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages or volumes, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. • These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.
Estimation and Reporting of Ore Reserves *(criteria listed in the first group, and where relevant in other preceding groups, apply also to this group)*	
Mineral Resource estimate for conversion to Ore Reserves.	• Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve. • Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.
Study status.	• The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves. • The Code does not require that a final feasibility study has been undertaken to convert Mineral Resources to Ore Reserves, but it does require that appropriate studies will have been carried that will have determined a mine plan that is technically achievable and economically viable, and that all Modifying Factors have been considered.

Criteria	Explanation
Estimation and Reporting of Ore Reserves *(criteria listed in the first group, and where relevant in other preceding groups, apply also to this group)*	
Cut-off parameters.	• The basis of the cut-off grade(s) or quality parameters applied.
Mining factors or assumptions.	• The method and assumptions used to convert the Mineral Resource to an Ore Reserve (ie either by application of appropriate factors by optimisation or by preliminary or detailed design). • The choice of, the nature and the appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc. • The assumptions made regarding geotechnical parameters (eg. pit slopes, stope sizes, etc.), grade control and pre-production drilling. • The major assumptions made and Mineral Resource model used for pit optimisation (if appropriate). • The mining dilution factors, mining recovery factors, and minimum mining widths used. • The infrastructure requirements of the selected mining methods.
Metallurgical factors or assumptions.	• The metallurgical process proposed and the appropriateness of that process to the style of mineralisation. • Whether the metallurgical process is well-tested technology or novel in nature. • The nature, amount and representativeness of metallurgical testwork undertaken and the metallurgical recovery factors applied. • Any assumptions or allowances made for deleterious elements. • The existence of any bulk sample or pilot scale testwork and the degree to which such samples are representative of the orebody as a whole.
Cost and revenue factors.	• The derivation of, or assumptions made, regarding projected capital and operating costs. • The assumptions made regarding revenue including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, etc. • The allowances made for royalties payable, both Government and private.
Market assessment.	• The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future. • A customer and competitor analysis along with the identification of likely market windows for the product. • Price and volume forecasts and the basis for these forecasts. • For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.

Criteria	Explanation
Estimation and Reporting of Ore Reserves *(criteria listed in the first group, and where relevant in other preceding groups, apply also to this group)*	
Other.	• The effect, if any, of natural risk, infrastructure, environmental, legal, marketing, social or governmental factors on the likely viability of a project and/or on the estimation and classification of the Ore Reserves. • The status of titles and approvals critical to the viability of the project, such as mining leases, discharge permits, government and statutory approvals.
Classification.	• The basis for the classification of the Ore Reserves into varying confidence categories. • Whether the result appropriately reflects the Competent Person(s)' view of the deposit. • The proportion of Probable Ore Reserves which have been derived from Measured Mineral Resources (if any).
Audits or reviews.	• The results of any audits or reviews of Ore Reserve estimates.
Discussion of relative accuracy/confidence.	• Where appropriate a statement of the relative accuracy and/or confidence in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate. • The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages or volumes, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. • These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.

Criteria	Explanation
Estimation and Reporting of Diamonds and other Gemstones *(criteria listed in other relevant groups also apply to this group; additional guidelines are available in the "Guidelines for the Reporting of Diamond Exploration Results" issued by the Diamond Exploration Best Practices Committee established by the Canadian Institute of Mining, Metallurgy and Petroleum.)*	
Indicator minerals.	• Reports of indicator minerals, such as chemically/physically distinctive garnet, ilmenite, chrome spinel and chrome diopside, should be prepared by a suitably qualified laboratory.
Source of diamonds.	• Details of the form, shape, size and colour of the diamonds and the nature of the source of diamonds (primary or secondary) including the rock type and geological environment.
Sample collection.	• Type of sample, whether outcrop, boulders, drill core, reverse circulation drill cuttings, gravel, stream sediment or soil, and purpose, e.g. large diameter drilling to establish stones per unit of volume or bulk samples to establish stone size distribution. • Sample size, distribution and representativity.
Sample treatment.	• Type of facility, treatment rate, and accreditation. • Sample size reduction. Bottom screen size, top screen size and re-crush. • Processes (dense media separation, grease, X-ray, hand-sorting etc.). • Process efficiency, tailings auditing and granulometry. • Laboratory used, type of process for micro diamonds and accreditation.
Carat.	• One fifth (0.2) of a gram (often defined as a metric carat or MC).
Sample grade.	• Sample grade in this section of Table 1 is used in the context of carats per units of mass, area or volume. • The sample grade above the specified lower cut-off sieve size should be reported as carats per dry metric tonne and/or carats per 100 dry metric tonnes. For alluvial deposits, sample grades quoted in carats per square metre or carats per cubic metre are acceptable if accompanied by a volume to weight basis for calculation. • In addition to general requirements to assess volume and density there is a need to relate stone frequency (stones per cubic metre or tonne) to stone size (carats per stone) to derive sample grade (carats per tonne).

