THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Fortune Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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

China Fortune Holdings Limited
中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 110)

(Formerly known as Fortune Telecom Holdings Limited)

PROPOSED (i) MAJOR AND CONNECTED TRANSACTION; AND (ii) MAJOR TRANSACTION CONCERNING THE ACQUISITION OF INTEREST IN PRC MINING COMPANY

Financial adviser to the Company

WALLBANCK BROTHERS
Securities (Hong Kong) Limited

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

South China Capital Limited

A letter from the Independent Board Committee is set out on page 24 of this circular.

A letter from South China Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 45 of this circular.

A notice convening a special general meeting of the Company to be held at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong at 11:00 a.m. on Tuesday, 15 January 2008, is set out on pages 216 to 218 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompany form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F, 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 holding such meeting or any adjourned meeting (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

31 December 2007

* *For identification purpose only*

CONTENTS

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

"Acquisition"	the acquisition of the entire equity interest in the BVI Company by the Purchaser pursuant to the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement dated 24 July 2007 entered into between the Purchaser and the First Vendor in relation to the Acquisition and as amended by the Supplemental Agreements and the First Confirmation Letter
"Announcement"	the announcement issued on 27 July 2007 by the Company in relation to the Acquisition
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"BVI Company"	富鼎國際有限公司 (Richly Giant International Limited), a company incorporated in the BVI with limited liability and wholly owned by the First Vendor
"Company"	China Fortune Holdings Limited (formerly known as Fortune Telecom Holdings Limited), a company incorporated in Bermuda with limited liability, whose securities are listed on the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Consideration"	HK$367.2 million, being the consideration for the Acquisition
"Consideration Share(s)"	240 million new Shares to be allotted and issued to the First Vendor for the partial settlement of the Consideration pursuant to the terms of the Acquisition Agreement and the Supplemental Agreement II
"Covenanter"	Mr. Zhang Zhulin (張竹林先生)
"Directors"	the directors of the Company
"Enlarged Group"	the Group immediately after completion of the Acquisition and the Further Acquisition

"First Confirmation Letter"	the confirmation letter signed by the Purchaser and the First Vendor on 21 December 2007 in relation to the removal of adjustment mechanism for the profit guarantee as stated in the Supplemental Agreement II and the extension of completion date for the Acquisition as stated in the Acquisition Agreement
"First Vendor"	Messrs. Lau Siu Ying, Lau Hung Bing and Lau Kin Ying
"Further Acquisition"	the acquisition of further 10% direct interest in the PRC Mining Company by the Purchaser pursuant to the Further Acquisition Agreement
"Further Acquisition Agreement"	the sale and purchase agreement dated 12 November 2007 entered into between the Purchaser, the Covenanter and the Second Vendor in relation to the Further Acquisition and as amended by the Second Confirmation Letter
"Further Consideration"	HK$90 million, being the consideration for the Further Acquisition
"Further Consideration Share(s)"	66,016,300 new Shares to be allotted and issued to the Second Vendor for the settlement of the Further Consideration pursuant to the terms of the Further Acquisition Agreement
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"H.K. Company"	China Yellow Stone Investment Company Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the BVI Company
"Independent Board Committee"	the independent board committee of the Company formed by the Company to advise the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole
"Independent Shareholders"	Shareholders except Mr. Lau Siu Ying and his associates
"JV"	a sino-foreign equity joint venture upon completion of the restructuring of the PRC Mining Company

"Latest Practicable Date"	27 December 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"LCH"	LCH (Asia-Pacific) Surveyors Limited, an independent technical adviser and valuer to the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mining Permit"	the current mining permit of the PRC Mining Company and related mining rights
"Mining Site" or "Controlled Property"	the celestite, zinc and lead mining site situated in Hubei Province, the PRC, the mining right of which is held by the PRC Mining Company
"PRC"	the People's Republic of China (for the purpose of this circular, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan)
"PRC Mining Company"	黃石市鏸發礦業有限責任公司, a domestic company incorporated in the PRC with limited liability and is the holder of the Mining Permit, the particulars of which are set out in the section headed "INFORMATION OF THE SECOND VENDOR AND THE PRC MINING COMPANY" in this circular
"Purchaser"	Express Fortune Holdings Limited as the purchaser, a company incorporated in the BVI and a wholly owned subsidiary of the Company
"RMB"	the lawful currency of the People's Republic of China
"Second Confirmation Letter"	the confirmation letter signed by the Purchaser, the Second Vendor and the Covenanter on 21 December 2007 in relation to the removal of adjustment mechanism for the profit guarantee as stated in the Further Acquisition Agreement
"Second Vendor"	Foshan Goldsonic Telecom Development Company Limited (佛山市高訊通信發展有限公司), a company incorporated in the PRC with limited liability
"SFO"	Securities and Futures Commission Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened and to consider and, if thought fit, approve, among other things, the Acquisition and the Further Acquisition
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"South China Capital" or "Independent Financial Adviser"	South China Capital Limited, being a deemed licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 of the SFO, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement I"	the agreement dated 27 July 2007 entered into between the Purchaser and the First Vendor relating to the consideration adjustment mechanism set forth in this circular and the changes in the shareholding structure of the BVI Company
"Supplemental Agreement II"	the agreement dated 1 November 2007 entered into between the Purchaser and the First Vendor to adjust down the consideration for the Acquisition from HK$408 million to HK$367.2 million and provide a profit guarantee of not less than RMB80 million profit before tax for the fiscal year ending 31 December 2008 for the JV
"Supplemental Agreements"	the Supplemental Agreement I and the Supplemental Agreement II
"Technical Report"	the technical report of the Mining Site prepared by LCH as set out in Appendix VI to this circular
"USD"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

For the purpose of this circular, all amounts denominated in RMB and USD have been translated (for information only) into HK$ using the exchange rates of RMB1.00:HK$1.034 and USD1.00: HK$7.80. Such translation shall not be construed as a representation that amounts of RMB and USD were or may have been converted.

China Fortune Holdings Limited
中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 110)

(Formerly known as Fortune Telecom Holdings Limited)

Executive Directors:
Lau Siu Ying *(Chairman and C.E.O.)*
Luo Xi Zhi

Non-executive Directors:
Fung Oi Ip, Alfonso
Lo Wing Yat

Independent Non-executive Directors:
Chang Wing Seng, Victor
Wong Lit Chor, Alexis
Chen Yi Gang

Registered Office:
Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

Principal Office in Hong Kong:
Room 1505-7, Tower A,
Regent Centre,
63 Wo Yi Hop Road,
Kwai Chung,
Hong Kong

31 December 2007

To the Shareholders

Dear Sir or Madam,

PROPOSED (i) MAJOR AND CONNECTED TRANSACTION; AND (ii) MAJOR TRANSACTION CONCERNING THE ACQUISITION OF INTEREST IN PRC MINING COMPANY

INTRODUCTION

On 27 July 2007, the Board announced that on 24 July 2007, the Purchaser, a wholly owned subsidiary of the Company and the First Vendor, being the connected persons as defined under the Listing Rules, entered into the Acquisition Agreement. The Acquisition Agreement was amended by the Supplemental Agreements and the First Confirmation Letter entered into between the Purchaser and the First Vendor. Pursuant to the Acquisition Agreement, the Purchaser agreed to acquire from the First Vendor the entire issued share capital of the BVI Company, which will indirectly hold an approximately 40.8% equity interest in the PRC Mining Company through the H.K. Company, at a total consideration of HK$408 million, subject to adjustment mechanism with a maximum up to HK$500 million.

* *For identification purpose only*

On 1 November 2007, the Board announced that the Acquisition Agreement was further amended and supplemented by the Supplemental Agreement II under which (i) the consideration for the Acquisition was agreed by the Purchaser and the First Vendor to be adjusted down from HK$408 million to HK$367.2 million; and (ii) a profit guarantee provided by the First Vendor for not less than RMB80 million profit before tax for the fiscal year ending 31 December 2008 for the JV.

To secure the controlling stake of the PRC Mining Company, the Board announced that on 12 November 2007, the Purchaser entered into the Further Acquisition Agreement with the Second Vendor to acquire a further 10% direct interest in the PRC Mining Company at a consideration of HK$90 million. The Further Consideration is to be satisfied by the Company issuing to the Second Vendor of 66,016,300 new Shares at HK$1.3633 per Further Consideration Share. Pursuant to the Further Acquisition Agreement, a profit guarantee is provided by the Second Vender and the Covenanter for not less than RMB80 million profit before tax for the fiscal year ending 31 December 2008 for the JV.

As a summary, the total consideration for both the Acquisition and the Further Acquisition, concerning the total 50.8% controlling interest in the PRC Mining Company or the JV, will be at a sum of HK$457.2 million.

The final valuation report of the Mining Site prepared by LCH as at 30 September 2007 of RMB1,070 million (equivalent to approximately HK$1,106 million) is set out in the Appendix V to this circular. The total consideration of the Acquisition and the Further Acquisition represents a discount of approximately 18.63% to the final valuation of the Mining Site as at 30 September 2007.

The Mining Site has a variety of minerals including celestite (a kind of strontium), zinc and lead. According to the Technical Report as set out in Appendix VI to this circular, the mineral resources of celestite, zinc and lead are estimated to be 7,453,989 tonnes, 267,535 tonnes and 52,037 tonnes respectively.

The Acquisition constitutes a major and connected transaction for the Company under the Listing Rules and is subject to the Independent Shareholders' approval at the SGM by way of poll. An Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Acquisition Agreement. South China Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

The Further Acquisition when aggregated with the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Since the Second Vendor is a third party independent of the Company and its connected persons (as defined in the Listing Rules) of the Company and its subsidiaries and no Shareholder has any interests in the Further Acquisition, no Shareholder is required to abstain from voting at the SGM for the approval of the Further Acquisition including the issue of the Further Consideration Shares.

The purpose of this circular is to give you (i) further details of the Acquisition and the Further Acquisition; (ii) the recommendation of the Independent Board Committee regarding the Acquisition to the Independent Shareholders; (iii) a letter from South China Capital containing its advice to the Independent Board Committee and the Independent Shareholders on the Acquisition; and (iv) the notice of the SGM and the proxy form.

MAJOR AND CONNECTED TRANSACTION – THE ACQUISITION

I. The Acquisition Agreement, the Supplemental Agreements and the First Confirmation Letter

Date

24 July 2007 (as amended by the Supplemental Agreements and the First Confirmation Letter)

Parties

Purchaser: Express Fortune Holdings Limited as the purchaser, a wholly-owned subsidiary of the Company.

Vendors: Messrs. Lau Siu Ying, Lau Hung Bing and Lau Kin Ying as the First Vendor. Mr. Lau Siu Ying is the chairman and chief executive officer of the Company. Messrs. Lau Hung Bing and Lau Kin Ying are the brothers of Mr. Lau Siu Ying. Accordingly, the First Vendor are connected persons (as defined under the Listing Rules.)

Terms

Pursuant to the Acquisition Agreement, the Purchaser agreed to acquire from the First Vendor the entire issued share capital of the BVI Company incorporated by the First Vendor, which will indirectly hold an approximately 40.8% equity interest in the PRC Mining Company through the H.K. Company. The PRC Mining Company is the holder of a mining right of a mining site of celestite, zinc and lead in Hubei Province, the PRC.

Consideration

According to the Acquisition Agreement, the consideration for the entire shareholding interest of the BVI Company is HK$408 million (subject to Consideration adjustment mechanism up to a maximum of HK$500 million), consisting of HK$40 million by cash and the remaining HK$368 million by the issue of Consideration Shares by the Company. A refundable initial deposit of HK$25 million payable within 3 days upon signing of the Acquisition Agreement has already been paid.

Pursuant to the Acquisition Agreement, the Consideration will be adjusted with reference to the appraised value shown in the valuation report of the Mining Site and the Technical Report to which the Directors believe that is fair and reasonable, in the event that the appraised value of the interests in the PRC Mining Company falls short of or above the Consideration, the Consideration will be adjusted downwards or upwards to a sum equal to such appraised value, subject to further negotiation, including the amount and method of settlement, between the First Vendor and the Purchaser. The maximum total consideration for the Acquisition shall not be more than HK$500 million.

Pursuant to the adjustment mechanism above and as amended by the Supplemental Agreement II, the consideration for the entire issued share capital of the BVI Company has been adjusted downwards from HK$408 million to HK$367.2 million, consisting of HK$40 million by cash and the remaining HK$327.2 million by the issue of Consideration Shares by the Company. The payment of the remaining cash payment of HK$15 million and the issue of Consideration Shares for HK$327.2 million will take place upon Completion.

The Consideration was determined after arm's length negotiation between the Purchaser and the First Vendor after taking into consideration factors including the estimated amount of ore reserves and the present prices of the ore metals. The Directors consider that the Consideration is fair and reasonable and on normal commercial terms.

Consideration Shares

According to the Acquisition Agreement and the Supplemental Agreement I, the Consideration Shares will comprise of 168 million new Shares (subject to Consideration adjustment mechanism) to be allotted and issued by the Company to the First Vendor at the issue price of HK$2.1905 per Consideration Share.

The Consideration Shares to be issued pursuant to the Acquisition Agreement and the Supplemental Agreement I represent approximately 45.07% of the existing issued share capital of the Company as at the Latest Practicable Date or approximately 31.07% of the enlarged issued share capital of the Company.

As amended by the Supplemental Agreement II, the Consideration Shares will comprise of 240 million new Shares to be allotted and issued by the Company to the First Vendor at the issue price of HK$1.3633 per Consideration Share which represents:

(i) a premium of approximately 25.07% over the closing price of HK$1.09 per Share as quoted by the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 12.67% over the closing price of HK$1.210 per Share as quoted by the Stock Exchange on 31 October 2007, being the last trading day immediately before the date of the Supplemental Agreement II;

(iii) a premium of approximately 11.56% over the average closing price of approximately HK$1.222 per Share as quoted by the Stock Exchange for the last 5 trading days immediately prior to and including 31 October 2007;

(iv) a premium of approximately 8.80% over the average closing price of approximately HK$1.253 per Share as quoted by the Stock Exchange for the last 10 trading days immediately prior to and including 31 October 2007; and

(v) a premium of approximately 11.38% over the average closing price of approximately HK$1.224 per Share as quoted by the Stock Exchange for the last 30 trading days immediately prior to and including 31 October 2007.

The Consideration Shares based on the closing price of HK$1.09 on the Latest Practicable Date was HK$261,600,000.

The Consideration Shares to be issued pursuant to the Supplemental Agreement II represent approximately 64.38% of the existing issued share capital of the Company as at the Latest Practicable Date or approximately 39.17% of the enlarged issued share capital of the Company.

The Consideration Shares will be issued under a specific mandate proposed to be sought from the Shareholders at the SGM.

Status of the Consideration Shares

The Consideration Shares to be issued will rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Consideration Shares.

Application for listing

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares which may be issued upon the Completion.

Completion

Completion shall take place on the third business day after the conditions precedent (other than conditions (ix) and (x)) to the Acquisition Agreement are fulfilled or waived (as the case may be) or such other date as the parties shall agree in writing. As at the Latest Practicable Date, none of the conditions had been fulfilled.

Conditions precedent

The Completion is subject to the fulfillment of the following conditions:

(i) the Purchaser having been satisfied with the due diligence results conducted on the BVI Company, the H.K. Company, the PRC Mining Company and the Mining Site including but not limited to receiving in form and content satisfactory to the Purchaser the BVI legal opinions, the PRC legal opinions, the accountants' report and the Technical Report;

(ii) the completion of the restructuring of the PRC Mining Company into a sino-foreign equity joint venture, with 40.8% equity interest held indirectly by the BVI Company;

(iii) the passing of resolutions at the SGM by the Shareholders and at the Board meeting by the Board approving the Acquisition Agreement, the issue and allotment of the Consideration Shares and the transactions contemplated thereunder;

(iv) sufficient funding for the cash payment (not including the initial deposit) of the Consideration having been obtained;

(v) the titles to all the properties and assets as set out in the Acquisition Agreement having been obtained and properly registered under the names of the members of the BVI Company;

(vi) all the certificates and permits (including but not limited to the Mining Permit and the exploration permit) necessary for the business operation of the PRC Mining Company having been obtained and properly registered under the name of the PRC Mining Company and the consideration and expenses for the transfer and registration of such certificates and permits having been paid by installments and/or fully paid and all the certificates and permits remain valid and legal after Completion;

(vii) the intellectual property rights as set out in the Acquisition Agreement having been registered under the name of the members of the BVI Company;

(viii) the renewal of the Mining Permit to extend the valid period and increase in mining capacity to at least 15 years and 100,000 tonnes per year respectively;

(ix) the representations and warranties contained in the Acquisition Agreement being true and correct at all time;

(x) there having not occurred since 31 December 2006 in relation to the business, assets and operations of any the PRC Mining Company any unusual operations or any significant incidents involving liabilities for safe production or any material adverse changes or any material risks which are not previously disclosed;

(xi) the approval of the Stock Exchange in respect of the listing of and dealing in the Consideration Shares having been obtained; and

(xii) the BVI Company and the relevant shareholder of the PRC Mining Company having entered into an agreement before Completion, for an option to be granted by the said shareholder to the BVI Company or its nominee to acquire further 10% interest in the PRC Mining Company.

The Purchaser has sole discretion to waive conditions (i), (ii), (v), (vi), (vii), (viii) and (xii). If the conditions are not satisfied or waived (other than conditions (ix) and (x)) on or before 31 December 2007 (the "**Long Stop Date**") or such date may be agreed by both parties or conditions (ix) and (x) can not be satisfied or waived simultaneously when the last condition to be satisfied or waived, the Purchaser has the right to terminate the Acquisition Agreement or

postponed to another date whereby the First Vendor shall refund the initial deposit with interest rated at 10% and neither party shall have any liability or obligation under the Acquisition Agreement. Pursuant to the First Confirmation Letter, the Purchaser and the First Vendor agree that the Long Stop Date as stated in Clause 3.2 of the Acquisition Agreement will be extended to 30 April 2008 or such date may be agreed by both parties.

Due diligence review

As at the Latest Practicable Date, the due diligence review including but not limited to the assets, liabilities, activities, operations, prospects and affairs of the BVI Company, the H.K. Company, the PRC Mining Company and the Mining Site has been carried out by the Purchaser. The valuation report of the Mining Site and the Technical Report are set out in appendices V and VI to this circular, respectively.

Applicable law

The Acquisition Agreement shall be governed by Hong Kong laws.

II. The Profit Guarantee

According to the Supplemental Agreement II, a profit guarantee shall be provided by the First Vendor for not less than RMB80 million profit before tax for the fiscal year ending 31 December 2008 for the JV with an adjustment mechanism.

Pursuant to the First Confirmation Letter, the Purchaser and the First Vendor agree that the adjustment mechanism for the profit guarantee as stated in the Supplemental Agreement II shall be removed.

Accordingly, in case where the audited profit before tax falls below the profit guarantee, the First Vendor shall compensate 40.8% of the shortfall to the Purchaser in cash on their respective shareholdings of the JV before Completion, within 30 business days upon the issue of audited accounts of the JV for the fiscal year ending 31 December 2008.

In granting the aforesaid profit guarantee, the First Vendor have taken into account the facts that the exploration activities over the Mining Site is currently underway and a renewed Mining Permit was granted on 25 September 2007 for a period of 5 years to 25 September 2012.

The Shareholders should note that the profit guarantee should only be subject to the Completion. If the Acquisition cannot be completed, the profit guarantee will not take effect.

III. Reasons for the Acquisition

The Company intends to explore to diversify its business portfolio into areas such as resources and PRC property development. The Directors consider that the entering into Acquisition Agreement is in line with this diversification strategy and in the interest of the Company and the Shareholders as a whole.

MAJOR TRANSACTION - THE FURTHER ACQUISITION

I. The Further Acquisition Agreement and the Second Confirmation Letter

Date

12 November 2007 (as amended by the Second Confirmation Letter)

Parties

Purchaser: Express Fortune Holdings Limited as the purchaser, a wholly-owned subsidiary of the Company.

Vendor: Foshan Goldsonic Telecom Development Company Limited (佛山市高訊通信發展有限公司) as the Second Vendor. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Second Vendor is a third party independent of the Company and its connected persons (as defined in the Listing Rules) of the Company and its subsidiaries.

Covenanter: Mr. Zhang Zhulin (張竹林先生). To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Covenanter is a third party independent of the Company and its connected persons (as defined in the Listing Rules) of the Company and its subsidiaries.

Terms

Pursuant to the Further Acquisition Agreement,

a) the Purchaser agreed to acquire from the Second Vendor a further 10% direct interest in the PRC Mining Company; and

b) the Covenanter and the Second Vendor shall jointly provide a profit guarantee for 10% of the RMB80 million profit before tax for the fiscal year ending 31 December 2008 for the JV.

Further Consideration

The consideration for the 10% direct interest in the PRC Mining Company is HK$90 million. The Further Consideration is to be satisfied by the Company issuing to the Second Vendor in 66,016,300 new Shares upon completion of the Further Acquisition.

The Further Consideration was determined after arm's length negotiation between the Purchaser and the Second Vendor after taking into accounts of factors such as controlling stake, the estimated amount of ore reserves and the present prices of the ore metals. The Directors consider that the Further Consideration is fair and reasonable and on normal commercial terms.

Further Consideration Shares

The Further Consideration Shares will comprise of 66,016,300 new Shares to be allotted and issued by the Company to the Second Vendor at the issue price of HK$1.3633 per Further Consideration Share which represents:

(i) a premium of approximately 25.07% over the closing price of HK$1.09 per Share as quoted by the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 22.54% to the closing price of HK$1.76 per Share as quoted by the Stock Exchange on 9 November 2007, being the last trading day immediately before the date of the Further Acquisition Agreement;

(iii) a discount of approximately 15.85% to the average closing price of approximately HK$1.62 per Share as quoted by the Stock Exchange for the last 5 trading days immediately prior to and including 9 November 2007;

(iv) a discount of approximately 5.33% to the average closing price of approximately HK$1.44 per Share as quoted by the Stock Exchange for the last 10 trading days immediately prior to and including 9 November 2007; and

(v) a premium of approximately 4.87% over the average closing price of approximately HK$1.30 per Share as quoted by the Stock Exchange for the last 30 trading days immediately prior to and including 9 November 2007.

The Further Consideration Shares based on the closing price of HK$1.09 on the Latest Practicable Date was HK$71,957,767.