Criteria	Explanation
Estimation and Reporting of Diamonds and other Gemstones *(criteria listed in other relevant groups also apply to this group; additional guidelines are available in the "Guidelines for the Reporting of Diamond Exploration Results" issued by the Diamond Exploration Best Practices Committee established by the Canadian Institute of Mining, Metallurgy and Petroleum.)*	
Reporting of Exploration Results.	• Complete set of sieve data using a standard progression of sieve sizes per facies. Bulk sampling results, global sample grade per facies. Spatial structure analysis and grade distribution. Stone size and number distribution. Sample head feed and tailings particle granulometry. • Sample density determination. • Percent concentrate and undersize per sample. • Sample grade with change in bottom cut-off screen size. • Adjustments made to size distribution for sample plant performance and performance on a commercial scale. • If appropriate or employed, geostatistical techniques applied to model stone size, distribution or frequency from size distribution of exploration diamond samples. • The weight of diamonds may only be omitted from the report when the diamonds are considered too small to be of commercial significance. This lower cut-off size should be stated.
Grade estimation for reporting Mineral Resources and Ore Reserves.	• Description of the sample type and the spatial arrangement of drilling or sampling designed for grade estimation. • The sample crush size and its relationship to that achievable in a commercial treatment plant. • Total number of diamonds greater than the specified and reported lower cut-off sieve size. • Total weight of diamonds greater than the specified and reported lower cut-off sieve size. • The sample grade above the specified lower cut-off sieve size.

Criteria	Explanation
Estimation and Reporting of Diamonds and other Gemstones *(criteria listed in other relevant groups also apply to this group; additional guidelines are available in the "Guidelines for the Reporting of Diamond Exploration Results" issued by the Diamond Exploration Best Practices Committee established by the Canadian Institute of Mining, Metallurgy and Petroleum.)*	
Value estimation.	• Valuations should not be reported for samples of diamonds processed using total liberation method, which is commonly used for processing exploration samples. • To the extent that such information is not deemed commercially sensitive, Public Reports should include: — Diamonds quantities by appropriate screen size per facies or depth. — Details of parcel valued. — Number of stones, carats, lower size cut-off per facies or depth. • The average $/carat and $/tonne value at the selected bottom cut-off should be reported in US Dollars. The value per carat is of critical importance in demonstrating project value. • The basis for the price (e.g. dealer buying price, dealer selling price etc.). • An assessment of diamond breakage.
Security and integrity.	• Accredited process audit. • Whether samples were sealed after excavation. • Valuer location, escort, delivery, cleaning losses, reconciliation with recorded sample carats and number of stones. • Core samples washed prior to treatment for micro diamonds. • Audit samples treated at alternative facility. • Results of tailings checks. • Recovery of tracer monitors used in sampling and treatment. • Geophysical (logged) density and particle density. • Cross validation of sample weights, wet and dry, with hole volume and density, moisture factor.
Classification.	• In addition to general requirements to assess volume and density there is a need to relate stone frequency (stones per cubic metre or tonne) to stone size (carats per stone) to derive grade (carats per tonne). The elements of uncertainty in these estimates should be considered, and classification developed accordingly.

APPENDIX 1
GENERIC TERMS AND EQUIVALENTS

Throughout the Code, certain words are used in a general sense when a more specific meaning might be attached to them by particular commodity groups within the industry. In order to avoid unnecessary duplication, a non-exclusive list of generic terms is tabulated below together with other terms that may be regarded as synonymous for the purposes of this document.

Generic Term	Synonyms and Similar Terms	Intended Generalised Meaning
Tonnage	Quantity, Volume	An expression of the amount of material of interest irrespective of the units of measurement (which should be stated when figures are reported)
Grade	Quality, Assay, Analysis (Value)	Any physical or chemical measurement of the characteristics of the material of interest in samples or product. Note that the term quality has special meaning for diamonds and other gemstones. The units of measurement should be stated when figures are reported.
Metallurgy	Processing, Beneficiation, Preparation, Concentration	Physical and/or chemical separation of constituents of interest from a larger mass of material. Methods employed to prepare a final marketable product from material as mined. Examples include screening, flotation, magnetic separation, leaching, washing, roasting etc.
Recovery	Yield	The percentage of material of initial interest that is extracted during mining and/or processing. A measure of mining or processing efficiency.
Mineralisation	Type of deposit, orebody, style of mineralisation.	Any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest. The term is intended to cover all forms in which mineralisation might occur, whether by class of deposit, mode of occurrence, genesis or composition.
Ore Reserves	Mineral Reserves	"Ore Reserves" is preferred under the JORC Code but "Mineral Reserves" is in common use in other countries and is generally accepted. Other descriptors can be used to clarify the meaning e.g. coal reserves, diamond reserves etc.
Cut off grade	Product specifications	The lowest grade, or quality, of mineralised material that qualifies as economically mineable and available in a given deposit. May be defined on the basis of economic evaluation, or on physical or chemical attributes that define an acceptable product specification.

Appendix 3

Glossary of Terms (General)

GLOSSARY OF TERMS — (GENERAL)

%	Percent
0	Degrees
˚C	Degrees Celsius
ad	Air dried, one basis for the determination of coal quality parameters
ARD	Acid Rock Drainage, that is water containing acid that has been released from rock strata
AMC	AMC Consultants Pty Ltd, an Australian mining consultancy based in Brisbane
AMDAL	Indonesian equivalent of Environmental Impact Assessment (EIA)
ANFO	Ammonium Nitrate/Fuel Oil
Anticline	A fold of rock strata where the strata are convex downwards
ARD	Acid Rock Drainage
Auger mining	Extraction of coal through the insertion of an auger into the coal seam, usually from the wall of an open pit
AusIMM	Australasian Institute of Mining and Metallurgy
Bord and Pillar	Method of underground mine extraction characterised by coal removal around non-mined pillars. Also known as room and pillar
Bt	Billion tonnes
Bcm/t	Bulk cubic metres per tonne, for expressing the stripping ratio of overburden to coal in open pits
Closure Plan	The closure plan required to be submitted to the regulatory authority at least one year before a mine is closed.
Cm	Centimetre
Clean coal	Coal worked and sold without the need for washing
Coal Assets	The Company's coal assets in Indonesia

Coal Reserve	A Coal Reserve is the economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal reserves are subdivided in order of increasing confidence into Probable coal reserves and Proved coal reserves
Coal Resource	Is a concentration or occurrence of coal for which there are reasonable prospects for eventual economic extraction? The location, quantity, quality, geological characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal Resources are subdivided in order of increasing geological confidence into Inferred, Indicated and Measured categories
Coal Seam	Portion of the strata that contains solid fossil fuel
Competent Person	A geologist or engineer with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination thereof, has experience relevant to the subject matter of the mineral project and the technical report and is a member in good standing of a professional association.
Competent	Strata or rock structure combining sufficient firmness and flexibility to transmit pressure
Core (drilling and recovery)	Samples of intact rock obtained during drilling and the percentage of rock recovered
CPP	Coal Preparation Plant facility used to selectively remove an undesirable portion (waste) from the ROM/raw coal using chemical or mechanical methods. Also known as a Wash Plant
CSN	Crucible Swelling Number
CV	Calorific Value
Dilution	Non coal material which becomes mixed with the coal during working
Dip	Angle which strata makes with the horizontal
DMC	Dense Medium Cyclone, used to separate material of differing densities

E	East
Fault	A dislocation of rock strata
Feasibility Study(FS)	A Feasibility Study assesses in detail the technical soundness and Economic Viability of an undeveloped mining project, and serves as the basis for the investment decision and as a bankable document for project financing. The study constitutes an audit of all geological, engineering, environmental, legal and economic information accumulated on the project. Generally, a separate environmental impact study is required
FELs	Front-End Loaders
Highwall	The highest wall of an open pit, generally exposed in the direction of working as excavation deepens
HQ	HQ-size core (63.5mm) core
IFC	International Finance Corporation, a member of the World Bank group
Giproshakht	A Russian Mining Institute
Indicated Resource	An Indicated Resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
Inferred Resource	An Inferred Resource is that part of a coal resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability
IMMM	Institute of Mining, Minerals and Metallurgy
IPO	Initial Public Offering
ISO	International Standards Organisation

Jig	Gravity concentration process by the application of vertical pulses of water
JORC Code	Australian Code for Reporting of Coal Resources and Coal Reserves
JORC	Joint Coal Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
kcal/kg	Kilocalories per kilogram, equivalent to 1,000 calories per kilogram
kg	Kilograms
km	Kilometres, equivalent to 1,000 metres
KP	Kuasa Pertambangan (mining authorisation)
km2	Square kilometres
kV	Kilovolt, equivalent to 1,000 volts
kVA	Kilovolt-ampere, equivalent to 1,000 volt-ampere
kWh	Kilowatt-hour, equivalent to 1,000 watt-hour
LoM (Plan)	Life of Mine Plan
m	Metre/s
M	Million
m2	Square metre (also sq. m)
m3	Cubic metres
m3/day	Cubic metres per day
m3/hr	Cubic metres per hour
m3/sec	Cubic metres per second
m3/tonne	Cubic metres per tonne
mg/m3	Milligrams per cubic metre

Marketable Reserves	Saleable coal from Recoverable Reserves after accounting for preparation plant yield where applicable
Measured Resource	A Measured Resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes
MER	Mineral Experts Report
Methane	A colourless, odourless, explosive gas (CH4) typically associated with coal seams
Ml	Megalitres, equivalent to 1,000,000 litres
mm	Millimetre
Mo	Moisture
Mt	Million tonnes
Mtpa	Million tonnes per annum
MW	Megawatt, equivalent to 1,000,000 watt
N	North
Normal Fault	A fault in which the hanging wall appears to have moved downward relative to the footwall
North Block	The block located in the Trubaindo concession area
NQ	NQ-size (47.6mm diameter) core
OP	Open Pit, a method of mining similar to open-cut, also known as surface mining
PAF	Potential Acid Forming material which may require treatment during and after excavation
Openhole (drilling)	Method of drilling where rock is ground away
Overburden	Waste material overlying a coal seam

Pillar	A block of coal designated for extraction utilizing longwall mining
Parting	Rock material within or between mineable coal seams, sometimes extracted with the coal
pH	A measure of the acidity or alkalinity of a solution, numerically equal to 7 for neutral solutions, increasing with increasing alkalinity and decreasing with increasing acidity. The pH scale commonly in use ranges from 0 to 14
Pillar	Column of coal left behind for support in a mine
PPE	Personal Protective Equipment
ppm	Parts per million
PreFeasibility Study (PFS)	A stage of technical and economic assessment prior to a more detailed FS
Preston Sanders Formula	A formula for estimating the in-situ density of coal from laboratory measured values of coal density to account for the additional voids present in the bulk coal seam which are lost during laboratory processing. RD is =RDad x (100 - IMad)/(100 + RDad x (TMis - IMad) - TMis) Where is is = in-situ ad = air dried RD = relative density IM = inherent moisture TM = total moisture
Principal Mining Engineer/ Geologist/Environmental Scientist	An employee of SRK Consulting with considerable experience (normally at least 10 years) and knowledge in their fields of expertise which would qualify them to be considered a Competent Person under various international mineral reporting codes
PQ	PQ-size (85mm diameter) core
Probable Coal Reserve	A Probable Coal Reserve is the economically mineable part of an Indicated, and in some circumstances Measured, Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