The Further Consideration Shares to be issued represent approximately 17.71% of the existing issued share capital of the Company as at Latest Practicable Date or approximately 9.73% of the enlarged issued share capital of the Company upon completion of the Acquisition and the Further Acquisition.

The Further Consideration Shares will be issued under a specific mandate proposed to be sought from the Shareholders at the SGM.

Status of the Further Consideration Shares

The Further Consideration Shares to be issued will rank pari passu in all respects with the shares in issue as at the date of allotment and issue of the Further Consideration Shares.

Application for listing

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Further Consideration Shares which may be issued upon completion of the Further Acquisition.

Conditions and completion

The Further Acquisition is conditional upon (1) obtaining relevant PRC authorities approvals; (2) obtaining consent of other shareholders for the Further Acquisition; and (3) the completion of the Acquisition. The completion of the Further Acquisition shall take place on the third business day after the Acquisition having been completed or such other date as the parties shall agree in writing. As at the Latest Practicable Date, none of the conditions had been fulfilled.

Upon completion of the Further Acquisition, the PRC Mining Company will become a non-wholly owned subsidiary of the Group and its financial statements will be consolidated into the Group's consolidated accounts.

II. Profit Guarantee

According to the Further Acquisition Agreement, a profit guarantee shall be provided by the Second Vendor and the Covenanter for not less than RMB80 million profit before tax for the fiscal year ending 31 December 2008 for the JV with an adjustment mechanism.

Pursuant to the Second Confirmation Letter, the Purchaser, the Second Vendor and the Covenanter agree that the adjustment mechanism for the profit guarantee as stated in the Further Acquisition Agreement shall be removed.

Accordingly, in case where the audited profit before tax falls below the profit guarantee, the Second Vendor and the Covenanter shall compensate 10% of the shortfall to the Purchaser in cash on their respective shareholdings of the JV before Completion, within 30 business days upon the issue of audited accounts of the JV for the fiscal year ending 31 December 2008.

The Shareholders should note that the profit guarantee should only be subject to the completion of the Further Acquisition. If the Further Acquisition cannot be completed, the profit guarantee will not take effect.

III. Reasons for the Further Acquisition

The reason for the Further Acquisition is to secure controlling stake of the PRC Mining Company by the Company. The Directors consider that the Further Consideration is fair and reasonable and on normal commercial terms.

FINANCIAL EFFECTS OF THE ACQUISITION AND THE FURTHER ACQUISITION

Following the completion of the Acquisition and the Further Acquisition, the PRC Mining Company will become a non wholly-owned subsidiary of the Group and its financial statements would be consolidated into the accounts of the Group. Assuming the Acquisition and the Further Acquisition had been completed on 30 June 2007 and according to the pro forma financial information of the Enlarged Group as set out in Appendix IV of this circular, the total assets of the Group would increase from approximately HK$950 million to approximately HK$2,056 million and the total liabilities of the Group would increase from approximately HK$554 million to approximately HK$841 million. Basing on the profit guarantee provided by the First Vendor, the Second Vendor and the Covenanter on the PRC Mining Company, the Acquisition and the Further Acquisition are expected to have positive effects on the revenue and earnings of the Enlarged Group.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in the interim report of the Company for the six months ended 30 June 2007, even though the total number of handsets sold reached approximately 1.4 million sets and the consolidated turnover rose to approximately HK$1,587 million for the first six months ended 30 June 2007, representing an increase of 8% and 30% respectively as compared with those for the previous corresponding period, the gross margin has dropped significantly from 4.2% to -0.2%.

For Nokia mobile phones, the Group was transforming from national distribution to national fulfillment distribution. Under the new arrangement, the Group provides fulfillment distribution to full range of Nokia models to all Nokia stores in China. During the transition period, the Group suffered from tough price competition among the mobile phone models, namely N3220 and N7610, distributed through our national distribution mode as these models were running towards their product life ends.

The Directors represented that the Company also intends to expand its national fulfillment business to other mobile brands. However, the Company has not finalized the brands to be included in the fulfillment business.

For Samsung mobile phone national distribution, due to the repeated delay in the launch of 2 new Samsung models from 2nd quarter to 3rd quarter of the year, the Group did not deliver any new model resulting in losses of operating cost during the period. There was also unexpected quality problem in one of the Group's important Samsung model, namely D848, during the period. As a result, the Group has suffered first time operation loss during the period.

More losses also came from stock clearance of some slow moving models like, N9300, E50, 788e and i858.

The distribution costs, however, increased by HK$26.2 million or 168% to HK$41.8 million for the six months ended 30 June 2007 mainly because of the increase in marketing expenses for promoting Samsung mobile phones and facilitating stock clearance of Nokia mobile phones. Due to a one-off equity-settled share based payment expense of HK$17.3 million, the Company also recorded an increase in administrative expenses from HK$7.8 million last period to HK$31.7 million this period.

In February 2007, the Group contracted to acquire 51% stake in 珠海市雷鳴達通訊設備有限公司, a company which is principally and actively involved in the business of distribution and retails of mobile phones, telecom equipments, electronic products, office equipments and their repair services in Zhuhai area.

In April 2007, the Group purchased 50% shareholding in DW Mobile Technology Limited which is principally and actively involved in the business of outlook and content design, marketing and distribution of licensed, characterized and premium mobile phones.

In June 2007, the Company entered into an agreement with TeleChoice International Limited, an indirect subsidiary of Singapore Technologies Telemedia Pte Ltd, which is a wholly-owned subsidiary of Temasek Holdings (Private) Limited, to establish a joint venture to engage in the logistics and fulfillment business for Nokia-branded mobile handsets and accessories in the PRC.

In August 2007, the Group acquired 25% stake of Intelligence Tech Limited, a company providing software and hardware design, as well as total integrated solutions for mobile terminal technology, particularly focusing in the development of unique feature phone, smartphone and PDA phone targeting the PRC market.

The Directors represented that the Group's core business will transform from handset distribution business to fulfillment business in order to avoid risk of piling up inventories.

To correctly reflect the new core business direction of the Group, on 18 October 2007, the Group changed its name to "China Fortune Holdings Limited". The Group has also successfully secured a new domain name www.chinafortune.com.

In October 2007, the Group entered into the sale and purchase agreement pursuant to which the Group has conditionally agreed to sell, and Mr. Lau Siu Ying has conditionally agreed to purchase 49% equity interest in Fortune Telecom (China) Distribution Limited engaged in handset distribution business. The consideration for the disposal was HK$57,820,000 payable by cash.

Other than the business investments as described above, the Group also intends to enhance the Company's value to the shareholders by further exploring the viability of diversifying its business into other areas, such as resources and property development in the PRC. The Group is in the process of carrying out review and feasibility study on its core competence and resources deployment with the aim of successfully achieving the said objectives.

Concerning Rule 18.09(8) of the Listing Rules, the Directors represent that there is no funding requirement to the PRC Mining Company, but subject to change from further business review and feasibility study by the Company after the Acquisition and Further Acquisition.

INFORMATION OF THE BVI COMPANY

The BVI Company is an investment holding company incorporated on 5 June 2007. The shareholding of Messrs. Lau Siu Ying, Lau Kin Ying and Lau Hung Bing in the BVI Company are 70.24%, 14.88% and 14.88% respectively. Upon Completion, the sole asset of the BVI Company is the 40.8% shareholding of the PRC Mining Company which was purchased by the First Vendor at approximately RMB140 million. Immediately prior to the signing of the Acquisition Agreement, the BVI Company had a registered capital of USD50,000 (equivalent to approximately HK$390,000). To the knowledge of the Company, the relevant financial information of the BVI Company is not available as the BVI Company did not have operations prior to the restructuring of the PRC Mining Company into a sino-foreign equity joint venture.

INFORMATION OF THE SECOND VENDOR AND THE PRC MINING COMPANY

The Second Vendor is principally engaged in handset distribution business and investment in a PRC mining site.

The PRC Mining Company is a domestic company incorporated in the PRC with limited liability and is the holder of the Mining Permit. Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the other shareholders of the PRC Mining Company and their respective beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules). The PRC Mining Company is in the process of restructuring into a sino-foreign equity joint venture. Upon completion of the Acquisition and the Further Acquisition, the Purchaser will hold altogether 50.8% interest in the PRC Mining Company.

According to the renewed Mining Permit (No.: 4200000731409) issued by the Bureau of Land and Resources of Hubei Province (湖北省國土資源廳) on 25 September 2007, the PRC Mining Company has the right to conduct mining activities in the Mining Site. The Mining Permit is valid for 5 years until 25 September 2012.

Further, the PRC Mining Company also obtained the production safety license (安全生產許可證) issued by the Bureau of Production Safety of Hubei Province (湖北省安全生產監督管理局) on 10 November 2005 and it remains effective till 9 November 2008.

Based on the accountants' report on the PRC Mining Company as set out in Appendix II to this circular, the audited net asset value of the PRC Mining Company amounted to approximately HK$13,322,000 as of 30 June 2007.

As set out in Appendix II to this circular in respect of the accountants' report on the PRC Mining Company, the audited profit/(loss) before and after taxation for the year ended 31 December 2006 and six months ended 30 June 2007 are as follows:

	Six months ended 30 June 2007 *(audited)*	**Year ended 31 December 2006** *(audited)*
Profit/(Loss) before taxation	HK$533,000	HK$(3,709,000)
Profit/(Loss) after taxation	HK$533,000	HK$(3,709,000)

INFORMATION OF THE MINING SITE

The Mining Site which is located in Huangshi, southeastern Hubei has a general mining area of approximately 0.62 square kilometers.

The mineral resources of the Mining Site are depicted below:

Mine	**Amount of mineral resources** *(tonnes)*		
	As at the date of Announcement *(Note a)*	***As at the date of the Technical Report*** *(Note b)*	**Increase (decrease)** *(approx.)*
Celestite (ore)	5,549,300	7,453,989	34.32%
Zinc (metal)	294,199	267,535	(9.06)%
Lead (metal)	62,036	52,037	(16.12)%

Note:

a. Based on the report provided by the PRC Mining Company and are subject to the accountants' report, the Technical Report, the valuation report and due diligence results of the Mining Site.

b. Based on the Technical Report set out in Appendix VI to this circular

The mineral resources of celestite are expected to be amongst one of the leading celestite mining sites in the PRC, based on a document from the PRC governmental authority. The Directors are given to understand from the PRC Mining Company that the Mining Site is expected to be ready for mining. For further details of the Mining Site, please refer to Appendix VI to this circular.

The price of celestite ore was approximately RMB550 (equivalent to approximately HK$569) per tonne with reference to the recent record given by the PRC Mining Company, whereas the prices of zinc and lead as quoted from the website of Shanghai Nonferrous Metals as at 23 July 2007, were approximately RMB29,150 (equivalent to approximately HK$30,141) and RMB25,600 (equivalent to approximately HK$26,470) per tonne respectively.

INFORMATION OF CELESTITE (A KIND OF STRONTIUM)

Strontium is an element which when compounded, has various commercial uses, mainly applied in cathode ray tubes for color television's monitors and liquid crystal display. It is also used in the alloys of many metals such as tin and aluminum improving the ductility and strength. According to a geological survey subsidized by the U.S. government published in January 2006, the worldwide base reserve of strontium is estimated at 12 million tonnes and China, being the world's leading producer of strontium, has the plant capacity to produce approximately 200,000 tonnes per year markets strontium carbonate (a widely used strontium compound) in majority of Asian and European cities.

PRINCIPAL ACTIVITIES OF THE COMPANY

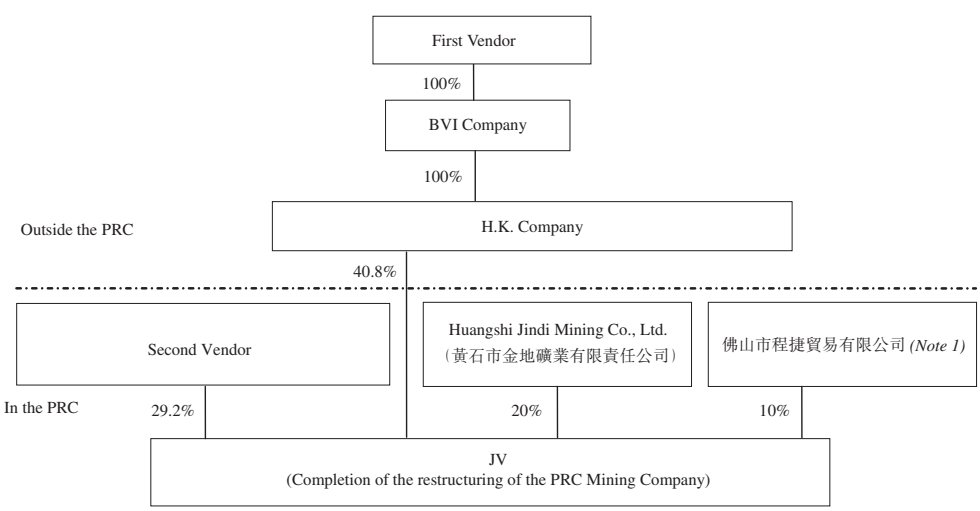
The Company is principally engaged in distribution of mobile phones and related accessories in the PRC.

The Company intends to explore to diversify its business portfolio into other areas such as resources, property development in the PRC and is in the process of carrying out review and feasibility study on the core competence and capability of the Group for achieving the said diversification.

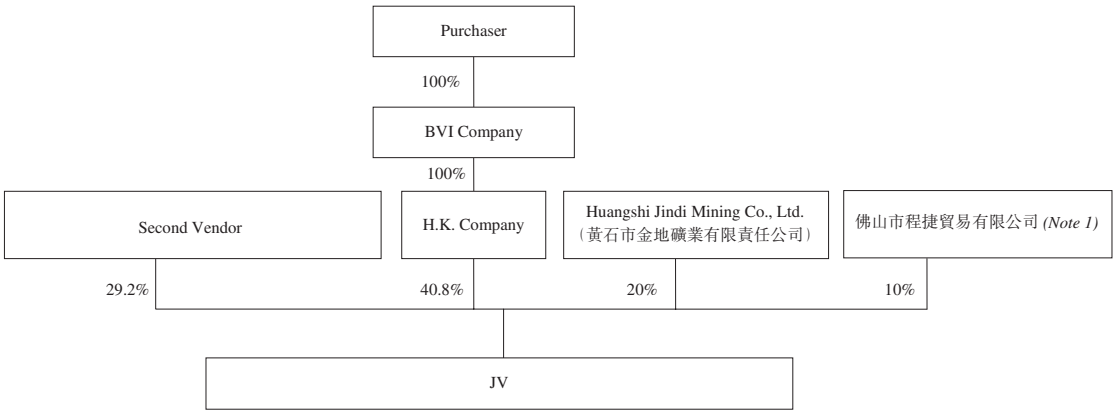
SHAREHOLDING STRUCTURE

As a result of the Acquisition and the Further Acquisition, the changes in shareholding structure of the JV are shown in the diagrams as follows:

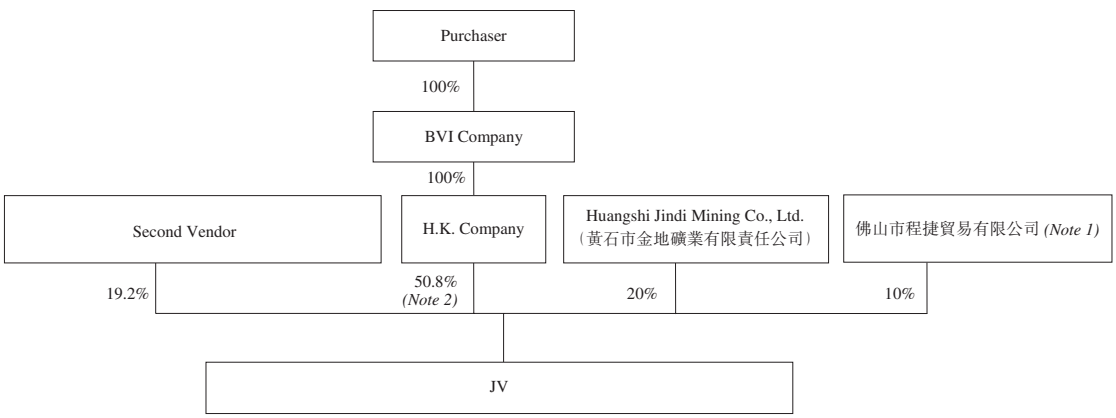
The shareholding structure of the JV immediately before completion of the Acquisition



The shareholding structure of the JV immediately after completion of the Acquisition



The shareholding structure of the JV immediately after completion of the Acquisition and the Further Acquisition



Notes: 1. the 10% interest in the JV transferred from 黃石市鎧源工貿有限責任公司 on 30 October 2007.

2. pursuant to the Further Acquisition Agreement, a company will be assigned by the Purchaser to hold the 10% direct interest in the JV. The H.K. Company is now assigned to hold the aforesaid 10% interest. Together with the 40.8% interest pursuant to the Acquisition Agreement, it will hold directly 50.8% interest in the JV.

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Acquisition and the Further Acquisition:

Shareholder	As at the Latest Practicable Date*		Immediately after completion of the Acquisition		Immediately after completion of the Further Acquisition	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*	*Number of Shares*	*Approx. %*
The First Vendor:						
– Mr. Lau Siu Ying	188,580,013	50.59	380,580,013	62.11	380,580,013	56.07
– Mr. Lau Kin Ying	–	–	24,000,000	3.92	24,000,000	3.54
– Mr. Lau Hung Bing	300,000	0.08	24,300,000	3.97	24,300,000	3.58
Public Shareholders:						
– the Second Vendor	–	–	–	–	66,016,300	9.73
– Other public Shareholders	183,909,987	49.33	183,909,987	30.00	183,909,987	27.08
Total	372,790,000	100.00	612,790,000	100.00	678,806,300	100.00

* Source: the record from Tricor Abacus Limited reflecting the shareholding structure of the Company on 27 December 2007. In the event that the figures in the shareholding structure are different from those as disclosed in the above table, the Company would issue an announcement regarding the difference(s).

GENERAL

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. Given that the BVI Company is wholly owned by Mr. Lau Siu Ying, the controlling shareholder of the Company, and his brothers Messrs. Lau Hung Bing and Lau Kin Ying, the First Vendor are connected persons (as defined under the Listing Rules) and the Acquisition also constitutes a non-exempt connected transaction under Chapter 14A of the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The SGM will be convened at which resolutions will be proposed to seek the Independent Shareholders' approval of the Acquisition. Mr. Lau Siu Ying, being the controlling shareholder of the Company, together with his associates will abstain from voting with respect to the resolutions for approving the Acquisition.

The Further Acquisition when aggregated with the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Since the Second Vendor is a third party independent of the Company and its connected persons (as defined in the Listing Rules) of the Company and its subsidiaries and no Shareholder has any interests in the Further Acquisition, no Shareholder is required to abstain from voting at the SGM for the approval of the Further Acquisition including the issue of the Further Consideration Shares.

The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Acquisition Agreement. South China Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

SGM

The SGM will be held at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong at 11:00 a.m. on Tuesday, 15 January 2008 to consider and, if thought fit, to approve, among other things, the Acquisition, the Further Acquisition, including the issue of the Consideration Shares and the Further Consideration Shares, and the transactions contemplated thereunder.

A notice convening the SGM is set out on pages 216 to 218 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompany form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F, 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 meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

PROCEDURE TO DEMAND A POLL AT GENERAL MEETING

Under the bye-laws of the Company, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the chairman of the meeting; or

(ii) by at least three Shareholders' present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy for the time bring entitled to vote at the meeting; or

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

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

RECOMMENDATION

The Directors consider that the terms of the Acquisition Agreement and the Further Acquisition Agreement are fair and reasonable to the Company and in the interest of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition Agreement and the Further Acquisition Agreement.

Your attention is also drawn to the letter from the Independent Board Committee set out on page 24 of this circular and the letter from South China Capital to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition Agreement and the transaction contemplated thereunder and the principal factors and reasons considered by them in arriving at such advice set out on pages 25 to 45 of this circular.

The Independent Board Committee, having taken into account the advice of South China Capital considers that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition Agreement and the transaction contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
China Fortune Holdings Limited
Lau Siu Ying
Chairman and Chief Executive Officer

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Acquisition:

China Fortune Holdings Limited
中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 110)

(Formerly known as Fortune Telecom Holdings Limited)

31 December 2007

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED MAJOR AND CONNECTED TRANSACTION CONCERNING THE ACQUISITION OF INTEREST IN PRC MINING COMPANY

We refer to the circular ("Circular") issued by the Company to its shareholders dated 31 December 2007 of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the Acquisition Agreement and the transaction contemplated thereunder. South China Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from South China Capital set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, South China Capital set out in its letter of advice set out in the Circular, we consider that the Acquisition Agreement and the transaction contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the above which are set out in the notice of the SGM at the end of the Circular.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Chang Wing Seng, Victor **Wong Lit Chor, Alexis** **Chen Yi Gang**
Independent Non-executive Directors

* *For identification purpose only*

Set out below is the text of a letter received from South China Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition for the purpose of inclusion in this circular.

South China Capital Limited
28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

31 December 2007

To: The independent board committee and the independent shareholders of China Fortune Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF INTEREST IN PRC MINING COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular dated 31 December 2007 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 24 July 2007, the Purchaser, being a wholly-owned subsidiary of the Company, and the First Vendor entered into the Acquisition Agreement which was subsequently amended by (i) the Supplemental Agreement I dated 27 July 2007; and (ii) the Supplemental Agreement II dated 1 November 2007 (the Acquisition Agreement, the Supplemental Agreement I and the Supplemental Agreement II collectively, the "Agreements"). Pursuant to the Agreements, the Purchaser agreed to acquire from the First Vendor the entire equity interest in the BVI Company for the Consideration of HK$367.2 million, of which HK$40 million shall be paid by the Purchaser in cash and the balance of HK$327.2 million shall be satisfied by the issue and allotment of 240,000,000 Consideration Shares at an issue price of HK$1.3633 per Consideration Share to the First Vendor.