Productivity	Measurements of workers'/equipment efficiency usually expressed in terms of tonnes per unit of time
Proved Coal Reserve	A Proved Coal Reserve is the economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified
QSE	Quality, safety and environmental policy of the Company
Raw Coal	Coal on an as-mined basis. May be sold directly or cleaned if necessary
Recoverable Coal	The portion of a coal reserve available for mining exclusive of coal losses due to mining
Recoverable Reserves Resources	Proved and probable reserves prior to adjustment for preparation plant yield
ROM	Run-of-Mine I the as-mined material as it leaves the mine prior to any processing
S	South
SG	Specific Gravity
Shearer	Equipment utilized to extract coal from a face in a longwall mine
SRK	SRK Consulting (UK) Limited
SRK Group	SRK Consulting (Global) Limited
Stripping ratio	Ratio of overburden to be moved for every corresponding quantity of ROM coal mined, usually expressed as m3/t
Su	Sulphur content of coal expressed as a %
Subcrop	Line shown on a map where coal seam reaches overlying strata
Syncline	A fold in which the core contains the stratigraphically younger rocks; it is generally concave upward

t	Metric ton equal to 1,000 kilogrammes
t/m3	Tonnes per cubic metre
Thrust fault	Dislocation of rock strata where one set of strata is pushed over another set
TM	Total moisture
tpa	Tonnes per annum
tph	Tonnes per hour
UG	Underground
V	Volts
Valmin Code	Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
VM	Volatile Matter of coal expressed as %
W	West
WWTP	Waste Water Treatment Plants
Longwall	Mining technique whereby two sets of parallel entries are excavated on either side of the block of coal that is to be mined. These entries are then joined by a cross-cut exposing a "long-wall" of coal for mining.
GKZ	States Reserve Committee
Royalties or NDPI	Tax paid on extracted mineral reserves. For coal royalty is equal to 4% of revenue made by company or 4% of operating cost. Second way of calculation is currently not used in Russia.
Yield	Saleable portion of coal cleaned in a preparation plant relative to the total tonnes cleaned

Appendix 4

Russian Coal Grade Classification

EXPLANATION OF RUSSIAN COAL CLASSIFICATION SYSTEM AND "MARK OF COAL" TERM

The term "Mark of coal" is used in this Handbook to determine quality characteristics of coals produced in Russia instead of term "Rank" accepted in other coal classification systems. The reason for this is as follows.

The system has a lot of similarities to well known international classifications system for example, the American Society for Testing and Materials (ASTM) system classifies coals according to their degree of metamorphism in the natural series from lignite to anthracite. The basic scheme of this classification is according to fixed carbon and calorific value calculated to the mineral-matter-free basis. British coal classification system is based upon the volatile matter, expressed upon the dry, mineral-matter-free basis and coking power of clean material (containing not above 10 percent ash) as determined in the Gray-King assay. The volatile matter is calculated to the dry, mineral-matter-free basis after correcting the ash to mineral matter. The system of coal classification which was devised by the United Nations Economic Commission for Europe is based partly on the British National Coal Board Code system and partly upon the ASTM coal classification. The parameters used are caking and coking properties for coals containing less than 33% of volatile matter, and calorific value for coals with more than 33% of volatile matter.

The actual coal classification was developed in the former Soviet Union and in 1990 adopted as the state standard in which it is defined as the classification according to genetic and technological parameters. Since that time till now it is officially applied in the Russian Federation. This system of classification is based upon the degree of metamorphism, which is defined according to the mean value of vitrinite reflectance index (Ro). Another principal parameter used is volatile matter on the dry ash-free basis. Calorific value is used for the classification of coals by types (brown coal, hard coal and anthricite). Some other parameters are used to characterize caking properties of hard coals, namely, the thickness of plastic layer (y), free swelling index (SI), Roga index (RI) etc. According to all above mentioned parameters coals are divided in 17 marks. The term "mark" is used in this Handbook instead of "rank" because there is no complete adequacy between these two terms. The term "mark" has broader sense and has been applied for decades both in Russia and abroad. Each mark is encoded with Russian letter or letters which are the initial letters of the full name of coal mark in Russian. For example, "тощий" (lean) coal is encoded as "T". In the publication all letter codes of coals are given in Latin equivalents of Russian letters. Some Russian letters have no direct Latin equivalent. In such cases two or more Latin letters are used to express corresponding Russian letter according to accepted international practice.

The following table contains all necessary information about marks of coal, including Russian and Latin letter codes, full names of corresponding coals and their quality characteristics in accordance with the state standard.

Letter code in Russian	Letter code in Latin	Full names of marks and coal quality characteristics
Б	B	Бурый уголь. Brown coal. This mark includes coals with low values of vitrinite reflectance index (Ro less than 0.6%) and volatile matter from 10 to 48% and more. Calorific value of brown coals on wet ash-free basis is less than 24MJ/kg.
Д	D	Длиннопламенный уголь. Long flame coal. This mark includes coals with vitrinite reflectance indices (Ro) from 0.40 to 0.79%, volatile matter more than 30% and thickness of plastic layer (y) less than 6mm.
ДГ	DG	Длиннопламенный газовый уголь. Long flame gas coal. This mark includes coals with vitrinite reflectance indices (Ro) from 0.50 to 0.79% and volatile matter more than 30%. Coals of mark D are transitional from long flame to gas coals. They differ from coals of mark D in having caking power with thickness of plastic layer (y) from 6 to 9mm. From gas coals with similar caking power they differ in lower degree of metamorphism.
Г	G	Газовый уголь. Gas coal. This mark includes coals with vitrinite reflectance indices (Ro) from 0.50 to 0.99%, volatile matter more than 30% and thickness of plastic layer (y) from 6 to 12mm.
ГЖО	GZhO	Газовый жирный отощенный уголь. Gas fat semi-lean coal. This mark includes coals with vitrinite reflectance indices (Ro) less than 0.99%, volatile matter less than 38% and thickness of plastic layer (y) from 10 to 16mm. Coals of mark GZhO are transitional from gas to gas fat coals.
ГЖ	GZh	Газовый жирный уголь. Gas fat coal. This mark includes coals with vitrinite reflectance indices (Ro) from 0.50 to 0.99%, volatile matter 38% and more and thickness of plastic layer (y) 16-25mm. Coals of mark GZh are transitional from gas and fat coals. They differ from gas coals in higher caking power. From fat coals of similar degree of metamorphism they differ in higher volatile matte