The BVI Company is the holding company of the H.K. Company, which is proposed to be one of the shareholders of the PRC Mining Company. According to the Board Letter, the PRC Mining Company is in the process of restructuring from a domestic enterprise into a sino-foreign equity joint venture. The PRC Mining Company is also the holder of a mining right at the Mining Site in Hubei Province, the PRC, where a variety of minerals including celestite ore (a kind of strontium), zinc and lead metal can be found.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As Mr. Lau Siu Ying is the Chairman and Chief Executive Officer of the Company while Messrs. Lau Hung Bing and Lau Kin Ying are brothers of Mr. Lau Siu Ying, the First Vendor are connected persons of the Company as defined under the Listing Rules. Therefore, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The Acquisition is subject to the Independent Shareholders' approval by way of poll at the SGM. Mr. Lau Siu Ying, Mr. Lau Hung Bing and their respective associates shall abstain from voting on the relevant resolution(s) approving the Agreements and the transactions contemplated therein at the SGM.

An Independent Board Committee comprising Messrs. Chang Wing Seng, Victor, Wong Lit Chor, Alexis and Chen Yi Gang (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is the usual and ordinary course of business of the Company and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Agreements and the transactions contemplated therein at the SGM. We, South China Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made an independent evaluation or appraisal of the assets and liabilities of neither the Group, the PRC Mining Company nor the Mining Site and we have not been furnished with any such evaluation or appraisal, save and except for the Technical Report and the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited (the "Valuer") (the "Valuation Report") as contained in Appendices VI and V to the Circular respectively. We have conducted a site visit to the Mining Site in early November 2007. Nevertheless, we are not experts in the valuation of companies on mining rights and therefore have relied solely upon the Technical Report and the Valuation Report for the market value of the Mining Right (as defined therein) as at 30 September 2007.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the First Vendor or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Acquisition

Information on the Group

As confirmed by the Directors, the Group is principally engaged in the handset distribution business, the handset fulfillment business and the other businesses in the PRC.

Set out below are the financial information of the Group for the six months ended 30 June 2007, the six months ended 30 June 2006 and the two years ended 31 December 2006 as extracted from the Company's unaudited interim report for the six months ended 30 June 2007 (the "2007 Interim Report") and its audited annual report for the year ended 31 December 2006 (the "2006 Annual Report") respectively:

	For the six months ended 30 June 2007 (unaudited) HK$'000	For the six months ended 30 June 2006 (unaudited) HK$'000	For the year ended 31 December 2006 (audited) HK$'000	For the year ended 31 December 2005 (audited) HK$'000	From 30 June 2006 to 30 June 2007 %	Year on year change 2005 %
Turnover	1,587,023	1,217,168	3,046,805	2,664,254	30.39	14.36
Profits/(Loss) before taxation	(85,132)	22,697	37,544	20,344	N/A	84.55
Profits/(Loss) after taxation	(84,792)	17,734	31,339	16,207	N/A	93.37

	As at 30 June 2007 (unaudited) HK$'000	As at 31 December 2006 (audited) HK$'000	As at 31 December 2005 (audited) HK$'000
Net asset value ("NAV")	396,457	396,168	353,914

From the above table, we note that the audited total turnover of the Group rose from approximately HK$2,664 million to HK$3,047 million from 2005 to 2006, representing an increase of approximately 14.36%. During the same said years under review, the Group's profits before and after tax also increased significantly by approximately 84.55% and 93.37% respectively. Nevertheless, the Group's profitability had been deteriorating substantially since the beginning of 2007. As referred to in the 2007 Interim Report, the gross profit margin of the Group dropped from approximately 4.2% for the six months ended 30 June 2006 to –0.2% for the corresponding period in 2007. The Group had incurred losses before and after taxation of approximately HK$85 million for the six months ended 30 June 2007. As confirmed by the Directors, the loss was mainly resulted from the unsatisfactory performance and the loss making nature of the handset distribution business of the Group in the PRC.

We note from the 2007 Interim Report that the Group intended to further explore and diversify its business into other areas. The Group is in the process of carrying out review and feasibility study on its core competence and resources deployment with the aim of achieving such target. As part of the restructuring and expansion plan of the Group, the Group announced the proposed disposal of its existing 49% equity interest in Fortune Telecom (China) Distribution Limited ("FTC Distribution"), which is currently a wholly-owned subsidiary of the Company and is concentrated on the handset distribution business in the PRC, on 22 October 2007. The Directors expected that through the disposal of its deteriorating business such as FTC Distribution, the Group can optimize the use of its resources and diversify its business into other potentially profitable areas, for example, resources and property development in the PRC.

Information on the BVI Company

As referred to in the Board Letter, the BVI Company is an investment holding company incorporated on 5 June 2007 and is owned as to approximately 70.24%, 14.88% and 14.88% by Messrs. Lau Siu Ying, Lau Kin Ying and Lau Hung Bing respectively. Immediately prior to the signing of the Acquisition Agreement, the BVI Company had a registered capital of USD50,000 (equivalent to approximately HK$390,000). As also confirmed by the Directors and the First Vendor, as at the Latest Practicable Date, the financial information of the BVI Company was not yet available since the BVI Company has not started any operations save and except for its investment in the PRC Mining Company.

Information on the PRC Mining Company

With reference to the Board Letter, the PRC Mining Company is a domestic company incorporated in the PRC with limited liability, and is proposed to be owned as to approximately 40.8% by the H.K. Company (a shell company which is wholly-owned by the BVI Company). As mentioned under the section headed "Introduction" in this letter, the PRC Mining Company is carrying out a restructuring process after which it will be transformed into the JV. The Company, through the BVI Company and in turn the H.K. Company, will be indirectly interested in approximately 40.8% equity interest in the PRC Mining Company upon Completion.

On 12 November 2007, the Purchaser further entered into the Further Acquisition Agreement with the Second Vendor pursuant to which the Purchaser agreed to acquire from the Second Vendor its 10% direct equity interest in the PRC Mining Company after the establishment of the JV. Details of the Further Acquisition are contained under the section headed "The Further Acquisition" in the Board Letter. The Further Acquisition is conditional on the Completion. Upon completion of both of the Acquisition and the Further Acquisition, the Company will be interested in an aggregate of approximately 50.8% equity interest in the PRC Mining Company, representing the controlling stake.

The PRC Mining Company is the holder of the Mining Permit. Under the renewed Mining Permit (No.: 4200000731409) issued by the Bureau of Land and Resources of Hubei Province (湖北省國土資源廳) on 25 September 2007, the PRC Mining Company has the right to conduct mining activities at the Mining Site. The renewed Mining Permit is valid for five years until 25 September 2012.

Furthermore, the PRC Mining Company also obtained the production safety license (安全生產許可證) issued by the Bureau of Production Safety of Hubei Province (湖北省安全生產監督管理局) on 10 November 2005, which will remain effective until 9 November 2008.

We have requested the Company and were provided with copies all of the aforementioned title documents. Moreover, we were also advised by the PRC legal adviser to the Company that the PRC Mining Company has obtained full legal and beneficial title and is free from all encumbrances in respect of the Mining Site granted under the Mining Permit (the "Legal Opinion"). The Legal Opinion further opined that the PRC Mining Company is required to pay the necessary premium and expenses relating to the Mining Permit, including but not limited to insurance premium and other expenses under the employment contracts with each employee. The PRC Mining Company is also required to obtain the relevant land use rights and building ownership for construction, and in this respect, the Legal Opinion confirmed that the mining right of the PRC Mining Company at the Mining Site will not be affected.

The following table summarises the financial information of the PRC Mining Company prepared in accordance with the generally acceptable accounting principles in Hong Kong for the two years ended 31 December 2006 as extracted from Appendix II to the Circular:

	For the six months ended 30 June 2007	**For the year ended 31 December 2006**
	(audited)	(audited)
	HK$'000	*HK$'000*
Turnover	4,346	2,084
Profit/(Loss) for the period/year	533	(3,709)
	As at 30 June 2007	**As at 31 December 2006**
	(audited)	(audited)
	HK$'000	*HK$'000*
NAV/(Net liabilities)	13,322	(10,262)

As provided by the Company and the First Vendor, the Mining Site is ready for mining. However, the PRC Mining Company has not yet commenced full scale mining operation as it is still in the process of corporate restructuring. As such, the PRC Mining Company could only derive a minimal revenue from testing exploitation, which was not enough to fully cover the administrative and operative expenses. Due to this reason, losses had been incurred by the PRC Mining Company for the year ended 31 December 2006 and minimal profit was made for the six months ended 30 June 2007.

Information on the Mining Site

According to the Board Letter and the Valuation Report, the Mining Site is located in Huangshi City at the southeastern part of Hubei Province with a general mining area of approximately 0.62 square kilometers. The city is developed with sufficient water and electricity supply, affluent labour force and is highly concentrated with mining and mill processing industries.

Depicted below is the amount of mineral resources, namely celestite ore, zinc and lead metal, of the Mining Site as extracted from the Board Letter:

Mine	**Amount of mineral resources as at the Latest Practicable Date (approximate tonnes)**
Celestite (ore)	7,453,989
Zinc (metal)	267,535
Lead (metal)	52,037

As shown by the above table, we note that the mineral resources of the Mining Site are mainly consisted of celestite ore. In this respect, we were further advised by the Directors that the Mining Site is expected to be one of the leading celestite mining sites in the PRC based on a document from the PRC government. According to the information from 資源網 at the internet website (www.lrn.cn), the Mining Site was the second largest strontium mine not yet in operation in the PRC as at August 2006. From our research, we understand that celestite is one of the two main sources of mine from which strontium can be obtained. As referred to in the Valuation Report, strontium has various usages. Commercially, it can be used as the ingredient of red color fireworks, signal flare, parts of car wheels and car engine, reflective traffic signs, energy saving lamps and ingredient in refining the zinc ore. As strontium is non-toxic and provides a dense glass which shields viewers from X-rays generated by the high voltage of the tube, it becomes almost the exclusive material for production of cathode ray tubes in televisions and computers. Moreover, strontium is also the key source of producing anti-radar aircraft, tank and it is also the fuel for missile and rocket for military purpose.

The Technical Report and the Valuation Report as contained in Appendices V and VI to the Circular respectively include further details of the Mining Site, including the description on zinc and lead metal.

From the Valuation Report, we also note that under the renewed Mining Permit, the mining technique was restricted to underground mining and the scale of production was set at 100,000 tonnes per annum. The Valuation Report also stated that the maximum production capacity of the Mining Site is estimated to be 170,000 tonnes of strontium ore and 60,000 tonnes of lead-zinc ore per annum.

Overview of the mineral resources market

(1) Celestite ore

As mentioned in the foregoing, celestite is one of the two main sources of mine from which strontium can be obtained. As referred to in the Valuation Report and based on our discussion with the Valuer, the PRC uses mostly domestic celestite to supply for its strontium carbonate plants. Since the celestite reserves of the PRC are relatively smaller in size and are of lower purification, the Chinese celestite producers are unable to maintain sufficient production to meet the high demand at strontium carbonate plants. Due to the said excess in demand situation, celestite producers in the PRC can clear their stock of celestite ore easily. Furthermore, according to the Valuation Report, the developed strontium mines, with a few exceptions, would also be fully depleted in five years. Having this being the case, it is expected that the problem of insufficient market supply of domestic celestite ore may further intensified in the future.

Based on the information from 商品價格網 at the internet website (price.mofcom.gov.cn), celestite with average grading of 94% (from Mexico) was priced at around US$80 to US$100 per tonne in September 2007. As extracted from the Technical Report, the Mining Site is expected to produce 78% to 85% grading celestite, the price range of which cannot be found from publicly available source.

(2) Zinc metal

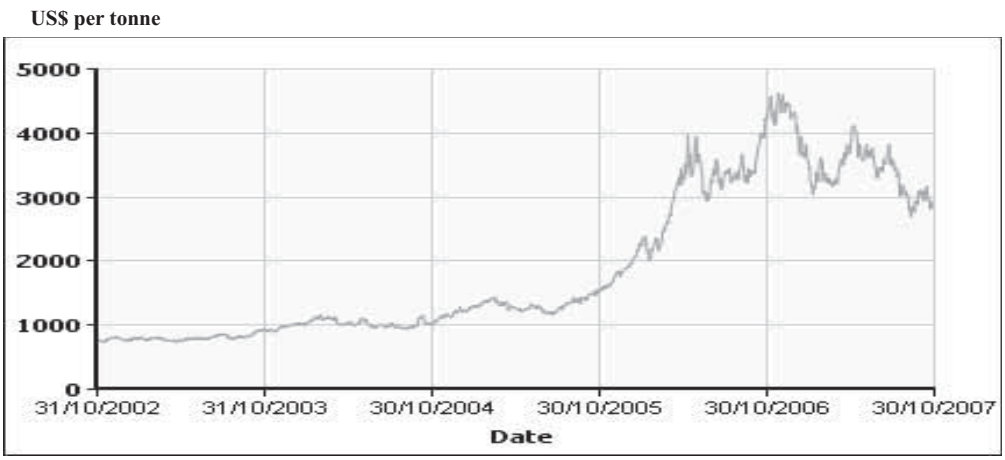
The following table illustrates the breakdown of the worldwide consumption of zinc metal from 2003 to 2006:

	Yearly Zinc Metal Consumption (in kilotonnes)			
Region	**2003**	**2004**	**2005**	**2006**
Asia	4,664	5,244	5,597	5,762
Europe	2,780	2,837	2,683	2,800
America	1,958	2,126	1,904	1,998
Oceania	267	263	253	273
Africa	173	194	204	202
World total	**9,842**	**10,664**	**10,641**	**11,035**

Source: International Lead and Zinc Study Group, London Metal Exchange

As shown by the above table, the world total consumption of zinc metal grew from approximately 9,842 kilotonnes to 11,035 kilotonnes from 2003 to 2006, representing a cumulative increase of approximately 12.12%. Moreover, during the same period under review, consumption for zinc metal from all regions over the world rose with Asia and Africa as the main demand drivers. The Directors expected that the economic growth of the PRC will continuously drive up the demand for zinc metal in the near future.

The graph below depicts the changes in the price of zinc metal from 2002 to 2007:



Source: London Metal Exchange

The zinc price was quoted at around US$800 per tonne in 2002 based on the London Metal Exchange cash settlement price. The price of zinc increased continuously from approximately US$800 per tonne in 2002 to approximately US$1,500 per tonne in mid 2005. Due to the aforementioned increase in worldwide consumption of zinc, the zinc price hiked to a peak of approximately US$4,500 per tonne in late 2006 and it remains at a relative high level of around US$3,000 per tonne recently.

(3) Lead metal

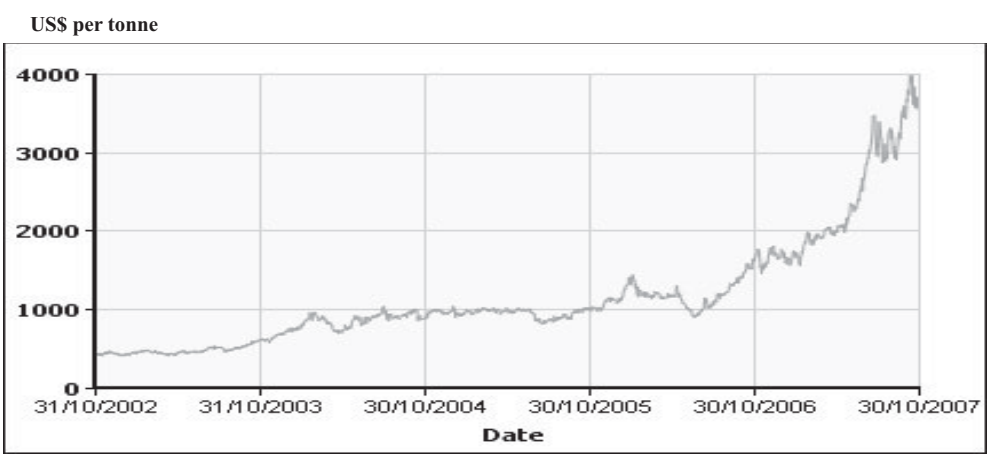
The following table illustrates the breakdown of the worldwide consumption of lead metal from 2003 to 2006:

	Yearly Lead Metal Consumption (in kilotonnes)			
Region	**2003**	**2004**	**2005**	**2006**
Asia	2,711	3,100	3,532	3,807
America	2,032	2,042	2,123	2,158
Europe	1,933	1,984	2,003	1,914
Africa	116	112	113	122
Oceania	42	40	29	29
World Total	**6,834**	**7,278**	**7,800**	**8,030**

Source: International Lead and Zinc Study Group, London Metal Exchange

As shown by the above table, the world total consumption of lead metal grew from approximately 6,834 kilotonnes to 8,030 kilotonnes from 2003 to 2006, representing a cumulative increase of approximately 17.50%. The boost in the world consumption of lead metal was largely come from Asia. During the same period under review, the amount of lead metal consumed in Asia had increased by approximately 40.43%. The same for zinc metal, the Directors expected that the rapid economic growth in the PRC will continue to lift up the demand for lead metal in the near future.

The graph below depicts the changes in the price of lead metal from 2002 to 2007:



Source: London Metal Exchange

According to the London Metal Exchange cash settlement price, the lead price started to show an increasing trend from mid 2003 onwards. The price of lead reached approximately US$900 per tonne in 2004 and it increased further to approximately US$1,700 per tonne in late 2006. Recently, the price of lead had hiked to a peak of approximately US$4,000 per tonne and remains at a high level of around US$3,600 per tonne.

In light of (i) the insufficient supply of celestite ore to meet the extensive demand for strontium in the PRC; and (ii) the favorable market statistics regarding the worldwide zinc and lead metal consumption and prices as presented above, the demand and price for celestite ore, zinc and lead metal would probably be mounting in the near future. Having taken into account such positive future outlook of the celestite ore, zinc and lead metal markets, we consider that it will be beneficial for the Group to tap into the said mineral resources market by acquiring the PRC Mining Company. For this reason, in our opinion, the Acquisition is the interests of the Company and the Shareholders as a whole.

Reasons for the Acquisition

As stated in the Board Letter and confirmed by the Directors, it is the intention of the Company to diversify its business portfolio into areas such as resources and PRC property development. In addition, the Directors also considered that the entering into of the Agreements is in line with the Group's diversification strategy.

As also confirmed by the Directors, the Company is optimistic about the future business prospects of the PRC Mining Company. Since the PRC Mining Company will be owned as to approximately 40.8% indirectly by the Company upon Completion in which case the Company will be able to consolidate approximately 40.8% of the financial results of the PRC Mining Company into the Company's consolidated financial statements (or approximately 50.8% upon completion of both the Acquisition and the Further Acquisition in which case approximately 50.8% of the financial results of the PRC Mining Company can be consolidated), the Directors expected that the Acquisition will improve the future business performance of the Group. Given that the Company may also be able to enjoy the controlling stake in the PRC Mining Company if the Further Acquisition is approved at the SGM, the Directors believe that the Company will be able to operate the PRC Mining Company efficiently and the asset base of the Group will also be strengthened.

Given that (i) the Acquisition aligns with the Group's strategy to diversify its business portfolio into the resources market; (ii) the PRC Mining Company demonstrates the potential to achieve further business development leveraging on the positive future outlook of the celestite ore, zinc and lead metal markets; and (iii) the Acquisition would likely to enhance the future business performance and asset base of the Group, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole even though the mineral resources market is new to the Group and therefore the Acquisition may not be in the ordinary and usual course of business of the Company.

(2) Principal terms of the Agreements

On 24 July 2007, the Purchaser, being a wholly-owned subsidiary of the Company, and the First Vendor entered into the Acquisition Agreement which was subsequently amended by (i) the Supplemental Agreement I dated 27 July 2007; and (ii) the Supplemental Agreement II dated 1 November 2007.

Pursuant to the Acquisition Agreement, the Purchaser agreed to acquire from the First Vendor the entire equity interest in the BVI Company for the consideration of HK$408 million, subject to adjustment mechanism with a maximum up to HK$500 million which is further stipulated in the Supplemental Agreement I. On 1 November 2007, the Acquisition Agreement was further amended by the Supplemental Agreement II pursuant to which (i) the Consideration is adjusted down from HK$408 million to HK$367.2 million; and (ii) a profit guarantee of not less than RMB80 million profit before tax for the year 31 December 2008 shall be provided by the First Vendor for the PRC Mining Company (the "Profit Guarantee").

Pursuant also to the Acquisition Agreement, HK$40 million of the Consideration shall be paid by the Purchaser in cash (the "Cash Consideration") and the balance of HK$327.2 million shall be satisfied by the issue and allotment of 240,000,000 Consideration Shares at an issue price of HK$1.3633 per Consideration Share to the First Vendor. In this regard, a refundable initial deposit of HK$25 million payable within three days upon signing of the Acquisition Agreement has already been paid. The remaining cash payment of HK$15 million and the Consideration Shares in an aggregate amount of HK$327.2 million are payable/will be issued and allotted to the First Vendor upon Completion. The Directors further confirmed that the Group will finance the entire Cash Consideration by its internal resources.

Basis of the Consideration

As confirmed by the Directors, the Consideration was determined after arm's length negotiation between the Purchaser and the First Vendor after taking into consideration factors including the estimated amount of ore reserves and the present prices of the ore metals. The Directors considered that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned. Pursuant to the Supplemental Agreement II, the Consideration was adjusted downward to HK$367.2 million with reference to the market value of the Mining Right of RMB1,070 million as at 30 September 2007 (the "Appraised Value"), details of which are outlined in the Valuation Report which is contained in Appendix V to the Circular. We note that the Consideration represents a discount of approximately 19.62% to "40.8% of the sum of the Appraised Value and the audited NAV of the PRC Mining Company as at 30 June 2007". In addition, the Consideration is proportionally the same as the consideration for the Further Acquisition.

Valuation on the Mining Right

The Company has appointed the Valuer, an independent professional valuer, to appraise the market value of the Mining Right as at 30 September 2007 and to prepare the Valuation Report as contained in Appendix V to the Circular. From the Valuation Report, we note that the Valuer estimated the market value of the Mining Right as at 30 September 2007 to be of RMB1,070 million.

We have reviewed the Valuation Report and enquired into the Valuer on the methodologies adopted and assumptions made in arriving at the Appraised Value. In this regard, we were advised by the Valuer that there are three generally accepted valuation approaches, namely the cost approach, sales comparison approach and income approach. In determining the Appraised Value, the Valuer considered that the cost approach is the least applicable approach as it is difficult to assess the replacement cost of the Mining Site and the value of the expertise used in developing the Mining Site. Moreover, although the cost of building mining facilities at different locations may be similar, the economic benefits that can be derived from such projects can vary significantly due to a number of economic as well as regulatory factors. As a result, the historical or replacement cost of the projects may not serve as a good indicator of the fair value for the assets which are involved.

Regarding the sales comparison approach, the Valuer have not relied on this approach in their estimation of the market value of the Mining Right due to the problem of insufficient supporting data (market-based transactional information, in this instance). Given the aforementioned weaknesses of the cost approach and the sales comparison approach in this particular valuation, we concur with the Valuer that the income approach is the most suitable methodology to be adopted for determining the Appraised Value.

Under the income approach, we understand that the Valuer have adopted the discounted cash flow analysis (the "DCF Analysis") to derive the future value of the project into a present market value. We concur with the Valuer that the DCF Analysis is suitable for the valuation since (i) the DCF Analysis eliminates the discrepancy in time value of money by using a discount rate that reflects all business risks including intrinsic and extrinsic uncertainties in relation to the business; and (ii) the DCF Analysis is a commonly used valuation method in valuing mining projects as noted from other similar listed mining companies in Hong Kong.

Furthermore, we also note that in determining the Appraised Value, the Valuer have taken into consideration and relied on the projections of the future revenue and profits to be derived from the Mining Right prepared by the appointed personnel and management of the Company and the PRC Mining Company with reference to factors like the quality of the mining facilities, the capability and determination of the PRC Mining Company to protect its mining operations against any disruption of the normal operation of the Mining Site and to construct and implement the scheduled production process to extract ores for processing as predicted. The Valuer were

satisfied that the assumptions adopted by the appointed personnel and management of the Company and the PRC Mining Company reflected their judgment of the ability of the Mining Site to generate revenue and profits from the market and that the projections are justifiable. In addition, from the reports from reporting accountants and financial adviser as contained in Appendix III to the Circular, we understand that both the reporting accountants and financial adviser to the Company are satisfied that such revenue and profits projections have been made after due and careful enquiry by the Directors.

Shareholders should be aware of that revenue and profits cannot be projected with complete accuracy and are dependent on the assumptions made. Based on our review and discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the methodologies adopted and the bases used in arriving at the Appraised Value. In particular, we note that the Valuer, in arriving at the Appraised Value, have taken into account all pertinent factors affecting the mining right and the ability of the Mining Site (if the renewal of the title documents as mentioned under the section headed "Information on the PRC Mining Company" in this letter are successful) to generate future investment returns as part of a going concern business of the PRC Mining Company. Having considered all of the above, we are of the opinion that the Appraised Value may provide a valid benchmark for the Directors to assess the fairness and reasonableness of the Consideration. Given the fact that (i) the financial information of the BVI Company was not yet available since the BVI Company has not started any operations; (ii) the H.K. Company is a mere shell company; and (iii) the audited NAV of the PRC Mining Company as at 30 June 2007 as presented in Appendix II to the Circular did not include the value of the Mining Right, we consider that "40.8% of the Appraised Value and the audited NAV of the PRC Mining Company as at 30 June 2007" may represent the market value of the BVI Company as at 30 September 2007. Since the Consideration is at discount of approximately 19.62% to "40.8% of the Appraised Value and the audited NAV of the PRC Mining Company as at 30 June 2007", we are of the opinion that the Consideration is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned.

The Profit Guarantee

As mentioned in the foregoing, the First Vendor shall provide the Profit Guarantee of not less than RMB80 million profit before tax for the year ending 31 December 2008 for the PRC Mining Company. In case whereby the audited profit before tax of the PRC Mining Company falls below the adjusted profit guarantee, the First Vendor shall compensate 40.8% of the shortfall to the Purchaser in cash based on their respective shareholdings of the PRC Mining Company before Completion, within 30 business days upon the issue of audited accounts of the PRC Mining Company for the year ended 31 December 2008. We are of the view that the Profit Guarantee would safeguard the interest of the Company by minimizing the uncertainties

and business risks of the Group in the mineral resources market. The Profit Guarantee would also provide stable income to the Company even though the profit of the PRC Mining Company may deviate from the forecast or expectation of the Directors for the year ended 31 December 2008.

For the above reasons, we consider that the Profit Guarantee is in the interests of the Company and the Shareholders as a whole.

The Issue Price

The Issue Price of HK$1.3633 per Consideration Share represents a premium over/(discount) to the closing price of the Shares in the following manner:

	Share price *HK$*	**Premium/ (Discount) of the Issue Price over/to the closing price of the Shares** *%*
As at the Latest Practicable Date	1.09	25.07
As at the Last Trading Day	1.210	12.67
The average of the last five trading days of the Shares up to and including the Last Trading Day	1.222	11.56
The average of the last ten trading days of the Shares up to and including the Last Trading Day	1.253	8.80
The average of the last 30 trading days of the Shares up to and including the Last Trading Day	1.224	11.38

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 1 November 2006 up to and including the Last Trading Day (the "Review Period") are shown as follows:

Month	Highest closing price *HK$*	Lowest closing price *HK$*	Average daily closing price *HK$*
2006			
November	0.56	0.46	0.50
December	0.64	0.49	0.54
2007			
January	0.68	0.55	0.61
February *(Note 1)*	0.77	0.63	0.69
March	0.72	0.60	0.66
April *(Note 2)*	1.30	1.30	0.79
May *(Note 3)*	2.27	1.20	1.66
June *(Note 4)*	2.48	1.83	2.03
July *(Note 5)*	2.80	2.08	2.24
August *(Note 6)*	2.18	1.25	1.60
September *(Note 7)*	1.58	1.00	1.58
October (up to and including the Last Trading Day) *(Note 8)*	1.57	1.02	1.27

Notes:

(1) Trading in the Shares was suspended on 15 February 2007.
(2) Trading in the Shares was suspended on 2 April 2007 and 24 April 2007 (half day).
(3) Trading in the Shares was suspended on 25 May 2007.
(4) Trading in the Shares was suspended on 5 June 2007 and 27 June 2007.
(5) Trading in the Shares was suspended on 24 July 2007 to 27 July 2007.
(6) Trading in the Shares was suspended on 14 August 2007.
(7) Trading in the Shares was suspended on 5 September 2007 and 6 September 2007 (half day).
(8) Trading in the Shares was suspended on 17 October 2007 (half day), 18 October 2007 and 22 October 2007.

Source: the Stock Exchange web-site (www.hkex.com.hk)

The above table illustrates that the monthly average daily closing prices of the Shares during the Review Period were in a general rising trend, with a range of HK$0.50 to HK$2.24 per Share. We have enquired into the Directors regarding the upsurge in the Share price since May 2007 and the Directors confirmed that they are not aware of any occurrences save and except for the active market sentiment which may have led to the said upsurge. We note that the Issue Price of HK$1.3633 per Consideration Share is (i) at premium over the monthly average daily closing prices of the Shares for the period between November 2006 and April 2007 as well as October 2007 (over half of the time of the Review Period); (ii) at discount to the monthly average daily closing prices of the Shares during the rest of the Review Period; and (iii) within the highest and lowest daily closing price range of the Shares during the Review Period.

To further evaluate the fairness and reasonableness of the Issue Price, we have identified, to the best of our knowledge and endeavor, 18 connected transactions in relation to acquisitions by companies listed on the Stock Exchange which involved the issue of shares to satisfy all or part of the consideration from 1 August 2007 to the Last Trading Day (the "Issue Price Comparables"). The table below demonstrates our relevant findings:

Company (Stock code)	**Date of announcement**	**Issue price** *HK$*	**Premium/(Discount) of the issue price over /to the closing price of the shares as at the last trading day prior to the release of the announcement** *%*
Extrawell Pharmaceutical Holdings Limited (858)	1 August 2007	2.5630	(15.69)
G-Prop (Holdings) Limited (286)	7 August 2007	0.1620	(92.17)
Orient Resources Group Company Limited (467)	15 August 2007	1.6100	(8.52)
SRE Group Limited (1207)	17 August 2007	3.0400	10.55
China Timber Resources Group Limited (269)	22 August 2007	0.2530	5.86
Huali Holding (Group) Limited (3366)	24 August 2007	3.4000	(10.05)
China Elegance (Holdings) Limited (476)	29 August 2007	3.6000	(2.17)
Vantage International (Holdings) Limited (15)	30 August 2007	0.2300	(14.81)
Poly (Hong Kong) Investments Limited (119)	31 August 2007	6.1000	(20.78)
New Universe International Group Limited (8068)	31 August 2007	0.1900	2.70
Kiu hung International Holdings Limited (381)	4 September 2007	0.7000	(44.88)

Company (Stock code)	Date of announcement	Issue price	Premium/(Discount) of the issue price over /to the closing price of the shares as at the last trading day prior to the release of the announcement
		HK$	*%*
Shougang Concord Technology Holdings Limited (521)	5 September 2007	0.7640	(23.60)
Sino Union Concord Technology Holdings Limited (346)	12 September 2007	1.4400	6.67
Henry Group Holdings Limited (859)	14 September 2007	1.2500	0.00
China Motion Telecom International Limited (989)	19 September 2007	0.3550	(54.49)
Ko Yo Ecological Agrotech (Group) Limited (8042)	21 September 2007	0.6595	(4.42)
United Power Investment Limited (674)	17 October 2007	0.3370	2.12
Zhong Hua International Holdings Limited (1064)	26 October 2007	0.2500	(10.71)
Maximum			**10.55**
Minimum			**(92.17)**
Average			**(15.25)**
The Company	**1 November 2007**	**1.3633**	**12.67**

As shown by the above table, the issue prices of the consideration shares of the Issue Price Comparables ranged from a discount of approximately 92.17% to a premium of approximately 10.55% to/over the respective closing prices of their shares as at the last trading day prior to the release of the acquisition announcements. Out of the 18 Issue Price Comparables, the issue prices of five of them represented premiums over the closing prices of their shares as at the last trading days. The Issue Price, which represents a premium of approximately 12.67% over the closing price of the Shares as at the Last Trading Day, falls within the said market range and is above the average of the Issue Price Comparables. Therefore, we are of the view that the Issue Price is more favourable to the Company as compared to normal market practice.

To conclude, having taken into account (i) the Share price performance of the Company during the Review Period; (ii) the Issue Price is of premium over the average closing prices of the Shares from November 2006 to April 2007 and in October 2007 which represents over half of the time of the Review Period and also that the recent upsurge of the Share price according to the Directors was only due to the active market sentiment; (iii) the Issue Price is within the highest and lowest daily closing price range of the Shares during the Review Period; and (iv) the market analysis as detailed above, we are of the view that the Issue Price is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned.

We have also reviewed the other terms of the Agreements and are not aware of any terms which are uncommon to normal market practice. Having this being the case, we are of the opinion that the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Potential dilution to the shareholdings of the existing public Shareholders

As at the Latest Practicable Date, the Company had a total of 372,790,000 Shares in issue. The Consideration Shares thus represent (i) approximately 64.38% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 39.17% of the issued share capital of the Company as enlarged by the Consideration Shares immediately upon Completion.

The table below shows the shareholding structure of the Company (i) as at Latest Practicable Date; and (ii) immediately upon Completion and the issue of the Consideration Shares:

	As at the Latest Practicable Date		**Upon Completion and the issue of the Consideration Shares**	
	Number of Shares	*%*	*Number of Shares*	*%*
Mr. Lau Siu Ying	188,580,013	50.59	380,580,013	62.10
Mr. Lau Kin Ying	–	–	24,000,000	3.92
Mr. Lau Hung Bing	300,000	0.08	24,300,000	3.97
Public Shareholders	183,909,987	49.33	183,909,987	30.01
Total	**372,790,000**	**100.00**	**612,790,000**	**100.00**

From the above table, we notice that the shareholding interests of the existing public Shareholders would be diluted from approximately 49.33% to 30.01% immediately upon Completion and the issue of the Consideration Shares. As the Consideration Shares are issued to the First Vendor, there will be no change in the absolute number of Shares held by the existing public Shareholders and therefore

the relative size of the public float will be reduced. Nevertheless, after taking into account the fact that (i) the shareholding interests of all the public Shareholders will be diluted in proportion to their respective shareholdings in the Company upon Completion and the issue of the Consideration Shares; and (ii) the Acquisition would likely to enhance the future business performance of the Group and in turn the Shareholders' value in the future, we are of the view that the said possible dilution to the shareholding interests of the existing public Shareholders is acceptable.

(4) Financial effects of the Acquisition

Effect on net asset value

As extracted from the 2007 Interim Report, the unaudited consolidated NAV of the Group (including minority interest) was approximately HK$396.46 million as at 30 June 2007. Upon Completion, the NAV of the Group will be increased to approximately HK$1,215.03 million with reference to the unaudited pro-forma financial information of the Enlarged Group as set forth in Appendix IV to the Circular.

Effect on earnings

In light of (i) the expected positive future business prospects of the PRC Mining Company; and (ii) the PRC Mining Company will be owned as to approximately 40.8% indirectly by the Company upon Completion in which case the Company will be able to consolidate approximately 40.8% of the financial results of the PRC Mining Company into the Company's consolidated financial statements (or approximately 50.8% upon completion of both the Acquisition and the Further Acquisition in which case approximately 50.8% of the financial results of the PRC Mining Company can be consolidated), the Acquisition would likely to have a positive impact on the future earnings of the Group.

Effect on gearing

As at 30 June 2007, the Group's gearing level (being calculated as non-current liabilities over the NAV of the Group) was approximately 1.26 times. From the unaudited pro-forma financial information of the Enlarged Group as set forth in Appendix IV to the Circular, the total borrowings and the NAV of the Group would become approximately HK$500.40 million and HK$1,215.03 million respectively. The gearing level of the Group would hence be decreased to approximately 0.41 times.

Effect on working capital

As aforementioned, the Directors confirmed that the Group will finance the Cash Consideration of HK$40 million by its internal resources. The Acquisition would therefore lead to a reduction in the Group's working capital by an aggregate of HK$40 million in two stages in accordance with the payment schedule as outlined under the section headed "Principal terms of the Agreements" in this letter upon Completion.

Conclusion

Based on the financial effects of the Acquisition on the Group, namely the inevitable worsening of the liquidity position of the Group but as balanced by the possible improvement of the Group's net assets, gearing position and future earnings position in the long term, we are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

The Acquisition would increase the level of risk exposure of the Group. Your attention is also drawn to the sections which highlight the relevant risks associated with the PRC Mining Company in the Valuation Report and the Technical Report as set out in Appendices V and VI to the Circular respectively. We are of the view that the Independent Shareholders should bear in mind all the risk factors when considering the Acquisition.

RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition even though may not be in the ordinary and usual course of business of the Company is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve the Agreements and the transactions contemplated therein and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
South China Capital Limited
Graham Lam
Director

1. FINANCIAL INFORMATION

The financial information for the interim results of the Group for the six months ended 30 June 2006 and 2007 have been extracted from the interim report of the Group for the six months ended 30 June 2007, the financial information for the audited results of the Group for the nine months ended 31 December 2004*, the year ended 31 December 2005 and 31 December 2006 have been extracted from the annual reports of the Group for the year ended 31 December 2005 and 31 December 2006.

(i) Results

	Nine months period ended 31 December	Year ended 31 December		Six months period ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	2,086,140	2,664,254	3,046,805	1,217,168	1,587,023
Cost of sales	(1,993,615)	(2,569,618)	(2,933,472)	(1,165,639)	(1,590,089)
Gross profit/(loss)	92,525	94,636	113,333	51,529	(3,066)
Other income	5,643	13,485	17,904	5,561	4,509
Distribution costs	(15,210)	(31,138)	(36,716)	(15,589)	(41,820)
Administrative expenses	(20,161)	(34,739)	(29,502)	(7,794)	(31,704)
Increase in fair value of an investment property	–	200	60	–	–
(Deficit) Surplus arising on revaluation of an investment property	1,800	–	–	–	–
Gain on disposal of trading investments	–	–	–	–	1,375
Impairment loss on other investments	–	–	–	–	–
Share of results of associates	–	–	–	–	(473)
Finance costs	(12,788)	(22,100)	(27,535)	(11,010)	(13,953)
Profit/(loss) before taxation	51,809	20,344	37,544	22,697	(85,132)
Income tax (expense)/credit	(9,089)	(4,137)	(6,205)	(4,963)	340
Profit/(loss) for the year/period	42,720	16,207	31,339	17,734	(84,792)
Attributable to:					
Equity holders of the parent	42,916	11,380	31,339	17,734	(84,792)
Minority interests	(196)	4,827	–	–	–
	42,720	16,207	31,339	17,734	(84,792)

(ii) Assets and liabilities

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	(Audited)	(Audited)	(Audited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	873,500	682,513	1,183,024	950,101
Total liabilities	(515,986)	(328,599)	(786,856)	(553,644)
	357,514	353,914	396,168	396,457
Equity attributable to equity holders of the parent	348,954	353,156	395,410	395,699
Share option reserve of a subsidiary	–	758	758	758
Minority interests	8,560	–	–	–
	357,514	353,914	396,168	396,457

* *As disclosed in the "Notes to the Consolidated Financial Statements" of annual report of the Group for the year ended 31 December 2005 on page 45 "The consolidated financial statements for the current period cover the twelve-month period ended 31 December 2005. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a nine-month period from 1 April 2004 to 31 December 2004 and therefore may not be comparable with amounts shown for the current period. The period covered by the 2004 consolidated financial statements was less than twelve months because the directors determined to bring the balance sheet date in line with that of the major subsidiaries in the People's Republic of China (the "PRC"), of which the year end date is set at 31 December each year by the PRC regulation."*

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement of the Group and notes to the accounts reproduced from the audited accounts published in the Company's annual report for the year ended 31 December 2006.

Consolidated Income Statement
For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Revenue		3,046,805	2,664,254
Cost of sales		(2,933,472)	(2,569,618)
Gross profit		113,333	94,636
Other income	7	17,904	13,485
Distribution costs		(36,716)	(31,138)
Administrative expenses		(29,502)	(34,739)
Increase in fair value of an investment property		60	200
Finance costs	8	(27,535)	(22,100)
Profit before taxation		37,544	20,344
Income tax expense	9	(6,205)	(4,137)
Profit for the year	10	31,339	16,207
Attributable to:			
Equity holders of the parent		31,339	11,380
Minority interests		–	4,827
		31,339	16,207
Dividend	13	3,021	11,329
Earnings per share – basic	14	10.4 cents	3.8 cents

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-Current Assets			
Plant and equipment	15	886	938
Investment property	16	9,560	9,500
Goodwill	17	4,910	4,910
Available-for-sale investment	18	918	918
Club membership	19	600	660
Deferred tax assets	31	2,697	1,052
		19,571	17,978
Current Assets			
Inventories	20	600,871	181,318
Trade and other receivables	21	333,346	130,100
Bills receivable	21	15,845	–
Taxation recoverable		312	–
Held for trading investments	22	12,064	–
Pledged bank deposits	23	150,567	147,211
Bank balances and cash	24	50,448	205,906
		1,163,453	664,535
Current Liabilities			
Trade and other payables	25	108,453	26,159
Bills payable – secured	26	–	28,846
Taxation payables		1,737	1,802
Bank borrowings	29	675,608	271,692
Bank overdrafts – secured	24	1,058	–
Obligations under finance leases	30	–	100
		786,856	328,599
Net Current Assets		376,597	335,936
		396,168	353,914
Capital and Reserves			
Share capital	27	30,210	30,210
Reserves		365,200	322,946
Equity attributable to equity holders of the parent		395,410	353,156
Share option reserve of a subsidiary		758	758
		396,168	353,914

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the parent									
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000*	Translation reserve *HK$'000*	Statutory funds *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*	Share option reserve of a subsidiary *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2005	30,210	103,275	2,481	402	26,130	186,456	348,954	–	8,560	357,514
Exchange differences arising on translation of foreign operations	–	–	–	4,151	–	–	4,151	–	–	4,151
Net income recognised directly in equity	–	–	–	4,151	–	–	4,151	–	–	4,151
Profit for the year	–	–	–	–	–	11,380	11,380	–	4,827	16,207
Total recognised income for the year	–	–	–	4,151	–	11,380	15,531	–	4,827	20,358
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	758	–	758
Dividend paid to minority interests	–	–	–	–	–	–	–	–	(8,525)	(8,525)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(4,862)	(4,862)
Dividend	–	–	–	–	–	(11,329)	(11,329)	–	–	(11,329)
At 31 December 2005	30,210	103,275	2,481	4,553	26,130	186,507	353,156	758	–	353,914
Exchange differences arising on translation of foreign operations	–	–	–	13,936	–	–	13,936	–	–	13,936
Net income recognised directly in equity	–	–	–	13,936	–	–	13,936	–	–	13,936
Profit for the year	–	–	–	–	–	31,339	31,339	–	–	31,339
Total recognised income for the year	–	–	–	13,936	–	31,339	45,275	–	–	45,275
Dividend	–	–	–	–	–	(3,021)	(3,021)	–	–	(3,021)
At 31 December 2006	30,210	103,275	2,481	18,489	26,130	214,825	395,410	758	–	396,168

The special reserve represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued for their acquisition at the time of the group reorganisation in 1999.

Statutory funds are reserves required by the relevant laws applicable to the Group's subsidiaries established in the People's Republic of China (the "PRC subsidiaries") and can be utilised to offset the prior year's losses of the PRC subsidiaries.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		37,544	20,344
Adjustments for:			
Allowance for trade receivables		5,380	6,608
Bad debts written off		816	1,355
Allowance for other receivables		–	421
Write down of inventories		5,393	4,431
Impairment loss recognised in respect of club membership		60	–
Gain on fair value changes of held for trading investments		(6,185)	–
Interest income		(8,515)	(7,114)
Interest expenses		27,535	22,100
Loss on disposal of plant and equipment		–	3
Depreciation on plant and equipment		401	768
Increase in fair value of an investment property		(60)	(200)
Share-based payment expense		–	758
Operating cash flows before movements in working capital		62,369	49,474
(Increase) decrease in inventories		(418,294)	97,142
(Increase) decrease in trade and other receivables		(205,412)	141,592
Increase in bills receivable		(15,845)	–
Increase in held for trading investments		(5,879)	–
Increase (decrease) in trade and other payables		81,701	(13,531)
(Decrease) increase in bills payables		(30,000)	28,302
Cash (used in) generated from operations		(531,360)	302,979
PRC Enterprise Income Tax paid		(7,297)	(8,227)
Hong Kong Profits Tax (paid) refunded		(930)	220
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(539,587)	294,972

	NOTES	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES			
(Increase) decrease in pledged bank deposits		(3,125)	35,660
Purchase of plant and equipment		(332)	(536)
Interest received		8,515	7,114
Purchase of club membership		–	(660)
Increase in fixed deposit held at bank		–	(5,769)
Net cash outflow from disposal of subsidiaries	32	–	(13,467)
NET CASH FROM INVESTING ACTIVITIES		5,058	22,342
FINANCING ACTIVITIES			
Bank and other borrowings raised		1,075,724	810,183
Bank and other borrowings repaid		(675,616)	(996,415)
Interest paid		(27,522)	(22,073)
Dividend paid		(3,021)	(11,329)
Dividend paid to minority interests		–	(8,525)
Repayment of obligations under finance leases		(100)	(200)
Interest on obligations under finance leases		(13)	(27)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		369,452	(228,386)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(165,077)	88,928
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		205,906	115,348
Effect of foreign exchange rate changes		8,561	1,630
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		49,390	205,906
Represented by:			
Bank balances and cash		50,448	205,906
Bank overdrafts		(1,058)	–
		49,390	205,906

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda under The Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Future 2000 Limited, a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are the distribution and trading of mobile phones and related accessories, computer products and the development of marketing and after-sales service network.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS/INTERPRETATIONS NOT YET EFFECTIVE

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Rental income from investment property under operating leases is recognised on a straight line basis over the term of the relevant lease.