Letter code in Russian	Letter code in Latin	Full names of marks and coal quality characteristics
Ж	Zh	Жирный уголь. Fat coal. This mark includes coals with vitrinite reflectance indices (Ro) from 0.80 to 1.19%, volatile matter 28-36% and thickness of plastic layer (y) 14-26 mm. Coals of mark Zh are the most valuable coking coals.
КЖ	KZh	Коксовый жирный уголь. Coke fat coal. This mark includes coals with vitrinite reflactance indices (Ro) from 0.90 to 1.29%, volatile matter from 24 to 30% and thickness of plastic layer (y) 18mm. and more.
К	K	Коксовый уголь. Coke coal. This mark includes coals with vitrinite reflectance indices (Ro) from 1.00 to 1.69% and volatile matter 24-28%. Thickness of plastic layer is 13-17mm. for coals with Ro from 1.00 to 1.29% and 13mm. for coals with Ro from 1.30 to 1.69%. Coke coals have good caking power.
КО	KO	Коксовый отощенный уголь. Coke semi-lean coal. This mark includes coals with vitrinite reflectance indices from 0.80 to 1.39%, volatile matter similar to that of coke coal and thickness of plastic layer (y) 10-12mm.
КСН	KSN	Коксовый слабоспекающийся низкометаморфизованный. Coke weakly caking low metamorphic coal. This mark includes coals with vitrinite reflectance indices (Ro) from 0.80 to 1.09%. Volatile matter is not more than 30%. Thickness of plastic layer is 6-9mm.
КС	KS	Коксовый слабоспекающийся уголь. Coke weakly caking coal. Coals of this mark are almost similar to coals of mark K according to the degree of metamorphism. They have vitrinite reflectance indices (R o) varying from 1.10 to 1.69% and volatile matter less than 30%. Thickness of plastic layer (y) is 6-9mm.
ОС	OS	Отощенный спекающийся уголь. Semi-lean caking coal. This mark includes coals with vitrinite reflectance indices (Ro) varying from 1.30 to 1.79% and volatile matter which is not more than 20.0%. Thickness of plastic layer varies from 6 to 12mm.

Letter code in Russian	Letter code in Latin	Full names of marks and coal quality characteristics
TC	TS	Тощий спекающийся уголь. Lean caking coal. This mark includes coals of vitrinite and fusinite composition with vitrinite reflectance indices from 1.40 to 1.99% and volatile matter less than 20%. Caking property of these coals is low. Thickness of plastic layer (y) is less than 6mm. But on rapid heating caking becomes quite distinct and according to Roga method (RI) caking property is 13 and more units.
CC	SS	Слабоспекающийся уголь. Weakly caking coal. This mark includes wide range of coals with vitrinite reflectance indices (Ro) from 0.70 to 1.79% and volatile matter more than 20%. Caking property is very low (thickness of plastic layer is less than 6mm).
T	T	Тощий уголь. Lean coal. This mark includes coals of vitrinite and fusinite composition with volatile matter from 8 to 18%. Vitrinite reflectance indices (Ro) vary from 1.30 to 2.59%. Coals of mark T do not have caking power.
A	A	Антрацит. Anthracite. Anthracites are coals of the highest degree of metamorphism with vitrinite reflectance indices (Ro) more than 2.20% and volatile matter less than 8%.

Note: Russian brown coals are divided in three groups according to moisture content on as received basis (Wr). These groups are encoded as 1Б, 2Б and 3Б in Russian and 1B, 2B and 3B in Latin letters. The higher number of the group corresponds to the higher degree of coalification. The moisture content of 1B group is 40% and more, 2B group - from 30 to 40% and 3B group - 30% and less.

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 circular and confirm, having made all reasonable enquires, 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

The authorised and issued share capital of the Company as at the Latest Practical Date, and immediately after the increase in the authorised share capital of the Company and the allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes are set out as follows:

As at the Latest Practicable Date

Authorised share capital:		*HK$*
10,000,000,000	Shares	100,000,000
Issued and fully paid share capital:		
2,857,501,200	Shares	28,575,012

Upon Completion, the increase in the authorised share capital of the Company becoming effective and the allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes

Authorised share capital:		*HK$*
100,000,000,000	Shares	1,000,000,000
Issued and to be issued share capital:		
2,857,501,200	Shares	28,575,012
54,327,000,000	Maximum number of Conversion Shares to be alloted and issued upon full conversion of the Convertible Notes *(Note)*	543,270,000
57,184,501,200		571,845,012

Note: The above figures are shown for illustration purpose only by assuming the issue of the First Convertible Note at Completion, the issues of the Second Convertible Note and the Third Convertible Note by the Company to the Vendor after the fulfilment of the respective conditions of the First Contingent Consideration and Second Contingent Consideration as set out in the letter from the Board, as pursuant to the terms of the Convertible Notes (i) after the exercise of the conversion right attached to the Convertible Notes, the holder of the Convertible Notes, together with the parties acting in concert with it shall not hold or control such level of the voting rights of the Company as may trigger a mandatory general offer under the Takeovers Code, regardless of whether a waiver has been granted by the SFC on the obligation of a mandatory general offer under the Takeovers Code; and (ii) the conversion of the outstanding principal amount of the Convertible Notes will not cause the public float of the Company unable to meet the requirement under Rule 8.08 of the Listing Rules.