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

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

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

Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

Impairment losses (other than goodwill)

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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Club membership

Club membership with indefinite life is carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of the club membership are measured at the difference between the net disposal proceeds and the carrying amount of the club membership and are recognised in the consolidated income statement when the club membership is derecognised.

Club membership is tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. If the recoverable amount of club membership is estimated to be less than its carrying amount, the carrying amount of the club membership is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of club membership 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 that club membership in prior years.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit scheme and state-managed retirement benefit scheme are charged as expenses when employees have rendered services entitling them to the contributions.

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprises financial assets held for trading.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss categories.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, secured bills payable, bank borrowings, secured bank overdrafts and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense over the vesting period with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

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

5. KEY SOURCE OF ESTIMATION

The key source of estimation at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, the carrying amount of goodwill is approximately HK$4,910,000. Details of the recoverable amount calculation are set out in note 17.

6. FINANCIAL INSTRUMENTS

6a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, held for trading investments, pledged bank deposits, bank balances, trade and other payables, secured bills payable, bank borrowings, secured bank overdrafts and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 is the carrying amount of trade and other receivables as stated in the consolidated balance sheet. As at 31 December 2006, the five largest trade receivables accounted for approximately 61% of total trade receivables (net of allowance). In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Interest rate risk

The Group's cash flow interest rate risk relates to variable-rate bank borrowings (note 29) and bank overdrafts (note 24). The Group's fair value interest rate risk relates primarily to fixed-rate short-term bank deposits (note 24) and bank borrowings (note 29). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Foreign exchange risk

The Group mainly operates in the People's Republic of China ("PRC") with most of the transactions denominated and settled in Renminbi ("RMB"). RMB is not freely convertible into other currencies and conversion of RMB into other currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Because the Group does not have material foreign currency transactions, the directors consider it has no material foreign exchange risk. The directors will continue to monitor the condition and consider any hedging activities should the need arise.

Price risk

The Group's held for trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6b. Fair values

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

7. OTHER INCOME

During the year ended 31 December 2005, other income included a PRC tax refund on capital reinvestment in a subsidiary. Pursuant to an approval by local tax authority, a subsidiary of the Company received a benefit of approximately HK$5,401,000 (equivalent to approximately RMB5,725,000) in respect of its reinvestment made in a subsidiary. The benefit was calculated with reference to certain percentage of the tax paid by the subsidiary.

8. FINANCE COSTS

	2006	**2005**
	HK$'000	*HK$'000*
Interests on:		
Bank borrowings wholly repayable within five years	27,522	22,073
Obligations under finance leases	13	27
	27,535	22,100

9. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year	–	590
PRC Enterprise Income Tax	7,850	4,599
	7,850	5,189
Deferred tax *(Note 31)*	(1,645)	(1,052)
	6,205	4,137

PRC Enterprise Income Tax represents taxation charge on the assessable profits of the Company's subsidiaries, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") and 上海遠嘉國際貿易有限公司 ("Shanghai Yuanjia"), established in Shanghai Waigaoqiao Free Trade Zone, the PRC. Fortune Shanghai and Shanghai Yuanjia are entitled to a preferential PRC Enterprise Income Tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

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

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	37,544	20,344
Tax at the domestic income tax rate of 15% (2005: 15%) *(Note)*	5,632	3,052
Tax effect of expenses not deductible for tax purpose	1,615	1,175
Tax effect of income not taxable for tax purpose	(2,397)	(1,681)
Reversal of tax effect of deductible temporary differences not recognised	(9)	(30)
Tax effect of tax losses not recognised	1,364	1,537
Effect of different tax rates of companies operating in Hong Kong	–	84
Tax expense for the year	6,205	4,137

At the balance sheet date, the Group had unused tax losses of approximately HK$64,619,000 (2005: HK$55,528,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The entire sum of unrecognised tax losses may be carried forward indefinitely.

At the balance sheet date, the Group also had deductible temporary differences of approximately HK$2,839,000 (2005: HK$2,899,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Note: The domestic income tax rate represents the preferential PRC Enterprise Income Tax rate where the Group's operations are substantially based.

10. PROFIT FOR THE YEAR

	2006	**2005**
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Allowance for trade receivables	5,380	6,608
Allowance for other receivables	–	421
Auditor's remuneration	989	997
Bad debts written off	816	1,355
Depreciation on		
– owned assets	401	690
– assets held under finance leases	–	78
Exchange loss	–	411
Write down of inventories	5,393	4,431
Cost of inventories recognised as expense	2,928,079	2,565,187
Impairment loss recognised in respect of club membership	60	–
Loss on disposal of plant and equipment	–	3
Staff costs		
– directors' emoluments *(Note 11)*	3,216	2,024
– other staff costs	41,191	34,273
– share-based payment expenses	–	758
– retirement benefit scheme contribution (excluding directors')	600	686
	45,007	37,741
and after crediting:		
Bank interest income	8,515	7,114
Exchange gain	2,000	–
Gain on fair value changes of held for trading investments	6,185	–
Rental income on an investment property, net of outgoings of approximately HK$39,000 (2005: HK$12,000)	273	260

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2005: eight) directors were as follows:

	Lau Siu Ying	Luo Xi Zhi	Fung Oi Ip, Alfonso	Lo Wing Yat	Chang Wing Seng, Victor	Wong Lit Chor, Alexis	Fok Wai Ming, Eddie	Liu Kwok Fai, Alvan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006									
Fees	–	–	50	50	66	26	41	66	299
Other emoluments									
Salaries and allowances	1,813	93	–	–	–	–	–	–	1,906
Performance related incentive bonuses *(Note)*	1,000	–	–	–	–	–	–	–	1,000
Retirement benefit scheme contribution	2	9	–	–	–	–	–	–	11
Total emoluments	2,815	102	50	50	66	26	41	66	3,216

	Lau Siu Ying	Luo Xi Zhi	Tin Ding Hong, William	Fung Oi Ip, Alfonso	Lo Wing Yat	Chang Wing Seng, Victor	Liu Kwok Fai, Alvan	Fok Wai Ming, Eddie	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005									
Fees	–	–	–	50	50	60	60	60	280
Other emoluments									
Salaries and allowances	1,489	67	171	–	–	–	–	–	1,727
Retirement benefit scheme contribution	2	12	3	–	–	–	–	–	17
Total emoluments	1,491	79	174	50	50	60	60	60	2,024

Note: The performance related incentive bonuses for the year ended 31 December 2006 were determined on performance of the Group.

No directors waived any emoluments in both years.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2005: one) was a director of the Company whose emolument is included in the disclosures in note 11 above. The emoluments of the remaining four (2005: four) individuals were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and allowances	3,034	2,897
Share-based payment expenses *(Note)*	–	758
Other long-term benefits	–	213
Retirement benefit scheme contribution	38	36
	3,072	3,904

Their emoluments were within the following bands:

	2006 Number of employees	**2005 Number of employees**
Up to HK$1,000,000	4	3
HK$1,500,001 to HK$2,000,000	–	1

Note: During the year ended 31 December 2005, the share-based payment expense was determined as the fair value of share option at the grant date.

None of the five highest paid individuals waived any emoluments in both years.

During the year ended 31 December 2006 and 2005, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND

	2006	**2005**
	HK$'000	*HK$'000*
Final dividend recognised as distribution:		
HK1 cent per share for the year ended 31 December 2005	3,021	–
HK3.75 cents per share for the nine-month period ended 31 December 2004	–	11,329
	3,021	11,329

A final dividend of HK1 cent (2005: HK1 cent) per share for the year ended 31 December 2006 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the parent of HK$31,339,000 (2005: HK$11,380,000) and on 302,100,000 (2005: 302,100,000) ordinary shares in issue during the year.

15. PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST				
At 1 January 2005	1,224	3,137	2,110	6,471
Exchange adjustments	–	13	9	22
Additions	138	267	131	536
Disposal of subsidiaries	(343)	(1,041)	–	(1,384)
Disposals	–	(189)	–	(189)
At 31 December 2005	1,019	2,187	2,250	5,456
Exchange adjustments	–	27	20	47
Additions	22	310	–	332
At 31 December 2006	1,041	2,524	2,270	5,835
DEPRECIATION				
At 1 January 2005	1,131	2,402	1,603	5,136
Exchange adjustments	–	7	4	11
Provided for the year	224	216	328	768
Eliminated on disposal of subsidiaries	(436)	(775)	–	(1,211)
Eliminated on disposals	–	(186)	–	(186)
At 31 December 2005	919	1,664	1,935	4,518
Exchange adjustments	–	18	12	30
Provided for the year	43	237	121	401
At 31 December 2006	962	1,919	2,068	4,949
CARRYING VALUE				
At 31 December 2006	79	605	202	886
At 31 December 2005	100	523	315	938

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

Leasehold improvements	20% or over the term of the relevant leases, whichever is shorter
Furniture, fixtures and equipment	25%
Motor vehicles	25%

16. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2005	9,300
Increase in fair value recognised in the consolidated income statement	200
At 31 December 2005 and 1 January 2006	9,500
Increase in fair value recognised in the consolidated income statement	60
At 31 December 2006	9,560

The fair value of the Group's investment property at 31 December 2006 has been arrived at on the basis of a valuation carried out on that date by Midland Surveyors Limited, an independent qualified professional valuer not connected with the Group. Midland Surveyors Limited is a member of the Hong Kong Institute of Surveyors ("HKIS") and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to HKIS valuation standards on properties, was arrived at by reference to market evidence of transaction prices for similar properties.

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

The Group's investment property is held under a long lease in Hong Kong.

The investment property is pledged to a bank to secure general banking facilities granted to a subsidiary.

17. GOODWILL

	HK$'000
COST	
At 1 January 2005	777
Arising on acquisition of additional interests in subsidiaries	4,910
Eliminated on disposal of subsidiaries	(777)
At 31 December 2005, 1 January 2006 and 31 December 2006	4,910
CARRYING VALUE	
At 31 December 2006	4,910
At 31 December 2005	4,910

Goodwill as at 31 December 2006 represents management expertise in the computer products distribution business of a subsidiary acquired in prior year.

The recoverable amount of the goodwill has been determined based on a value in use calculation of the relevant cash generating unit. That calculation uses cash flow projections based on financial forecasts approved by management covering a 5-year period, and a discount rate of 10%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the cash generating unit's past performance and management's expectations for the market development. The directors have determined that no impairment of the goodwill has occurred.

18. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment as at 31 December 2006 comprises:

	2006 & 2005
	HK$'000
Unlisted securities:	
Equity securities	918

Available-for-sale investments represents unlisted equity securities issued by a private entity incorporated in Hong Kong. Available-for-sale investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair values estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

19. CLUB MEMBERSHIP

	2006	**2005**
	HK$'000	*HK$'000*
Club membership		
Outside Hong Kong	600	660

20. INVENTORIES

Inventories represent finished goods held for resale.

21. TRADE, BILLS AND OTHER RECEIVABLES

	2006	**2005**
	HK$'000	*HK$'000*
Trade receivables	187,320	90,426
Less: accumulated allowance	(16,329)	(10,949)
	170,991	79,477
Value-added-tax receivables	66,920	1,815
Rebates receivables	62,359	28,930
Deposits and prepayments	33,076	19,878
	333,346	130,100
Bills receivable	15,845	–
	349,191	130,100

The Group allows credit period ranged from 30 to 90 days to its trade customers. The following is an aged analysis of the trade and bills receivables (net of allowance) at the reporting date:

	2006	2005
	HK$'000	*HK$'000*
Trade and bills receivables:		
0 to 30 days	119,415	46,498
31 to 90 days	57,360	30,466
Over 90 days	10,061	2,513
	186,836	79,477

22. HELD FOR TRADING INVESTMENTS

At 31 December 2006, the amount represents unlisted marketable investment funds.

Though the held for trading investments are pledged to a bank to secure general banking facilities granted to a subsidiary, the Group can freely dispose of its investments. Subsequent to the balance sheet date, the Group disposed of the investments, the net proceeds of approximately HK$14,000,000 remained in the investment account as pledged deposits.

23. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. Included in the amount is a fixed deposit held at bank with maturity more than three months of approximately HK$9,600,000 (2005: HK$5,769,000). The deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

The deposits carry fixed interest rates ranging from 2.625% to 5.230% (2005: 1.750% to 4.170%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Pledged bank deposits are mainly denominated in United States dollars ("US$"), Renminbi and Hong Kong dollars. Included in pledged bank deposits as at 31 December 2006 was an amount of US$17,734,000 (2005: US$18,251,000).

24. BANK BALANCES AND CASH/BANK OVERDRAFTS – SECURED

Bank balances and cash

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at market interest rates ranging from 1.75% to 5.35% (2005: 0.25% to 4.17%) per annum and have maturity of three months or less.

The bank balances and cash of the Group are mainly denominated in Renminbi and Hong Kong dollars. Included in bank balances and cash as at 31 December 2006 was amount in Renminbi of approximately RMB43,770,000 (2005: RMB180,619,000). Renminbi is not freely convertible into other currencies.

Bank overdrafts – secured

At 31 December 2006, secured bank overdrafts carried interest at market rates at Prime rate ("P") minus 1% per annum.

25. TRADE AND OTHER PAYABLES

The following is an aged analysis of the trade payables at the balance sheet date:

	2006 *HK$'000*	2005 *HK$'000*
Trade payables:		
0 to 30 days	40,865	5,567
31 to 90 days	12,369	1,102
Over 90 days	2,004	417
	55,238	7,086
Other payables	53,215	19,073
	108,453	26,159

26. BILLS PAYABLE – SECURED

At 31 December 2005, the bills payable bearing interest at 4.2% per annum had a maturity of three months.

27. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares 2006 & 2005	Share capital 2006 & 2005 *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised	1,000,000,000	100,000
Issued and fully paid	302,100,000	30,210

28. SHARE OPTIONS

(a) Share options of the Company

The Company adopted a share option scheme on 14 January 2004 (the "Scheme") which was effective on 26 January 2007 and will expire on 26 January 2014. The primary purpose of the Scheme is to provide incentives to directors, eligible employees and other qualified persons who in the opinion of the board of directors has made or will make contributions which are or may be beneficial to the Group as a whole.

Under the Scheme, the directors of the Company may, subject to certain conditions, grant to any director, employee, suppliers, agents, customers, distributors, business associate or partner, professional or other advisor of, or consultant or contractor to, any member of the Group or any associated company who in the opinion of the board of directors has made or will make contributions which are or may be beneficial to the Group as a whole, options to subscribe for shares of the Company at any price but not less than the higher of (i) nominal value of a share, (ii) the closing price of the shares on the Stock Exchange on the day of grant and (iii) the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Options granted must be taken up within the time period set out in the offer letter and upon payment of HK$1 for each lot of share option granted.

No options has been granted since the adoption of the Scheme.

(b) Share option of a subsidiary

On 29 December 2005, the board of directors of the Company approved Synergy Technologies (Asia) Limited ("Synergy Technologies"), a subsidiary of the Company, to grant a share option to a director of Synergy Technologies. The share option is exercisable for a period of two years from 29 December 2005. The option holder can acquire 11% interest in Synergy Technologies at a consideration of HK$1. The estimated fair value of the option granted on that date was approximately HK$758,000.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

Exercise price	HK$1
Expected volatility	0.1%
Expected life	2 years
Risk free rate	3.983%
Expected dividend yield	nil

A low volatility was adopted as the shares of Synergy Technologies are not publicly traded. Yield to maturity of 2-Year Hong Kong Exchange Fund Notes was adopted as risk free rate.

During the year ended 31 December 2005, the Group recognised expenses of approximately HK$758,000 in relation to the share option granted.

During the year ended 31 December 2006, there was no movement in the share option granted to the director of Synergy Technologies.

29. BANK BORROWINGS

	2006	**2005**
	HK$'000	*HK$'000*
Bank borrowings comprise:		
Bank loans	505,608	271,692
Trust receipt loans	170,000	–
	675,608	271,692

The bank borrowings of the Group are repayable on demand or within one year for both years.

As at 31 December 2006, bank borrowings of HK$327,000,000 (2005: HK$84,231,000) were secured by the following assets:

– bank deposits amounting to approximately HK$150,567,000 (2005: HK$147,211,000);

– inventories with carrying amounts of approximately HK$170,000,000 (2005: nil);

– investment property with a fair value amounting to HK$9,560,000 (2005: HK$9,500,000); and

– held for trading investments with fair values amounting to HK$12,064,000 (2005: nil).

The exposure of the Group's fixed-rate borrowings and the contractual maturing dates are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	458,524	95,192
Effective interest rate:		
Fixed-rate borrowings	4% to 7.250%	5.022% to 5.481%

In addition, the Group has variable-rate borrowings amounting to HK$111,500,000 (2005: HK$52,500,000) which carry interest at Hong Kong Interbank Offer Rate (HIBOR) plus 1% to 1.3% (2005: 1.250% to 1.3%) per annum, except for a borrowing amounting to HK$6,000,000 (2005: nil) which carries interest at P and a syndicated loan with an aggregate amount of HK$99,584,000 (2005: HK$124,000,000) which carries interest at London Interbank Offer Rate plus 1% per annum.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	US$'000
As at 31 December 2006	12,800
As at 31 December 2005	16,000

At 31 December 2006, the Group was in breach of certain banking covenants in relation to interest coverage ratio, debt leverage ratio, current ratio and borrowing base ratio. The relevant bank loans at 31 December 2006 amounted to approximately HK$185.1 million (2005: HK$206.7 million). On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loans with the relevant bankers. In addition, the Group applied for the waiver to strictly comply with the relevant covenants. As at 31 December 2006, those negotiations were not yet concluded. Accordingly, all loans were classified as current liabilities in the consolidated balance sheet at 31 December 2006. Up to the date of issue of these consolidated financial statements, the Group obtained the waiver in respect of the syndicated loan with an aggregate amount of HK$99,584,000 on 13 April 2007. The negotiations of the terms of loans with other lenders are still in progress. The directors of the Company are confident that their negotiations will ultimately reach a successful conclusion. In any event, should the lenders call for immediate repayment of the loan, the directors of the Company believe that adequate sources of finance are available to ensure that the continuing operations of the Group will not be affected.

30. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 4.5 years. Interest rate was fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The obligations under finance leases are repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	113	–	100
Less: Future finance charges	–	(13)	–	–
Present value of lease obligations	–	100	–	100
Less: Amount due for settlement within 12 months shown under current liabilities			–	(100)
Amount due for settlement after 12 months			–	–

At 31 December 2005, the Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

31. DEFERRED TAX ASSETS

The following is the deferred tax assets recognised and movements thereon during the current and prior year:

	Write down of inventories	Allowance for trade and other receivables	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	–	–	–
Credit to consolidated income statement for the year	–	1,052	1,052
At 31 December 2005 and 1 January 2006	–	1,052	1,052
Credit to consolidated income statement for the year	841	804	1,645
At 31 December 2006	841	1,856	2,697

32. DISPOSAL OF SUBSIDIARIES

On 29 December 2005, the Group disposed of its 46% equity interest in Synergy Pacific (Holding) Limited ("Synergy Pacific") in exchange for 49% additional interest in Synergy Technologies. The remaining 5% equity interest was therefore classified as available-for-sale investments.

The net assets of these disposed subsidiaries at the date of disposal were as follows:

	2005 *HK$'000*
NET ASSETS DISPOSED OF	
Plant and equipment	173
Inventories	179
Trade and other receivables	1,523
Available-for-sale investments	2
Bank balances and cash	13,472
Trade and other payables	(5,239)
Taxation payables	(192)
	9,918
Minority interests	(4,862)
Attributable goodwill	777
	5,833
Represented by:	
Cash consideration	5
Acquisition of additional interests in subsidiaries	4,910
Available-for-sale investments	918
	5,833
Net cash outflow arising on disposal:	
Cash consideration	5
Bank balances and cash disposed of	(13,472)
	(13,467)

The subsidiaries disposed of during the year ended 31 December 2005 contributed approximately HK$13,356,000 to the Group's revenue and had profit for that year of approximately HK$8,944,000.

33. OPERATING LEASES

The Group as lessee

During the year, the Group made minimum lease payments under operating leases amounting to approximately HK$1,697,000 (2005: HK$1,957,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable leases in respect of rented premises which fall due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	735	382
In the second year	5	49
	740	431

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed, for an average term of one to two years.

The Group as lessor

Property rental income earned during the year was approximately HK$312,000 (2005: HK$272,000). The property held has committed tenants for the coming year.

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	208	312
In the second to fifth year inclusive	–	208
	208	520

34. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. Under the rules of the Scheme, the employer and its employees are required to make contributions to the Scheme at rates specified in the rules. The only obligation of the Group with respect to the Scheme is to make the required contributions under the Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a fixed rate of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately HK$611,000 (2005: HK$703,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

(1) On 15 February 2007, the Company entered into an agreement with Zhuhai Lei Ming Da Telecom Technology Development Company Limited (珠海市雷鳴達通訊技術發展有限公司) ("LMT"), a company incorporated in Zhuhai, the PRC and Kuang Bing Jiu ("KBJ"), a PRC resident, thereby the Company agreed to purchase 23% and 8% equity interest of Zhuhai Lei Ming Da Telecom Equipment Company Limited (珠海市雷鳴達通訊設備有限公司) (the "acquiree") from LMT and KBJ respectively. The transaction will be settled in consideration of the Company's issuance and allotment of 5,930,000 and 2,070,000 shares in the Company to LMT and KBJ respectively. Simultaneously, the Company also agreed to subscribe for 20% equity interest of the acquiree at a subscription price of RMB2,000,000.

The transaction is expected to be completed by 30 April 2007, following which the Company will own 51% equity interest in the acquiree.

(2) On 2 April 2007, the Company entered into an agreement with Carefree Times International Limited ("Carefree Times"), a company incorporated in the British Virgin Islands, thereby the Company agreed to purchase 50% equity interest of DW Mobile Technology Limited ("DW Mobile Technology"). The transaction will be settled in consideration of the Company's issuance and allotment of 9,000,000 shares in the Company.

The transaction is expected to be completed by 1 June 2007 ("Completion Date"), following which the Company will own 50% equity interest in DW Mobile Technology. The Company shall, on Completion Date, be granted an option to subscribe 2,183 new shares at par value of USD1.0 each in DW Mobile Technology at the subscription consideration of HK$300,000, at any time after the completion of the transaction. Upon completion of exercise of such option, the Company will hold 51% of the enlarged issued share capital in DW Mobile Technology.

36. RELATED PARTY TRANSACTIONS

(a) On 15 September 2005 the Company entered into a loan agreement with a syndicate of banks in respect of a US$16,000,000 loan facility which had a tenor of three years from the date of loan agreement. Under the loan agreement, the following conditions were imposed to Mr. Lau Siu Ying ("Mr. Lau"), a director and substantial shareholder of the Company:

(i) Mr. Lau and his associates continues to remain collectively the legal and beneficial owner of the issued share capital of Future 2000 Limited, a company in which Mr. Lau and his associates have beneficial interests;

(ii) Future 2000 Limited continues to be the single largest shareholder of the Company;

(iii) Mr. Lau is either the Chairman or the Chief Executive Officer of the Company; and

(iv) Mr. Lau continues to engage in full-time management of the Company.

(b) On 29 December 2005, the Company, Well Force International Inc. ("Well Force"), Synergy Pacific and Synergy Technologies completed a restructuring as follows:

– the Company purchased 49% equity interest in Synergy Technologies from Well Force for a consideration of HK$2,032,000; and

– the Company disposed of 46% equity interest in Synergy Pacific to Well Force for a consideration of HK$2,032,349.

Well Force was a 49% shareholder in Synergy Pacific prior to the restructuring.

The restructuring was accounted for as an exchange transaction (see note 32).

(c) Compensation of key management

The remuneration of directors and other members of key management during the year was the follows:

	2006	**2005**
	HK$'000	*HK$'000*
Short-term benefits	4,869	4,993
Performance related incentive bonuses	1,400	–
Other long-term benefits	64	286
Share-based payments	–	758
	6,333	6,037

The remuneration of directors and other members of key management was determined by the remuneration committee having regard to the performance of individuals and market trends.

37. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006	**2005**
	HK$'000	*HK$'000*
Investments in subsidiaries	41,148	43,185
Amounts due from subsidiaries	375,039	357,325
Pledged bank deposits	9,600	–
Other current assets	471	2,780
Amount due to a subsidiary	(2,020)	(2,030)
Other current liabilities	(3,789)	(3,553)
Bank borrowings	(171,584)	(141,000)
	248,865	256,707
Share capital	30,210	30,210
Reserves	218,655	226,497
	248,865	256,707

38. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company	Principal activity
Express Fortune Holdings Limited	British Virgin Islands	Ordinary US$100	100%	Investment holding
Express Fortune Limited	Hong Kong	Ordinary HK$10 Non-voting deferred HK$5,000,000 *(Note)*	100%	Maintaining the corporate office
Fortune Shanghai	Wholly foreign owned enterprise established in the PRC	US$25,000,000	100%	Trading of mobile phones
Shanghai Yuanjia	Wholly foreign owned enterprise established in the PRC	US$6,000,000	100%	Trading of mobile phones
Synergy Technologies	Hong Kong	Ordinary HK$5,000,000	100%	Trading of computer products
Top Emperor Investments Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding

The Company directly holds the interest in Express Fortune Holdings Limited, all other interests shown above are indirectly held by the Company.

The principal activities are carried out in the place of incorporation/establishment except for Express Fortune Holdings Limited which mainly carried out businesses in Hong Kong.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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

Note: The deferred shares carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

39. SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers during the year.

No segment analysis is provided as substantially all the Group's revenue and contribution to profit for the year were derived from the distribution and trading of mobile phones. In addition, no geographical market analysis is provided as substantially all the Group's revenue and contribution to profit for the year were derived from the PRC (including Hong Kong) and substantially all the assets are located in the PRC (including Hong Kong).

3. UNAUDITED CONDENSED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2007

Set out below is the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement of the Group and notes on such accounts reproduced from the accounts published in the Company's interim report for the six months ended 30 June 2007.

Condensed Consolidated Income Statement
For the six months ended 30 June 2007

	Notes	1.1.2007 to 30.6.2007 (Unaudited) HK$'000	1.1.2006 to 30.6.2006 (Unaudited) HK$'000
Revenue	3	1,587,023	1,217,168
Cost of sales		(1,590,089)	(1,165,639)
Gross (loss)/profit		(3,066)	51,529
Other income		4,509	5,561
Distribution costs		(41,820)	(15,589)
Administrative expenses		(31,704)	(7,794)
Gain on disposal of trading investments		1,375	–
Finance costs		(13,953)	(11,010)
Share of result of an associate		(473)	–
(Loss)/profit before taxation	4	(85,132)	22,697
Income tax credit/(expense)	5	340	(4,963)
(Loss)/profit for the period		(84,792)	17,734
Attributable to:			
Equity holders of the parent		(84,792)	17,734
Minority interests		–	–
		(84,792)	17,734
Dividend	6	3,151	3,021
(Deficits)/earnings per share – Basic	7	(27.1 cents)	5.9 cents

Condensed Consolidated Balance Sheet
As at 30 June 2007

	Notes	As at 30 Jun 2007 (Unaudited) HK$'000	As at 31 Dec 2006 (Audited) HK$'000
Non-current assets			
Plant and equipment		1,196	886
Investment property		9,560	9,560
Goodwill		4,910	4,910
Interest in an associate	*8*	13,960	–
Available-for-sale investment		918	918
Club membership		600	600
Deferred tax assets		3,198	2,697
		34,342	19,571
Current assets			
Inventories		231,685	600,871
Trade and other receivables	*9*	356,380	333,346
Bills receivable		3,796	15,845
Taxation recoverable		312	312
Held for trading investments		–	12,064
Pledged bank deposits		164,304	150,567
Bank balances and cash		159,282	50,448
		915,759	1,163,453
Current liabilities			
Trade and other payables	*10*	49,265	108,453
Dividend payables		3,151	–
Taxation payables		827	1,737
Bank borrowings	*11*	500,401	675,608
Bank overdrafts – secured		–	1,058
		553,644	786,856
Net current assets		362,115	376,597
		396,457	396,168
Capital and reserves			
Share capital	*12*	35,510	30,210
Reserves		360,189	365,200
Equity attributable to equity holders of the parent		395,699	395,410
Share option reserve of a subsidiary		758	758
		396,457	396,168

Condensed Consolidated Statement Of Changes In Equity (Unaudited)

For the six months ended 30 June 2007

	Attributable to equity holders of the parent									
	Share capital	Share premium	Share option reserve	Special reserve	Translation reserve	Statutory funds	Accumulated profits	Total	Share option reserve of a subsidiary	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 Jan 2006	30,210	103,275	–	2,481	4,553	26,130	186,507	353,156	758	353,914
Profit for the period	–	–	–	–	–	–	17,734	17,734	–	17,734
Dividend payable	–	–	–	–	–	–	(3,021)	(3,021)	–	(3,021)
At 30 Jun 2006	30,210	103,275	–	2,481	4,553	26,130	201,220	367,869	758	368,627
Exchange differences arising on translation of foreign operations	–	–	–	–	13,936	–	–	13,936	–	13,936
Profit for the period	–	–	–	–	–	–	13,605	13,605	–	13,605
At 31 Dec 2006	30,210	103,275	–	2,481	18,489	26,130	214,825	395,410	758	396,168
At 1 Jan 2007	30,210	103,275	–	2,481	18,489	26,130	214,825	395,410	758	396,168
Allotment of new shares	4,000	47,581	–	–	–	–	–	51,581	–	51,581
Share issued upon exercise of share options	400	4,760	–	–	–	–	–	5,160	–	5,160
Recognition of equity-settled share based payment	–	–	17,262	–	–	–	–	17,262	–	17,262
Transfer of share option reserve on exercise of share options	–	2,443	(2,443)	–	–	–	–	–	–	–
Acquisition of 50% interest in an associate	900	13,329	–	–	–	–	–	14,229	–	14,229
Loss for the period	–	–	–	–	–	–	(84,792)	(84,792)	–	(84,792)
Dividend payable	–	–	–	–	–	–	(3,151)	(3,151)	–	(3,151)
At 30 Jun 2007	35,510	171,388	14,819	2,481	18,489	26,130	126,882	395,699	758	396,457

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	1.1.2007 to 30.6.2007 (Unaudited) *HK$'000*	1.1.2006 to 30.6.2006 (Unaudited) *HK$'000*
Net cash from (used in) operating activities	252,669	(342,032)
Net cash from investing activities	46,383	2,291
Net cash (used in) from financing activities	(189,160)	226,357
Net increase (decrease) in cash and cash equivalents	109,892	(113,384)
Cash and cash equivalents at beginning of the period	49,390	205,906
Cash and cash equivalents at end of the period	159,282	92,522
Represented by:		
Bank balances and cash	159,282	92,522
Bank overdraft	–	–
	159,282	92,522

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment property, which is measured at a revalued amount.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively refereed to as "new HKFRSs") issued by the HKICPA that are effective in the current period. The adoption of these new HKFRSs did not have any material impact on how the financial statements of the Group are prepared and presented for the current or prior accounting period.

Potential impact of new standards not yet effective

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group is still not in the position to reasonably estimate the impact that may arise from the application of these new standards, amendments or interpretations.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.

3. Segment information

For the six months ended 30 June 2007 and 30 June 2006, substantially all revenue and contribution to profit/loss from operations of the Group were derived from the distribution and trading of mobile phones. In addition, no geographical market analysis is provided as substantially all revenue and contribution to profit/loss from operations of the Group were derived from the PRC (including Hong Kong) and substantially all the assets are located in the PRC (including Hong Kong).

4. Loss/profit before taxation

	1.1.2007 to 30.6.2007 *HK$'000*	**1.1.2006 to 30.6.2006** *HK$'000*
Loss/profit before taxation has been arrived at after charging:		
Auditor's remuneration	590	500
Depreciation on owned assets	247	193
Staff costs (including equity-settled share based payment expense: HK$17,262,000 (2006: Nil))	45,082	15,787

5. Income tax (credit)/expense

	1.1.2007 to 30.6.2007 *HK$'000*	**1.1.2006 to 30.6.2006** *HK$'000*
The charge comprises:		
– Hong Kong Profits Tax	–	–
– PRC Enterprise Income Tax	161	4,945
	161	4,945
Deferred tax	(501)	18
	(340)	4,963

Hong Kong Profits Tax has not been provided for the period as the companies within the Group had no estimated assessable profits in Hong Kong (2006: 17.5% of the estimated assessable profits).

PRC Enterprise Income Tax represents taxation charges on the assessable profits of the Company's subsidiaries, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") and 上海遠嘉國際貿易有限公司（"上海遠嘉"）, established in Shanghai Waigaoqiao Free Trade Zone, the PRC. Fortune Shanghai and 上海遠嘉 are entitled to a preferential PRC Enterprise Income Tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

6. Dividend

	1.1.2007 to 30.6.2007	**1.1.2006 to 30.6.2006**
	HK$'000	*HK$'000*
The final dividend of HK 1 cent per share for the year ended 31 December 2006 (2006: final dividend of HK 1 cent per share for the year ended 31 December 2005)	3,151	3,021

The final dividend of HK 1 cent per share for the year ended 31 December 2006 (2006: HK 1 cent per share for the year ended 31 December 2005) has been approved by shareholders in annual general meeting and was subsequently paid on 26 July 2007.

7. Deficits/earnings per share

The calculation of the basic deficits/earnings per share is based on the Group's loss attributable to equity holders of the parent for the six months ended 30 June 2007 of HK$84,792,000 (2006: profit of HK$17,734,000) and on the weighted average number of 312,433,333 shares (2006: 302,100,000 shares) in issue during the period.

8. Interest in an associate

	As at 30 Jun 2007	**As at 31 Dec 2006**
	HK$'000	*HK$'000*
Share of net assets *(Note)*	13,960	–

The Group's share of net assets of the associate represents the Group's cost of investment plus its share of post-acquisition results in the associate under the equity method of accounting, the Group's share of losses of the associate is restricted to the cost of investment.

9. Trade and other receivables

The Group allows credit period ranged from 30 to 90 days to some of its trade customers. The following is an aging analysis of the trade receivables (net of allowance):

	As at 30 Jun 2007 *HK$'000*	As at 31 Dec 2006 *HK$'000*
Trade receivables:		
– 0 to 30 days	67,675	118,757
– 31 to 90 days	36,406	46,060
– Over 90 days	22,591	6,174
	126,672	170,991
Value-added-tax receivables	23,438	66,920
Rebates receivables	112,361	62,359
Deposits and prepayments	93,909	33,076
	356,380	333,346

10. Trade and other payables

The following is an aging analysis of the trade payables:

	As at 30 Jun 2007 *HK$'000*	As at 31 Dec 2006 *HK$'000*
Trade payables:		
– 0 to 30 days	21,103	40,865
– 31 to 90 days	947	12,369
– Over 90 days	1,686	2,004
	23,736	55,238
Other payables	25,529	53,215
	49,265	108,453

11. Bank borrowings

	As at 30 Jun 2007 *HK$'000*	As at 31 Dec 2006 *HK$'000*
Bank borrowings comprise:		
Bank loans	440,401	505,608
Trust receipt loans	60,000	170,000
	500,401	675,608
Analysed as		
– secured	265,000	327,000
– unsecured	235,401	348,608
	500,401	675,608

All the above bank borrowings are repayable within one year.

12. Share capital

	Notes	No. of ordinary shares	Share capital *HK$'000*
Ordinary shares of HK$0.10 each			
Authorised:			
At 31 December 2006 and 30 June 2007		1,000,000,000	100,000
Issued and fully paid			
At 31 January 2006 and 31 December 2006		302,100,000	30,210
Allotment of new shares	*a*	9,000,000	900
Share placement	*b*	40,000,000	4,000
Exercise of share options	*c*	4,000,000	400
At 30 June 2007		355,100,000	35,510

Notes:

(a) On 18 May 2007, 9,000,000 ordinary shares of HK$0.10 each were issued on the basis of HK$0.90 per ordinary share as a consideration for acquisition of 50% stake of DW Mobile Technology Limited.

(b) On 27 June 2007, 40,000,000 ordinary shares of HK$0.10 each were issued at a price of HK$1.35 per ordinary share for a total cash consideration of HK$54,000,000 by way of share placing.

(c) Movement of share options granted to qualified persons under the share option schemes of the Company during the period are as follows:–

	Exercise price per share *HK$*	Number of share options
At 31 January 2006 and 31 December 2006	–	–
Granted	1.29	28,262,000
Exercised	1.29	(4,000,000)
Lapsed/cancelled	–	–
At 30 June 2007	1.29	24,262,000

The fair value of the options granted is estimated at the date of grant using the Binomial Model, taking into account the terms and conditions upon which the options were granted.

The fair value of options granted during the six months ended 30 June 2007 was estimated on the date of grant using the following option properties:

Date of Grant	7 May 2007
Maturity Date	6 May 2012
Risk Free Rate as at Date of Grant	3.955%*
Stock Price as at Date of Grant	HK$1.23
Subscription Price	HK$1.29
Volatility	65.13%#
Dividend	HK$0.031071D
Number of Share Options	28,262,000

* Risk free rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at the valuation date.

\# Volatility is the 5-year weekly annualized volatility of the underlying stock.

D Future dividend payments assume to be HK$0.031071 per year.

The Group recognized a total equity-settled share based payment expense of approximately HK$17,262,000 during the six months ended 30 June 2007 (2006: Nil).

13. Subsequent events

a. In June 2007, the Company entered into an agreement with TeleChoice International Limited ("TeleChoice"), an indirect subsidiary of Singapore Technologies Telemedia Pte Ltd, which is a wholly-owned subsidiary of Temasek Holdings (Private) Limited, to establish a joint venture to engage in the logistics and fulfillment business for Nokia-branded mobile handsets and accessories in the PRC. The agreement was completed on 4 September 2007 whereas TeleChoice injected HK$50 million for 40% stake of the joint venture. At the same time, the Company paid HK$1 million in cash and would pay the balance of HK$24 million by instalments in cash and/or via transfer of stocks and assets into the joint venture for 60% equity.

b. On 24 July 2007, the Group entered into an agreement (amended by a supplemental agreement on 27 July 2007) to acquire from Messrs Lau Siu Ying (the Chairman & CEO of the Company), Lau Hung Bing and Lau Kin Ying (both are brothers of Mr. Lau Siu Ying) approximately 40.8% equity interest in a mining company in the PRC (the "PRC Mining Company"). At the date of entering into the acquisition agreement, the PRC Mining Company had the right to conduct mining activities in a mining site which is located in Huangshi, southeastern Hubei. The PRC Mining Company has a general mining area of approximately 0.62 square kilometers and the mineral resources of the mining site include Celestite, Zinc and Lead.

c. On 22 August 2007, Synergy Technologies (Asia) Limited ("Synergy Technologies"), an indirect wholly-owned subsidiary of the Company, has issued a Writ of Summons with general endorsement to claim for damages exceeding HK$1 million against a Taiwanese company called Gigabyte Communications Inc. for breaches of distribution agreement and after-sale service agreement. Synergy Technologies is in the course of serving the said Summons on the defendant, which is established in Taiwan, out of jurisdiction of Hong Kong.

d. In August 2007, the Group acquired 25% stake of Intelligence Tech Limited, a company providing software and hardware design, as well as total integrated solutions for mobile terminal technology, particularly focusing in the development of unique feature phone, smartphone and PDA phone targeting the PRC market in consideration of HK$100,000 in cash and the Company's issuance and allotment of 6,000,000 shares of HK$0.10 each in the Company.

4. MATERIAL CHANGES

As at the Latest Practicable Date, save and except for the profit warning as disclosed in the announcement dated 28 November 2007, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited consolidated accounts of the Group had been made up.

5. STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2007, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

	HK$'000
The Group	
Unsecured bank loans	10,580
Secured bank loans	166,900
	177,480
Sifa Mining	
Unsecured amounts due to related parties (note)	4,697
	182,177

Note: The amounts are interest-free and repayable on demand.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 31 October 2007 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities.

At the close of business on 31 October 2007, the Enlarged Group had capital commitment amounting to HK$378,000 in respect of acquisition of property, plant and equipment.

6. WORKING CAPITAL

The Directors are of the opinion that, taking into account the internal resources and available credit facilities of the Enlarged Group, the Enlarged Group will have sufficient working capital for its requirements for the next twelve months from the date of this circular.

The following is the text of a report, prepared for inclusion in this circular, from the reporting accountants of China Fortune Holdings Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

31 December 2007

The Directors
China Fortune Holdings Limited (formerly known as Fortune Telecom Holdings Limited)

Dear Sirs,

Richly Giant International Limited ("Richly Giant") is a limited liability company incorporated in the British Virgin Islands on 5 June 2007. Pursuant to an equity transfer agreement dated 24 July 2007, Richly Giant will acquire, through its wholly owned subsidiary incorporated in Hong Kong from Foshan Goldsonic Telecom Development Company Limited ("Foshan Goldsonic") 40.8% equity interest in Huangshi City Sifa Mining Company Limited ("Sifa Mining").

Pursuant to a sale and purchase agreement dated 12 November 2007, Express Fortune Holdings Limited, a wholly owned subsidiary of China Fortune Holdings Limited (formerly known as Fortune Telecom Holdings Limited, the "Company") will acquire from Foshan Goldsonic 10% direct equity interest in Sifa Mining.

For the purpose of the circular dated 31 December 2007 (the "Circular") issued by the Company in connection with the acquisition of 50.8% equity interest in Sifa Mining through its proposed acquisition of the entire issued share capital of Richly Giant and proposed acquisition of 10% direct equity interest in Sifa Mining (the "Acquisition"), we set out below the financial information of Sifa Mining for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 (the "Relevant Periods") (the "Financial Information").

Sifa Mining was established as a domestic enterprise in the People's Republic of China ("PRC") on 9 August 1999. On the completion of the Acquisition, Sifa Mining will be converted into a sino-foreign equity joint venture. As at the date of this report, the registered and paid-up capital of Sifa Mining is Renminbi 1,000,000. The principal activities of Sifa Mining are refining, exploration, mining and processing of celestite, zinc and lead minerals in the PRC.

The statutory financial statements of Sifa Mining are prepared in accordance with accounting principles and regulations applicable in the PRC. As a domestic enterprise, the statutory financial statements of Sifa Mining were not required to be audited. For the purpose of this report, Sifa Mining has prepared management accounts for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRS Financial Statements"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. However, the scope of our procedures was

limited as Sifa Mining did not carry out physical counts of its inventories as at 31 December 2004, 2005 and 2006 and there were no practicable alternative audit procedures that we could apply to confirm the existence of inventories at those dates. Accordingly, we have not been able to satisfy ourselves as to the existence of inventories held by Sifa Mining amounting to HK$2,981,000, HK$3,038,000 and HK$9,188,000 as at 31 December 2004, 2005 and 2006 respectively. Any adjustments found to be necessary may have an effect on the net liabilities of Sifa Mining as at 31 December 2004, 2005 and 2006 and on its results for each of the Relevant Periods.

We have examined the HKFRS Financial Statements and have carried out such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Sifa Mining for the Relevant Periods set out in this report has been prepared from the HKFRS Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustment was deemed necessary to the HKFRS Financial Statements in preparing our report for inclusion in the Circular.