All the issued Shares rank pari passu with each other in all respects including the rights to voting, dividends and return of capital. The new Shares to be allotted and issued as Conversion Shares will, when issued and fully paid, rank pari passu in all respects with the then issued Shares on the date of allotment and issue.

Save for the Options and the Warrants, the Company does not have any outstanding options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date.

3. DIRECTORS' INTERESTS

(a) Interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Shares

Name of Directors	Long position/ Short position	Nature of interest	Number of issued Shares interested or deemed to be interested	Number of underlying Shares interested or deemed to be interested	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
Mr. Li Wing Sang ("Mr. Li") *(Note 1)*	Long position	Beneficial owner	—	19,560,000	0.68%
Mr. Chiu Chi Hong ("Mr. Chiu") *(Note 1)*	Long position	Beneficial owner	—	19,560,000	0.68%
Mr. Lim Ho Sok ("Mr. Lim") *(Note 2)*	Long position	Interest in controlled corporation	560,000,000	—	19.60%

Notes:

1. As at the Latest Practicable Date, Mr. Li and Mr. Chiu each owns 19,560,000 share options under the share option scheme adopted by the Company on 19 October 2002 which confer each of them the rights to acquire 19,560,000 Shares, with the exercise period from 10 September 2007 to 9 September 2017 at an exercise price of HK$0.2226 per share option.

2. These 560,000,000 Shares are held by Goldwyn Management Limited ("Goldwyn "), a company wholly-owned by Mr. Lim as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which 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 any interests or short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Directors' interests in assets/contracts and other interests

There was no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2008, being the date to which the latest published audited consolidated accounts of the Group were made up.

(c) Service contracts of the Directors

As at the Latest Practicable Date, there was no existing or proposed service contract between the Directors and any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation).

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had or were deemed or taken to have, an interest or short position in the shares and underlying shares of the Company 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 were, 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 other member of the Enlarged Group or had any option in respect of such capital:

Interest in the Shares

Name of Shareholders	Long position/ Short position	Nature of interest	Number of issued Shares interested or deemed to be interested	Number of underlying Shares interested or deemed to be interested	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
DTV China Holdings Limited ("DTV Holdings") *(Note 1)*	Long position	Beneficial owner	648,000,000	—	22.68%
Mr. Li Yi Nan *(Note 1)*	Long position	Interest in controlled corporation	648,000,000	—	22.68%
Ms. Yao Gin Jhi *(Note 1)*	Long position	Interest of spouse	648,000,000	—	22.68%
Goldwyn *(Note 2)*	Long position	Beneficial owner	560,000,000	—	19.60%
Mr. Lim *(Note 2)*	Long position	Interest in controlled corporation	560,000,000	—	19.60%
Plenty Holdings Limited ("Plenty") *(Note 3)*	Long position	Beneficial owner	240,000,000	—	8.40%
Mr. Ho Yung, Pedder ("Mr. Ho") *(Note 3)*	Long position	Interest in controlled corporation	240,000,000	—	8.40%
Ms. Cheong Phau Choo, Yvonne *(Note 3)*	Long position	Interest of spouse	240,000,000	—	8.40%
Vendor *(Note 4)*	Long position	Beneficial owner	—	54,327,000,000	1,901.21%
Warrantor *(Note 4)*	Long position	Interest in controlled corporation	—	54,327,000,000	1,901.21%

Notes:

1. The entire issued share capital of DTV Holdings is beneficially owned by Mr. Li Yi Nan as at the Latest Practicable Date. By virtue of the SFO, Mr. Li Yi Nan and Ms. Yao Gin Jhi, being the spouse of Mr. Li Yi Nan, are deemed to be interested in the 648,000,000 Shares which DTV Holdings has beneficial interests in.

2. These 560,000,000 Shares are held by Goldwyn, a company wholly-owned by Mr. Lim as at the Latest Practicable Date.

3. The entire issued share capital of Plenty is beneficially owned by Mr. Ho as at the Latest Practicable Date. By virtue of the SFO, Mr. Ho and Ms. Cheong Phau Choo, Yvonne, being the spouse of Mr. Ho, are deemed to be interested in the 240,000,000 Shares which Plenty has beneficial interests in.

4. The 54,327,000,000 underlying Shares represent the maximum number of Conversion Shares that may be alloted and issued by the Company to the Vendor upon full conversion of the Convertible Notes. The Vendor is wholly owned by the Warrantor. Accordingly, the Warrantor is deemed to be interested in the said 54,327,000,000 underlying Shares which the Vendor has beneficial interests in.