The HKFRS Financial Statements are the responsibility of the directors of Sifa Mining who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

Because of the significance of the possible effects of the limitation in the scope of our audit work referred to above, we are unable to form an opinion as to whether the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Sifa Mining as at 31 December 2004, 2005 and 2006 and of its results and cash flows for each of the financial years/ period stated in the Relevant Periods.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Sifa Mining as at 30 June 2007.

The comparative income statement, cash flow statement and statement of changes in equity of Sifa Mining for the six months ended 30 June 2006 together with the notes thereon have been extracted from Sifa Mining's unaudited financial information for the same period (the "30 June 2006 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2006 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review Interim Financial report" issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the 30 June 2006 Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. 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 and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information. The scope of our review was limited because Sifa Mining did not carry out a physical stock count of its inventories as at 30 June 2006 and accordingly we were unable to confirm the existence of inventories at that date. We were therefore not able to carry out all the review procedures or obtain all the information and explanations that we considered necessary. Because of the significance of the possible effects of the limitation in evidence available to us as to the existence of inventories at 30 June 2006, we are unable to reach a review conclusion as to whether material modifications should be made to the 30 June 2006 Financial Information.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	*7*	–	–	2,084	–	4,346
Cost of sales		–	–	(443)	–	(1,039)
Gross profit		–	–	1,641	–	3,307
Other income		–	–	50	–	25
Distribution expenses		–	–	(730)	–	(563)
Administrative expenses		(1,235)	(1,536)	(4,670)	(2,209)	(2,236)
(Loss) profit for the year/period	*9*	(1,235)	(1,536)	(3,709)	(2,209)	533

BALANCE SHEETS

	NOTES	At 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000	At 30 June 2007 HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	*11*	16,860	16,160	18,592	19,525
Mining right	*12*	–	–	–	–
		16,860	16,160	18,592	19,525
CURRENT ASSETS					
Inventories	*13*	2,981	3,038	9,188	11,525
Trade and other receivables	*14*	18	8	816	1,793
Bank balances and cash	*15*	–	48	314	505
		2,999	3,094	10,318	13,823
CURRENT LIABILITIES					
Other payables		24,366	381	6,649	7,015
Amounts due to related parties	*16*	–	25,032	32,523	3,397
Tax payable		–	–	–	9,614
		24,366	25,413	39,172	20,026
NET CURRENT LIABILITIES		(21,367)	(22,319)	(28,854)	(6,203)
		(4,507)	(6,159)	(10,262)	13,322
CAPITAL AND RESERVES					
Paid-up capital	*17*	943	943	943	943
Reserves		(5,450)	(7,102)	(11,205)	12,379
		(4,507)	(6,159)	(10,262)	13,322

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	943	–	–	(4,215)	(3,272)
Loss for the year	–	–	–	(1,235)	(1,235)
	943	–	–	(5,450)	(4,507)
At 31 December 2004					
Exchange differences arising on translation of functional currency to presentation currency	–	–	(116)	–	(116)
Loss for the year	–	–	–	(1,536)	(1,536)
At 31 December 2005	943	–	(116)	(6,986)	(6,159)
Exchange differences arising on translation of functional currency to presentation currency	–	–	(394)	–	(394)
Loss for the year	–	–	–	(3,709)	(3,709)
At 31 December 2006	943	–	(510)	(10,695)	(10,262)
Profit for the period	–	–	–	533	533
Waiver of an amount due to a related party *(note 16)*	–	32,701	–	–	32,701
Income tax on wavier of an amount due to a related party	–	(9,650)	–	–	(9,650)
At 30 June 2007	943	23,051	(510)	(10,162)	13,322
Unaudited					
At 1 January 2006	943	–	(116)	(6,986)	(6,159)
Exchange differences arising on translation of functional currency to presentation currency	–	–	(334)	–	(334)
Loss for the period	–	–	–	(2,209)	(2,209)
At 30 June 2006	943	–	(450)	(9,195)	(8,702)

CASH FLOW STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
OPERATING ACTIVITIES					
(Loss) Profit for the year/period	(1,235)	(1,536)	(3,709)	(2,209)	533
Adjustments for:					
Write-off of other receivables	47	–	38	38	–
Bank interest income	–	–	(1)	–	(2)
Depreciation of property, plant and equipment	1,006	1,005	1,128	545	626
Operating cash flows before movements in working capital	(182)	(531)	(2,544)	(1,626)	1,157
Increase in inventories	–	–	(6,028)	(426)	(2,337)
Decrease (increase) in trade and other receivables	–	10	(846)	(800)	(977)
(Decrease) increase in other payables	(788)	232	6,253	3,751	366
Cash (used in) generated from operations	(970)	(289)	(3,165)	899	(1,791)
Income tax paid	–	–	–	–	(36)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(970)	(289)	(3,165)	899	(1,827)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	–	–	(2,845)	(1,763)	(1,559)
Interest received	–	–	1	–	2
NET CASH USED IN INVESTING ACTIVITIES	–	–	(2,844)	(1,763)	(1,557)
CASH FROM FINANCING ACTIVITY					
Advance from related parties	–	337	6,277	1,572	3,575
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(970)	48	268	708	191
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	970	–	48	48	314
Effect of foreign exchange rate changes	–	–	(2)	(2)	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD representing bank balances and cash	–	48	314	754	505

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Sifa Mining was incorporated in the PRC with limited liability. Its ultimate holding company is Foshan Goldsonic, a company incorporated in the PRC with limited liability. The principal place of business of Sifa Mining is the PRC.

The principal activities of Sifa Mining are refining, exploration, mining and processing of celestite, zinc and lead minerals in the PRC.

The functional currency of Sifa Mining is the Renminbi ("RMB"). The Financial Information is presented in Hong Kong dollar for the convenience of the shareholders of the Company, which is listed in Hong Kong.

The Financial Information of the Relevant Periods has been prepared in accordance with the accounting policies adopted by the Company, details of which are set out in Note 4, which conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis because Foshan Goldsonic has agreed to provide adequate funds to enable Sifa Mining to meet in full its financial obligations as they fall due so long as it remains as its controlling shareholder. The Company has also agreed that upon completion of the Acquisition, it will provide financial support to Sifa Mining to enable it to meet its financial obligations as they fall due for the foreseeable future.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards, amendments and interpretations (herein collectively referred to as "new HKFRSs"), which are effective for the accounting periods beginning on 1 January 2007. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Sifa Mining has consistently adopted all the new HKFRSs throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards and interpretations that have been issued but are not yet effective. However, Sifa Mining has not early applied these new and revised standards or interpretations. The directors of Sifa Mining anticipate that the application of these new HKFRSs will have no material impact on the results and financial position of Sifa Mining.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – INT 12	Service Concession Arrangements[3]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis. The principal accounting policies adopted are as follows:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

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

Property, plant and equipment

Property, plant and equipment (other than construction in progress) is stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents buildings, mining structures, various plant and equipment and other fixed assets under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and available for use in the manner intended by management.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the materials and supplies to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Impairment losses

At each balance sheet date, Sifa Mining reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Taxation

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

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes income statement items that are never taxable or deductible. Sifa Mining's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Current tax is be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

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

Sifa Mining as lessee

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Government grant – mining right

The mining right was granted from government at nil consideration and stated at nil balance in the balance sheet.

Financial instruments

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

Financial assets

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of Sifa Mining after deducting all of its liabilities.

Financial liabilities

Sifa Mining's financial liabilities (including other payables and amounts due to related parties) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Sifa Mining has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are removed from Sifa Mining's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying Sifa Mining's accounting policies which are described in note 4, management has made the following judgement that has most significant effect on the financial statements:

Useful lives of mining right

Sifa Mining's management determines the estimated useful lives for its mining rights based on the expected lifespan of the mine reserves. However, the mining right was granted for a term of 5 years. The directors of Sifa Mining are of the opinion that Sifa Mining will be able to obtain renewal of the mining right from the relevant government authorities continuously.

6. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

Sifa Mining's major financial instruments including trade and other receivables, bank balances, other payables and amounts due to related parties. Details of these financial instruments are disclosed in the respective notes. The risks associated with and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manners.

Credit risk

Sifa Mining's maximum exposure to credit risk which would cause a financial loss to Sifa Mining due to failure to discharge an obligation by the counterparties are the carrying amounts of the respective recognised financial assets as stated in the balance sheet.

Sifa Mining's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts.

Sifa Mining has concentration of credit risk during the year ended 31 December 2006 and the period ended 30 June 2007 because its products are mainly sold to five major customers, which are engaged in minerals processing in the PRC. In order to minimise the credit risk, management of Sifa Mining has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, Sifa Mining reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Sifa Mining consider that Sifa Mining's credit risk is significantly reduced.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

Liquidity risk

Sifa Mining has net current liabilities amounting to approximately HK$21,367,000, HK$22,319,000, HK$28,854,000 and HK$6,203,000 at 31 December 2004, 2005, 2006 and 30 June 2007 respectively. Sifa Mining is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

To manage the liquidity risk, Sifa Mining has obtained financial support from its major shareholders to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

The financial liabilities of Sifa Mining including other payables and amounts due to related parties as at the respective balance sheet date are repayable on demand.

b. Fair values

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

The directors of Sifa Mining consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their corresponding fair values.

c. Capital risk management

Sifa Mining manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of Sifa Mining consists of debt, which mainly includes amounts due to related parties as disclosed in note 16 and equity attributable to equity holders of Sifa Mining, comprising issued capital, capital reserve, exchange reserve and accumulated losses.

The directors of Sifa Mining review the capital structure periodically. As a part of this review, the directors consider changes in economic conditions and take appropriate actions to adjust Sifa Mining's capital structure. Sifa Mining monitors capital by maintaining cash flows from operating activities and financing activities.

The overall strategy of Sifa Mining regarding its capital structure remained unchanged during the Relevant Periods.

d. Categories of financial instruments

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loans and receivables	12	3	1,108	2,156
Financial liabilities at amortised cost	24,366	25,329	38,894	10,046

7. REVENUE

Revenue represents amounts received and receivable from outside customers for sales of celestite during the Relevant Periods, net of sales related taxes.

8. INCOME TAX EXPENSE

Sifa Mining is subject to PRC Enterprise Income Tax at 33% on its assessable profit.

No provision for PRC Enterprise Income Tax has been made in the Financial Information as Sifa Mining had no assessable profit for the Relevant Periods.

The taxation for the Relevant Periods can be reconciled to the (loss) profit for the year/period in the income statements as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
(Loss) profit for the year/period	(1,235)	(1,536)	(3,709)	(2,209)	533
Tax at the domestic income tax rate of 33%	(407)	(507)	(1,224)	(729)	176
Tax effect of expenses not deductible for tax purpose	15	43	681	451	113
Utilisation of tax losses previously not recognised	–	–	–	–	(289)
Tax effect of tax losses not recognised	392	464	543	278	–
Taxation for the year/period	–	–	–	–	–

At 31 December 2004, 2005, 2006 and 30 June 2007, Sifa Mining had unused tax losses of approximately HK$1,187,000, HK$2,641,000, HK$4,458,000 and nil respectively. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward for a period of five years from their respective year of originating.

9. (LOSS) PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
(Loss) profit for the year/period has been arrived at after charging (crediting):					
Directors' emoluments *(note 10)*	–	58	118	59	61
Other staff costs	–	293	999	585	574
Contributions to retirement benefit scheme	–	33	75	31	59
Total staff costs	–	384	1,192	675	694
Depreciation of property, plant and equipment	1,006	1,005	1,128	545	626
Write-off of other receivables	47	–	38	38	–
Bank interest income	–	–	(1)	–	(2)

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' emoluments

During the Relevant Periods, emoluments were only paid or payable to one director, Mr. Chen Qing An.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Fees	–	–	–	–	–
Other emoluments	–	57	115	58	60
Contributions to retirement benefit scheme	–	1	3	1	1
	–	58	118	59	61

Employees' emoluments

Of the five highest paid individuals of Sifa Mining for the Relevant Periods, one was a director of Sifa Mining whose emoluments are included in the disclosures above. The emoluments of the remaining four individuals are as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries and other emoluments	–	208	188	114	136
Contributions to retirement benefit scheme	–	5	11	5	5
	–	213	199	119	141

During the Relevant Periods, no emoluments were paid by Sifa Mining to any of the directors or the five highest paid individuals as an inducement to join or upon joining Sifa Mining or as compensation for loss of office. In addition, no directors of Sifa Mining waived any emoluments during the Relevant Periods.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Mining structure**	**Plant and machinery**	**Furniture and fixtures**	**Construction in progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2004	9,092	8,213	616	79	872	18,872
Transfer	28	–	–	–	(28)	–
At 31 December 2004	9,120	8,213	616	79	844	18,872
Currency realignment	175	158	12	2	16	363
At 31 December 2005	9,295	8,371	628	81	860	19,235
Currency realignment	453	335	37	3	55	883
Additions	662	–	290	15	1,878	2,845
Transfer	1,357	–	–	–	(1,357)	–
At 31 December 2006	11,767	8,706	955	99	1,436	22,963
Additions	258	–	194	–	1,107	1,559
At 30 June 2007	12,025	8,706	1,149	99	2,543	24,522
DEPRECIATION						
At 1 January 2004	456	411	123	16	–	1,006
Provided for the year	456	411	123	16	–	1,006

	Buildings	Mining structure	Plant and machinery	Furniture and fixtures	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2004	912	822	246	32	–	2,012
Currency realignment	26	24	7	1	–	58
Provided for the year	456	410	123	16	–	1,005
At 31 December 2005	1,394	1,256	376	49	–	3,075
Currency realignment	77	67	21	3	–	168
Provided for the year	536	419	156	17	–	1,128
At 31 December 2006	2,007	1,742	553	69	–	4,371
Provided for the period	299	218	99	10	–	626
At 30 June 2007	2,306	1,960	652	79	–	4,997
CARRYING VALUE						
At 31 December 2004	8,208	7,391	370	47	844	16,860
At 31 December 2005	7,901	7,115	252	32	860	16,160
At 31 December 2006	9,760	6,964	402	30	1,436	18,592
At 30 June 2007	9,719	6,746	497	20	2,543	19,525

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight line basis at the following rates per annum:

Buildings	5%
Mining structure	5%
Plant and machinery	20%
Furniture and fixtures	20%

Sifa Mining does not have formal title to the land on which its buildings are erected. It is currently in the process of applying such title. In the opinion of the directors of Sifa Mining, Sifa Mining will be able to obtain the title.

12. MINING RIGHT

Sifa Mining obtained the mining right to conduct mining activities in its mining site located at Huangshi in the PRC in August 2002 for a period of 5 years from the local government at nil consideration.

In September 2007, Sifa Mining renewed its mining right with the local government for another 5 years to end in September 2012. As a condition for such renewal, Sifa Mining is committed to pay a mining right fee, the amount of which will have to be finalized according to the renewal term.

In December 2007, Mr. Zhang Zhulin has undertaken to pay the amount of the above-mentioned mining right fee for Sifa Mining.

13. INVENTORIES

At the respective balance sheet dates, the inventories represent finished goods held for sale.

14. TRADE AND OTHER RECEIVABLES

At 31 December 2004, 2005, 2006 and 30 June 2007, included in Sifa Mining's trade and other receivables were trade receivable of nil, nil, HK$612,000 and HK$886,000 respectively. Sifa Mining allows a credit period ranged from 30 to 90 days to its customers. The following is an aged analysis of the trade receivables at the respective balance sheet date:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-30 days	–	–	–	–
31-90 days	–	–	612	673
Over 90 days	–	–	–	213
	–	–	612	886

Included in Sifa Mining's trade receivables are debtors with a carrying amount of HK$213,000 which are past due at 30 June 2007 for which Sifa Mining has not provided as there has not been a significant change in credit quality and Sifa Mining believes that the amounts are still considered recoverable.

15. BANK BALANCES

Bank balances are interest bearing at market interest rates. All bank deposits have a maturity of three months or less. The bank deposits bore interest at 0.72% per annum during the Relevant Periods.

16. AMOUNTS DUE TO RELATED PARTIES

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to:				
Mr. Zhang Zhulin *(note i & iv)*	–	25,032	30,034	–
黃石市龍福礦業發展有限公司 ("黃石市龍福礦業") *(notes ii & iv)*	–	–	489	327
Foshan Goldsonic *(notes iii & iv)*	–	–	2,000	3,070
	–	25,032	32,523	3,397

Notes:

(i) Mr. Zhang Zhulin is a director of Sifa Mining and he also owns 81.25% equity interest in Foshan Goldsonic. During the six months ended 30 June 2007, Mr. Zhang Zhulin waived the entire amount due to him.

(ii) 黃石市龍福礦業 is a company in which Foshan Goldsonic has 51% equity interest.

(iii) Foshan Goldsonic held 70% equity interest in Sifa Mining before completion of the Acquisition.

(iv) The amount is unsecured, interest-free and repayable on demand.

17. PAID-UP CAPITAL

Sifa Mining was established on 9 August 1999 with a registered and paid up capital of RMB1,000,000. There was no movement in the capital during the Relevant Periods.

18. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Premises	–	–	–	–	13

At the respective balance sheet dates, Sifa Mining had commitments for future minimum lease payments in respect of premises under non-cancellable operating leases which fall due as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	–	–	309
In the second to fifth year inclusive	–	–	–	1,067
After the fifth year	–	–	–	1,271
	–	–	–	2,647

Leases are negotiated and rentals are fixed for a period of two to ten years.

19. CAPITAL COMMITMENTS

	At 31 December			At 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	–	1,442	1,293	548

20. RETIREMENT BENEFIT PLANS

All the full-time staff of Sifa Mining are members of a state-managed pension scheme. Pursuant to local regulations, Sifa Mining is required to pay an amount equivalent to a certain percentage of the salary costs as contributions to the pension scheme. At 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the outstanding pension obligations payable was approximately nil, HK$35,000, HK$81,000 and HK$61,000 respectively.

21. RELATED PARTY DISCLOSURES

(i) During the Relevant Periods, Sifa Mining entered into the following transactions with related parties:

Name of related parties	Nature of transactions	Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
金地礦業 *(note a)*	Consultancy fee paid for obtaining survey information	–	–	92	92	–
湖北省鄂東南地質大隊*(note b)*	Consultancy fee paid for obtaining survey information	–	–	–	–	250

Notes:

(a) 金地礦業 owns a 20% equity interest in Sifa Mining.

(b) 湖北省鄂東南地質大隊 is an equity owner of 金地礦業.

In addition, Mr. Zhang Zhulin waived an amount of approximately HK$32,701,000 due by Sifa Mining to him during the six months ended 30 June 2007.

(ii) Details of balances with related parties at the respective balance sheet dates are set out in note 16.

(iii) Compensation of key management personnel

Key management personnel of Sifa Mining mainly comprise directors. The compensation of a director of Sifa Mining during the Relevant Periods is set out in note 10.

B. DISTRIBUTABLE RESERVES

At 30 June 2007, Sifa Mining had no reserve available for distribution to its equity holders.

C. SUBSEQUENT EVENTS

In December 2007, in preparation for a partial transfer of interest in Sifa Mining, Mr. Zhang Zhulin and Foshan Goldsonic have undertaken to indemnify Sifa Mining of any penalties that may arise regarding any non-compliance of PRC rules and regulations that Sifa Mining may have committed but had not been notified as at 30 June 2007.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Sifa Mining have been prepared subsequent to 30 June 2007.

Yours faithfully

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Set out below are texts of the reports from Deloitte Touche Tohmatsu and Wallbanck Brothers Securities (Hong Kong) Limited in connection with the cash flow forecast underlying the asset valuation of the mining right of the Mining Site as at 30 September 2007 and prepared for the purpose of inclusion in this circular.

(A) REPORT FROM DELOITTE TOUCHE TOHMATSU

Deloitte.
德勤

31 December 2007

The Board of Directors
China Fortune Holdings Limited
Room 1505-07, Tower A,
Regent Centre,
63 Wo Yi Hop Road,
Kwai Chung, N.T.
Hong Kong

Dear Sirs,

We have reviewed the calculation of the cash flow forecast underlying the asset valuation of the mining right of Celestite Mine owned by Huangshi City Sifa Mining Company Limited ("Sifa Mining") (the "Target Mine") as of 30 September 2007 (the "Underlying Forecast") as set out in page 135 to 143 in Appendix V to the circular dated 31 December 2007 issued by China Fortune Holdings Limited in connection with its proposed acquisition of an aggregate 50.8% equity interest in Sifa Mining.

Responsibilities

The Directors of the Company are responsible for the Underlying Forecast. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation. The Underlying Forecast has been prepared using a set of assumptions (the "Assumptions") that include hypothetical assumptions about future events and management actions that 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. The Directors of the Company are responsible for the reasonableness and validity of the Assumptions.

It is our responsibility to form an opinion, based on our work on 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 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and we express no opinion whatsoever thereon. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

Summary of our work

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Reports on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants. We reviewed the arithmetical accuracy of the Underlying Forecast. Our work has been undertaken solely to assist the Directors of the Company in evaluating whether the Underlying Forecast, so far as the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors of the Company. Our work does not constitute any valuation of the Target Mine.

Opinion

Based on the review of the arithmetical accuracy of the Underlying Forecast, so far as the calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors of the Company.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(B) REPORT FROM WALLBANCK BROTHERS SECURITIES (HONG KONG) LIMITED

WALLBANCK BROTHERS
Securities (Hong Kong) Limited

31 December 2007

The Board of Directors
China Fortune Holdings Limited
Room 1505-07, Tower A,
Regent Centre,
63 Wo Yi Hop Road,
Kwai Chung, N.T.
Hong Kong

Dear Sirs,

We refer to the valuation prepared by LCH (Asia-Pacific) Surveyors Limited ("LCH") in relation to the appraisal of the asset valuation of (the "Valuation") of the mining right of the Mining Site as set out in Appendix V to the circular of the Company dated 31 December 2007 (the "Circular"), of which this report forms part.

We have reviewed the forecast upon which the Valuation has been made for which you as the directors of the Company are responsible and discussed with you and LCH the information and documents provided by you which formed part of the bases and assumptions upon which the forecast has been prepared. We have also considered the letter from Deloitte Touche Tohmatsu dated 31 December 2007 addressed to yourselves as set out in Section (A) of Appendix III to the Circular regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the foregoing, we are of the opinion that the forecast upon which the Valuation has been made, for which you as the directors of the Company are solely responsible, have been made after due and careful enquiry by you.