Long position in the share capital of other members of the Enlarged Group and options in respect of such capital

Name of members of the Enlarged Group	Name of substantial shareholder	Number of issued shares beneficially held/ amount of registered capital beneficially interested	Percentage of shareholding
Century Power (China) Limited	Rich DTV Holding, Inc. *(Note 1)*	4,900 shares	49%
Target Company	Vendor *(Note 2)*	100 shares	10%
Russia Subsidiary	Tannagashev Ilya Nikolaevich	RUB1,554 of the total registered capital of RUB10,000	15.54%

Notes:

1. Rich DTV Holding Inc. is owned as to 41% by Rich-Tech Holding, Inc. which in turns is wholly owned by Mr. Wu Bo, as to 23% by Mr. Yuan Wei and the remaining 36% owned by other individuals as at the Latest Practicable Date. Both Mr. Wu Bo and Mr. Yuan Wei are Independent Third Parties as at the Latest Practicable Date.

2. The Vendor is wholly owned by the Warrantor as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date and so far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company 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 members of the Company or any other member of the Enlarged Group or held any option in respect of such capital.

5. LITIGATION

On 25 September 2008, the SFC has commenced proceedings (the "Proceedings") in the High Court to seek disqualification order and compensation order against Mr. Cheung Keng Ching, the former chairman of the Company and a former executive Director, Ms Chou Mei, a former executive Director, and Mr. Lau Ka Man Kevin, a former executive Director. The Company was named as the fourth Respondent in the Proceedings.

Save as disclosed above, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance. There was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

6. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, were entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(i) the Acquisition Agreement;

(ii) the sale and purchase agreement dated 27 October 2008 entered into between the Ronco Trading Company Limited, an indirect wholly-owned subsidiary of the Company (as vendor) and Mr. Lao Cheok Lam (as purchaser) in relation to the disposal of 52% equity interest of Huzhou Ronco Sweater Co., Ltd at a consideration of RMB770,000;

(iii) the sale and purchase agreement dated 2 September 2008 entered into between the Target Company (as purchaser) and the Russian Shareholders (as vendor) in relation to the purchase of the 70% equity interest in the Russia Subsidiary at a consideration of US$15,000,000;

(iv) the provisional sale and purchase agreement dated 1 August 2008 and the formal sale and purchase agreement dated 19 August 2008 entered into between Take Luck Development Limited ("Take Luck"), an indirect wholly-owned subsidiary of the Company (as vendor) and Mr. Cheung Keng Ching, a former executive Director (as purchaser) in relation to the disposal of an office property at a consideration of HK$9,500,000;

(v) two placing agreements dated 1 August 2008 entered into by the Company with two independent third parties in relation to the private placing of 86,000,000 unlisted warrants and 90,000,000 unlisted warrants respectively at an issue price of HK$0.01 per warrant;

(vi) the sale and purchase agreement dated 29 January 2008 entered into among Century Power (China) Limited, an indirect wholly-owned subsidiary of the Company (as purchaser), DTV China Holdings Limited (as vendor) and Mr. Li Yi Nan (as guarantor) in relation to the sale and purchase of 51% equity interests of DTV China, Inc. and the loan indebted by DTV China, Inc. to DTV China Holdings Limited at a consideration of HK$357,000,000;

(vii) the supplemental agreement dated 24 April 2008 entered into among Century Power (China) Limited, DTV China Holdings Limited and Li Yi Nan, pursuant to which DTV China Holdings Limited agreed to accept a promissory note due on 30 September 2008 in the amount of HK$20,000,000 (the "**Promissory Note**") to be issued by Century Power (China) Limited upon completion of acquisition of DTV China Inc, in lieu of payment of HK$20,000,000 by Century Power (China) Limited as part of the cash portion of the consideration.

(viii) the amendment and restatement agreement dated 30 September 2008 entered into between Century Power (China) Limited and DTV China Holdings Limited, pursuant to which DTV China Holdings Limited and Century Power (China) Limited agreed to reduce the principal amount of the Promissory Note to HK$10,000,000 (due to partial settlement of HK$10,000,000 due thereunder) and extend the maturity date of the amended Promissory Note to 30 December 2008.

(ix) the provisional sale and purchase agreement dated 22 January 2008 and the formal sale and purchase agreement dated 12 February 2008 entered into between Take Luck (as vendor) and Grand Victor Investment Limited (as purchaser) in relation to the disposal of the property at Flat B on 1st Floor and its flat roofs and car parking space 13 on ground floor, Haddon Court, No. 41C Conduit Road, Hong Kong at a consideration of HK$17,500,000;

(x) the placing agreement dated 13 November 2007 entered into between the Company and Enlighten Securities Limited in relation to the placing of 391,000,000 unlisted warrants at an issue price of HK$0.01 per warrant;

(xi) the placing agreement dated 23 January 2007 and supplemental agreements to the placing agreement on 26 January 2007 and 29 January 2007 entered into between the Company and VC Brokerage Limited in relation to the placing of up to 320,000,000 unlisted warrants at an issue price of HK$0.01 per warrant;

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates were interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. EXPERTS AND CONSENTS

(i) The following are the qualifications of the experts who have been named in this circular or have given opinions and advice which contained in this circular:

Name	Qualification
Vigers	An independent professional valuer
SRK	An independent technical adviser
Shu Lun Pan Horwath Hong Kong CPA Limited ("Horwath")	Certified Public Accountants

(ii) None of Vigers, SRK and Horwath has any shareholding, directly or indirectly, in any member of the Enlarged 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 Enlarged Group.

(iii) Each of Vigers, SRK and Horwath 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 they are included.

(iv) None of Vigers, SRK and Horwath had any direct or indirect interest in any asset which has been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or 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.

(v) Neither SRK nor any Directors are interested in any assets which have been within the two years immediately preceding the issue of this circular, acquired or disposed of by or leased to the Group or any of its subsidiaries.

9. PROCEDURES FOR DEMANDING A POLL

Pursuant to the Article 66 of the articles of association of the Company, every resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(i) by the chairman of the meeting; or

(ii) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person or in the case of a member 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 the members having the right to vote at the meeting; or

(iv) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Shares 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.

Notwithstanding any other provision of these articles, (a) if the aggregate proxies held by the chairman of a particular meeting and the Directors account for 5%. or more of the total voting rights at that meeting, and (b) if on a show of hands in respect of any resolution the members at the meeting vote in the opposite manner to that instructed in the proxies referred in (a) above, then the chairman of the meeting and/or any Director holding the proxies referred to above shall demand a poll. However, if it is apparent from the total proxies held by the persons referred to in (a) above that a vote taken on a poll will not reverse the vote taken on a show of hands, then no poll shall be required.

A poll which is duly demanded shall be then held in such manner prescribed by the articles of association.

10. MISCELLANEOUS

(i) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is at 23rd Floor, Chun Wo Commercial Centre, 23-29 Wing Wo Street, Central, Hong Kong.

(ii) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited, the address of which is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. The share registrar of the Company in Cayman Islands is Bank of Bermuda (Cayman) Limited, the address of which is at P.O. Box 513 G.T., Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

(iii) The company secretary and the qualified accountant of the Company is Ms. Lo Suet Fan, an associate member of the Hong Kong Institute of Certified Public Accountants, and a fellow member of the Association of Chartered Certified Accountants.

(iv) In the event of inconsistence, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 23rd Floor, Chun Wo Commercial Centre, 23-29 Wing Wo Street, Central, Hong Kong from the date of this circular up to and including the date of the EGM:

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

(ii) the annual reports of the Company for the two years ended 31 March 2008;

(iii) the accountants' report of the Target Company as set out in Appendix IIA to this circular;

(iv) the accountants' report of the Russia Subsidiary as set out in Appendix IIB to this circular;

(v) the report from Horwath in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(vi) the valuation report on the Russia Subsidiary prepared by Vigers as set out in Appendix V to this circular;

(vii) the report from Horwath in connection with the cash flow forecasts underlying the valuation of the Russia Subsidiary as set out in Appendix VI to this circular;

(viii) the report from the Board in connection with the cash flow forecasts underlying the valuation of the Russia Subsidiary as set out in Appendix VI to this circular;

(ix) the letter, summary of values and valuation certificates in relation to the property interests of the Group and the Target Group prepared by Vigers as set out in Appendix VIIA and VIIB respectively to this circular;

(x) the technical report of the Coal Mine prepared by SRK, as set out in Appendix VIII to this circular;

(xi) the written consents referred to under the paragraph headed "Experts and consents" in this appendix;

(xii) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and

(xiii) a copy of the Company's circulars dated 14 November 2008 and 31 March 2008.

RONTEX

RONTEX INTERNATIONAL HOLDINGS LIMITED

朗 迪 國 際 控 股 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1142)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of Rontex International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") will be held at 19/F, Chun Wo Commercial Centre, 23-29 Wing Wo Street, Central, Hong Kong on Friday, 16 January 2009 at 3:30 p.m. for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the acquisition agreement dated 31 October 2008 (the "**Acquisition Agreement**") entered into among (i) Cordia Global Limited (the "**Vendor**") as vendor, (ii) Grandvest International Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, as purchaser, (iii) Mr. Choi Sungmin, the sole beneficial owner of the Vendor, as warrantor of the Vendor in respect of the Acquisition Agreement, and (iv) the Company as guarantor of the Purchaser in respect of the Acquisition Agreement, in relation to the acquisition by the Group of 90% of the entire issued share capital of Langfeld Enterprises Limited (which is the beneficial owner of 70% equity interest in LLC "Shakhta Lapichevskaya"), a copy of the Acquisition Agreement has been produced to this meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated by the Acquisition Agreement (including but not limited to (i) the issue of convertible notes and execution of relevant security document thereunder, (ii) the allotment and issue of new shares upon conversion of such convertible notes, and (iii) the exercise of call option held by Langfeld Enterprises Limited to acquire additional 10% equity interest in LLC "Shakhta Lapichevskaya") be and are hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to do all other acts and things and execute all documents which they consider necessary or expedient for the implementation of and giving effect to the Acquisition Agreement and the transactions contemplated thereunder."

* *For identification purpose only*

2. “**THAT**

(a) the authorised share capital of the Company be increased from HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each to HK$1,000,000,000 divided into 100,000,000,000 of HK$0.01 each by the creation of additional 90,000,000,000 shares of HK$0.01 each; and

(b) the directors of the Company be and are hereby authorised to do all other acts and things and execute all documents which they consider necessary or expedient for the implementation of and giving effect to the increase of authorised share capital of the Company.”

By order of the Board
Rontex International Holdings Limited
Li Wing Sang
Deputy Chairman

Hong Kong, 31 December 2008

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

Head office and principal place of business in Hong Kong:
23rd Floor,
Chun Wo Commercial Centre,
23-29 Wing Wo Street,
Central,
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association 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 EGM 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. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited 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, at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM 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.

As at the Latest Practicable Date, the Board comprises Mr. Chiu Chi Hong, Mr. Li Wing Sang and Mr. Lim Ho Sok as executive Directors and Mr. Liew Swee Yean, Mr. Tam Tak Wah and Mr. Yoshinori Suzuki as independent non-executive Directors.