Yours faithfully,
For and on behalf of
WALLBANCK BROTHERS
Securities (Hong Kong) Limited
Phil Chan
Chief Executive Officer

The following is the text of the accountants' report received from Deloitte Touche Tohmatsu, the independent reporting accountants, for inclusion in this circular, in respect of the unaudited pro forma financial information of the Group as set out in this circular.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA FORTUNE HOLDINGS LIMITED

We report on the unaudited pro forma financial information of China Fortune Holdings Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on page 114 to 118 in Appendix IV to the circular dated 31 December 2007 issued by the Company to its shareholders (the "Circular"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of an aggregate 50.8% equity interest in Huangshi City Sifa Mining Company Limited (together with the Group, hereinafter collectively referred to as the "Enlarged Group") might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out in Appendix IV to the Circular.

Respective responsibilities of directors of the Company and the 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 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 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 consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements 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 future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2007 or at any future date.

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 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 December 2007

A. INTRODUCTION

The accompanying unaudited pro forma financial information of the Group as enlarged by the Acquisition (the "Enlarged Group") has been prepared to illustrate the effect of the proposed Acquisition.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on (i) the unaudited consolidated balance sheet of the Group as at 30 June 2007, which has been extracted from the interim report of the Company for the period then ended; and (ii) the audited balance sheet of Sifa Mining as at 30 June 2007 as extracted from the accountants' report thereon set out in Appendix II to this circular, after making pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition had been completed on 30 June 2007.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the Acquisition. As it is prepared for illustration purposes only, it does not purport to represent what the financial position of the Enlarged Group will be on completion of the Acquisition.

B. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

			Pro forma adjustments			
	The Group *HK$'000*	**Sifa Mining** *HK$'000*	**Fair value adjustment to Sifa Mining** *HK$'000 (note i)*	**Sifa Mining at fair value** *HK$'000*	**Acquisition of Sifa Mining** *HK$'000 (note ii)*	**The Enlarged Group** *HK$'000*
Non-current Assets						
Property, plant and equipment	1,196	19,525		19,525		20,721
Investment property	9,560	–		–		9,560
Mining right	–	–	1,070,000	1,070,000		1,070,000
Goodwill	4,910	–		–	42,755	47,665
Interest in an associate	13,960	–		–		13,960
Available-for-sale investment	918	–		–		918
Club membership	600	–		–		600
Deferred tax assets	3,198	–				3,198
	34,342	19,525		1,089,525		1,166,622
Current Assets						
Inventories	231,685	11,525		11,525		243,210
Trade and other receivables	356,380	1,793		1,793		358,173
Bills receivable	3,796	–		–		3,796
Taxation recoverable	312	–		–		312
Pledged bank deposits	164,304	–		–		164,304
Bank balances and cash	159,282	505		505	(40,000)	119,787
	915,759	13,823		13,823		889,582
Current Liabilities						
Trade and other payables	(49,265)	(7,015)		(7,015)		(56,280)
Amount due to related parties	–	(3,397)		(3,397)		(3,397)
Dividend payables	(3,151)	–		–		(3,151)
Taxation payables	(827)	(9,614)		(9,614)		(10,441)
Bank borrowings	(500,401)	–		–		(500,401)
	(553,644)	(20,026)		(20,026)		(573,670)
Net Current Assets (liabilities)	362,115	(6,203)		(6,203)		315,912
TOTAL ASSETS LESS CURRENT LIABILITIES	396,457	13,322		1,083,322		1,482,534
Non-current Liabilities						
Deferred tax liability	–	–	(267,500)	(267,500)		(267,500)
		–		(267,500)		(267,500)
NET ASSETS	396,457	13,322		815,822		1,215,034

Notes:

(i) This represents the fair value of the mining right held by Sifa Mining over its book value by HK$1,070,000,000. The fair value of the mining right is determined with reference to an asset valuation report prepared by LCH (Asia-Pacific) Surveyors Limited, a firm of independent qualified valuers not connected to the Group, at 30 September 2007. Deferred tax on the fair value adjustments amounted to HK$267,500,000.

(ii) The Acquisition by the Group of an aggregate 50.8% equity interest in Sifa Mining for a total consideration of HK$457,193,000 is to be satisfied as to (1) HK$40,000,000 by the payment of cash and (2) HK$417,193,000 by the issue of 306,016,300 new ordinary shares of HK$0.1 each at an issue price of HK$1.3633 as stated in both the Supplemental Agreement II and the Further Acquisition Agreement.

The adjustment to goodwill of HK$42,755,000 represents the excess of the fair value of net assets of Sifa Mining attributable to the Company totaling HK$414,438,000 over the consideration of HK$457,193,000.

The market value of the shares to be issued by the Company as part of the consideration for the Acquisition is subject to changes upon completion of the Acquisition.

The following is the text of the valuation report on the mining right of Huangshi City Sifa Mining Company Limited as at 30 September 2007 prepared by LCH (Asia-Pacific) Surveyors Limited for the purposes of inclusion in this circular.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 published by the International Valuation Standards Committee which entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. It is emphasised that the findings and conclusions presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
287-291 Des Voeux Road Central
Hong Kong

31 December 2007

The Directors
China Fortune Holdings Limited
Rooms 1505-1507 on the 15th Floor
Tower A, Regent Centre
63 Wo Yi Hop Road
Kwai Chung, New Territories
Hong Kong

Dear Sirs,

In accordance with the recent instructions given by the management of China Fortune Holdings Limited (hereinafter referred to as the "Company") to us, we were retained to analyse and prepare an agreed-upon procedures valuation report to document our opinion on the market value of a designated intangible asset (see Note) i.e. an exclusive mining rights currently 黃石市鎧發礦業有限責任公司 (translated as Huangshi City Sifa Mining Company Limited and hereinafter referred to as "Sifa Mining") has interest in the People's Republic of China (hereinafter referred to as the "Appraised Asset"). Our findings and conclusions in this agreed-upon procedures valuation are documented as follows:

Note: Intangible assets are assets without physical existence which, although not always reported on a company's balance sheet, may make a significant contribution to the value of an enterprise. Examples of intangible assets including, but are not limited to trademarks, tradenames, assembled work force, design rights, patents, proprietary computer software, customer lists and technical know-how.

INSTRUCTIONS

The Company is considering the acquisition of an interest in the Huangshi City Mt. Shizili Celestite Mine (hereinafter referred to as the "Controlled Property"). The Controlled Property, having an area of approximately 0.62 square kilometers (or "sq. km." used in the report) and lying in Tuan Cheng Shan Economic Development Zone, Huangshi City, Hubei Province of the People's Republic of China (hereinafter referred to as the "PRC" or "China"), is controlled and operated by Sifa Mining. The Controlled Property forms part of the Mt. Shizili mining area and to be described in details in Section: **Description of Sifa Mining and the Appraised Asset** of this report. The Controlled Property is near the major city of Wuhan on the Yangtze River. The region has been, and continues to be, a significant mineral producing area. The mining rights form the Appraised Asset in the report.

At the instruction of the management of the Company, we have investigated and analysed the Appraised Asset as part of a going-concern business of Sifa Mining – the owner of the Appraised Asset, and to express our opinion on the market value of the Appraised Asset as at 30 September 2007 (hereinafter referred to as the "Date of Valuation") for the Company's internal management reference purpose. Our valuation (the word *valuation* has the same meaning as *appraisal* in the report) has been made based on a set of documents provided by the management of the Company and/or the management of Sifa Mining, the technical advices given by various technical experts and/or specialists, and with reference to the guidelines contained in the International Valuation Standards, Eighth Edition, 2007 published by the International Valuation Standards Committee (see Note 1) and hereinafter referred to as the "IVS").

According to the IVS, the standard of value to Extractive Industries (see Note 2) valuations is Market Value and as defined in the *IVS 1: Market Value Basis of Valuation*. The term "Market Value" as used herein is defined as the price, expressed in terms of cash equivalents, at which an asset would change hands between a (hypothetical willing and able) buyer and a (hypothetical willing and able) seller after proper marketing, acting at arm's length (in an open and unrestricted market), when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. Under this definition, we further assumed that both the buyer and the seller contemplate the retention of the Appraised Asset at its present status for the continuation of the current going concern business, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

We understand that the management of the Company will use our work product as part of its business due diligence and we have not been engaged to make specific sale or purchase recommendations. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision with regard to the Appraised Asset.

Notes:

1. International Valuation Guidance Note No. 4: Valuation of Intangible Assets and International Valuation Guidance Note No. 14 : Valuation of Properties in the Extractive Industries.

2. Defined by the IVS as "Those industries involved in the finding, extracting and associated processing of natural resources located on, in or near the earth's crust. They are composed of the Minerals Industry and the Petroleum Industry. They do not include the industry sector focused on extraction of water from the earth, but they do include extraction of geothermal fluid for its energy content".

DESCRIPTION OF SIFA MINING AND THE APPRAISED ASSET (SEE NOTE 1)

We were given to understand that Sifa Mining was first incorporated in 1999 and was a domestic limited liability company in the mineral extractive industry specialised in metallic mineral deposits with the registered capital of RMB1 million. According to a 企業法人營業執照 Enterprise Legal Person Business License No. 420200010006040 dated November 2007, the operating term of the Company was 10 years from 9 August 1999 to 5 August 2009. The business scope of the Company was restricted to "礦產品 (天青石、鐵精礦、鉛鋅礦、銅精礦、石灰石) 開採、加工銷售。(採礦許可證有效期至2012年9月25日止)" (translated as "mineral products (celestite, iron concentrate, lead-zinc ore, copper concentrate, limestone) mining and dressing for sale. Mining Operation Permit with effect to 25 September 2012"). The registered office of Sifa Mining is situated at Group 7, Huang Gu Ling Village, Gui Lin North Road, Huangshi City, Hubei Province of the PRC.

We were advised that Sifa Mining was a domestic enterprise of which 70 per cent. (or "%" used in the report) owned by 廣東省佛山高訊通信發展有限公司 (translated as Guangdong Province Fushan Gao Xun Tong Xin Fa Zhan Company Limited), 20 per cent. by 黃石市金地礦業有限責任公司 (translated as Huangshi Jin Di Kuang Ye Company Limited) and 10 per cent. by 佛山市程捷貿易有限公司 (translated as Fushan Cheng Jie Trading Company Limited) in China.

The primarily economic asset of Sifa Mining is its holding of the Appraised Asset – an exclusive mining rights, an intellectual property (see Note 2), for a period of five years, commencing from 25 September 2007 to 25 September 2012 (both dates inclusive) under a 採礦許可證 Mining Operation Permit dated 25 September 2007 at No. 4200000731409 and granted by 湖北省國土資源廳 Department of Land and Resources of Hubei Province, the PRC. The geographical coordinates of the Controlled Property are: Longitude 115°00'26"-115°01'19" and Latitude 30°12'13"-30°12'33". Under this permit, the Controlled Property was granted to Sifa Mining. The mining technique was restricted to underground mining and the scale of production was set at 100,000 tonnes per annum. The depth of mining was set in the range of 143 metres (or "m" used in the report) to -105 m. We are advised that the estimated maximum production capacity of the Mine (to be defined at the later part of this section) is 170,000 tonnes of Strontium ore and 60,000 tonnes of lead-zinc ore per annum. Subject to the Company's further capital investment, the maximum capacity can be further expanded.

Notes:

1. Extracted from various reports and documents, including but not limited to, those prepared by the technical team of Sifa Mining and the audit review conducted by our Study Team dated October 2007. This report shall read together with our Technical Assessment Report which published separately in Appendix VI of this circular on the estimation of mineral resource/reserve of the Mine.

2. Intellectual property is a type of intangible assets that exists in addition to monetary assets, tangible assets and other intangible assets of a business enterprise. It usually refers by the profession as patents, trademarks, copyrights, trade secrets and know-how. Not all intellectual property has value and its value is usually determined by the marketplace or public recognition. Trademarks can be extremely valuable business assets. Not only large amounts of money are spent to create and maintain them, but also great efforts are needed to defend and protect them from infringement.

We noted that the Mt. Shizili mining area lying from Zhang's Ancestral Temple on the east to Xiaojiapu on the west, and from Fujiazhuang Village on the south to Wuqi School Farm on the north. The area is administered by the Economic and Technology Development Zone of Huangshi City and Xialu District. The geographical coordinates of Mt. Shizili mining area are: Longitude 114°59'49" – 115°02'00" and Latitude 30°12'06" – 30°12'48". It covers an area of about 4.53 square kilometers. The mining area is respectively 7 km (square kilometers) away from the railway station of Huangshi City and the Yangtze River Wharf. The national expressway from Wuchang to Huangshi passes through the northern part of this mining area and is linked to the urban area by secondary roads. It is conveniently located for access to major neighboring cities via a good road system. The regional airport at the city of Wuhan lies approximately 90 km by road from the mine.

The landform of this mining area is mountainous, hilly region. Its highest point – the peak of Mt. Shizili is 143.62 meters in elevation and its lowest point – Zhangjia Lake, at the northeast, is about 15.20 meters in elevation.

The mining area is very close to the center of Huangshi City, with developed economy, sufficient supply of water and electricity, highly concentrated mining and mill processing industries and affluent labor force. The aquaculture industry near the lake region is highly developed with a variety of fishes, shrimps and crabs produced.

The Mt. Shizili mining area has abundance of polymetallic deposits variously containing copper, iron, gold, silver, lead, and zinc and nonmetallic deposits containing limestone, dolomite, marble, and celestite. This mining area is a significant part of the mineralised zone along the middle and lower reaches of the Yangtze River and an important mineral producing area. Elevations across the mining area are in the general range of 15 to 145 meters above mean sea level, creating an area with low to moderate relief.

Two types of mineralised bodies have been identified by previous workers on the Controlled Property – gold and strontium-lead-zinc. Twenty-five gold-bearing bodies have been delineated, the majority of which are located at the surface and in the near-subsurface in an east-northeast-trending fault zone hosted by diorite and quartz diorite. These bodies variously occur as irregular veins and lenses, with dip typically being to the north-northwest. Gold content has been reported to be in the range of 1.16 to 15.40 grams per ton ("gpt"). The largest of the bodies that has been identified, designated No. 12, lies in the central portion of the Controlled Property. A portion of these bodies have been mined at the surface, and the grade and quantities of gold contained in the remaining bodies is insufficient to allow their economic exploitation by any type of mechanised method. However, we were given to understand that surface mining is no longer permitted on the Controlled Property.

The combined series of strontium-lead-zinc-bearing bodies contain three different basic mineral assemblages as follows:

- Sr Ore – Those portions of the deposits containing the mineral celestite ($SrSO_4$), which is mined for its strontium content, with negligible or no detectable lead (Pb) and zinc (Zn) content.

- Sr-Pb-Zn Ore – Those portions of the deposits containing predominantly celestite with associated lead and zinc content.

- Pb-Zn Ore – Those portions of the deposits containing only lead and zinc.

These bodies have been placed in four groups, numbered I through IV, with 155 discrete bodies having been delineated. These bodies occur in the subsurface, some at depths of more than 500 meters below the surface. Brief discussions of the four groups of mineralised bodies are presented below. For ease of discussion, elevations are expressed in terms of distance above or below sea level, using the 100-meter designation of levels as done by previous workers and as currently used at the Mine.

- Group I – This is the largest group, consisting of 25 bodies of differing size generally occurring above the -100 m. level in the eastern portion of the mining area. The Mine is developed in the I_2 Ore Body, the largest of the mineralised bodies identified in the mining area. Mineralisation is generally associated with the contact between the quartz diorite porphyrites and the silty claystone of the Puyin Formation and the dolostone of the Jialing River Formation. Mineralisation is predominantly celestite, with local lead and zinc-bearing occurrences. The I_2 Ore Body is the subject of the report.

- Group II – This group consists of 95 bodies of differing size generally occurring between the 0. m and -400 m. levels in the eastern portion of the mining area. Mineralisation occurs within the Jialing River Formation within favorable strata and fracture zones that form between the sedimentary layers. It extends to the contact with the underlying Daye Formation, where the dolostone of the lower Jialing River Formation rests on the limestone of the upper Daye Formation. Mineralisation is predominantly celestite, with lesser lead and zinc-bearing occurrences.

- Group III – This group consists of 32 relatively small bodies lying in the east-central portion of the mining area between the -200 m. and -600 m. levels. Mineralisation occurs within the 4th Section of the Daye Formation as lenticular bodies associated with fracture zones that form between stratigraphic layers. It is predominantly lead and zinc, with lesser amounts of celestite.

- Group IV – This group contains three small bodies lying between the -500 m. and -700 m. levels within limestone of the Daye Formation. Mineralisation is predominantly lead and zinc.

Mining activities controlled and operated by Sifa Mining are developed in the I_2 Ore Body with the geographical coordinates identified at Longitude 115°00'35" and Latitude 30°12'20" (hereinafter referred to as the "Mine"). The Mine extends in an east-northeast direction across the eastern portion of the Controlled Property for a distance of around 600 meters. The I_2 Ore Body has irregular configuration, with much of the western and central portion of the body being a discrete, massive deposit in the rough form of an inverted V. To the east, the body loses its continuity and is represented by small mineralised bodies above and below that appear to represent divergence and diminution of mineralisation from the main body.

The predominant ore being produced from the Mine is celestite from the western portion of the body, with ore currently being extracted from the 0 m. level and above. Where observed during the mine visit, the ore consisted of massive celestite, with both the ore and the unmineralised wall rock being brecciated. No sedimentary features were observed, although a coating of dust from mining and the

closely spaced nature of mine roof supports made direct observation of the wall rock difficult. During the visit, the mine's chief engineer stated that dolostone was present below the floor in areas.

As a result of the various field works, drilling, and underground mining that has been conducted to-date, the detailed exploration stage has been completed for a portion of the I_2 Ore Body, notably in the central and westcentral portions of the mine. The remainder of the work conducted to-date outside the central and westcentral portions of the Mine is thus considered to represent the general exploration stage.

During the mine visit, nine samples were taken by our Study Team to check the tenor of the mineralisation and to check for important by-product metals associated with the celestite and lead-zinc mineralisation. The analytic methods that were used provided results for a large number of elements and oxides, including elements believed to be of significance for the Mt. Shizili mining area. These elements include gold (Au), silver (Ag), cadmium (Cd), arsenic (As), uranium (U), lead (Pb), zinc (Zn), barium (Ba), iron (Fe) and strontium (Sr). Silicon dioxide (SiO_2) content was also determined.

It is estimated that there are approximately 8,412,000 metric tonnes of Sr ore, 508,000 metric tonnes of Sr-Pb-Zn ore and 1,079,000 metric tonnes of Pb-Zn ore in the I_2 Ore Body. The cut-off grade of Sr is in the region of 37.6% to 46.79%, Pb is in the region of 0.27% to 0.93% and Zn is in the region of 4.91% to 5.12%. The deposit is classified either as 122 and 2S22 using China's Solid Minerals Resource Classification. We noted that in the various local geology reports, a lower grade 333 Pb of approximately 785 metallic tonnes with cut-off grade of 0.55% and a lower grade 333 Zn of approximately 1,898 metallic tonnes with cut-off grade of 1.33% were reported. Readers shall refer to the Technical Assessment Report presented in Appendix VI of this circular for the mineral resource estimation done by Sifa Mining and reviewed by our Study Team (see Note).

Gold has been reported and tonnage estimated for the Controlled Property in both the 1994 and 2007 geology reports. Based on a review of the information in these reports, it appears that the mineralisation occurs as a series of discrete ore shoots within an east-northeast-trending fault zone hosted by diorite and quartz diorite. The ore shoots are thin, generally less than three meters in width; short, generally less than 100 meters in length; and steeply dipping. It is unlikely their vertical continuity will exceed their strike length. There has been mining of these deposits dating back to at least 1993, most, if not all, of which appears to have focused on shallow, oxidised ore exposed at the surface.

The amount of gold estimated amounts to 1,883 kilograms (60,566 troy ounces) at an average grade of 3.2 gpt. It is also likely that some portion of the gold estimated has been recovered by mining, particularly the largest deposit, the No. 12 body, which appears to be the deposit surface mined above the celestite mine. Mining economics would be further complicated by the fact that the geometry of gold-bearing veins would require underground mining, which is more costly than surface mining, and by the fact that surface mining apparently is not allowed on the Controlled Property.

Note: Most of the descriptions in the report are extracted from the Technical Assessment Report prepared by our Study Team led by Alan K. Stagg, Principal Economic Geologist, a mining expert, with support from other technical experts/ specialists.

Local miners worked the Mt. Shizili mining area from 1998 until 2000, at which time mining operations were terminated by order of the government. It was at this time that Sifa Mining was formed and proceeded to obtain the necessary government license to commence operations on the Controlled Property. This led to the development of the Mine, which is currently extracting celestite ore and processing it at a nearby mill.

The mine is divided into eastern and western districts where access to the celestite ore bodies in these districts is provided by two inclined shafts, one known as the East Shaft and the other the West Shaft. A vertical shaft also exists on the property, although this shaft is currently not in use. The bottom of both inclined shafts terminate at the 0 m. level (sea level) and are connected by a nominal 2 m. x 2 m. horizontal tunnel. This tunnel provides access to the ore bodies, the transportation of ore from the mine, the ventilation to the underground workings, and the removal of water from the mine workings.

The East Shaft is 180 meters long, has an inclination of approximately 17 degrees, and is concrete lined throughout its length. The West Shaft is 125 meters long, inclined at 23.5 degrees, and is randomly supported with timber and steel. Both shafts are equipped with electric hoists for hauling ore from the mine and for lowering empty mine cars to the loading points at the base of the inclines.

The Mine uses the sub-level caving method to mine the celestite ore. Development within the ore body consists of driving a series of parallel crosscuts or adits from the central tunnel connecting the two shafts to the extremities (boundaries) of the ore-body. The vertical interval between levels in a wide ore body such as this one ranges between 7 and 15 meters, depending on the tendency of the ore to cave. At the Mine, ore development and extraction has been completed at the +23 m. and +11 m. levels and mining is now taking place only at the 0 m. level. Thus the celestite ore between the 0 m. level and the overlying +11 m. level is currently being mined.

In order to minimise the dilution of the ore during caving operations, the crosscut adits are mined in sequence so that caving occurs at the working faces in an approximate straight line and caving follows the retreat mining in the crosscut adits.

The extraction of wide ore bodies (that is, greater than 25 meters) at relatively shallow depths (say, 100 meters), causes significant surface subsidence, manifested as sinkholes or large depressions on the surface. This process is evident at the Mine and attempts have been made to prevent access to the caved areas on the surface by displaying suitable warning signs.

These sinkholes or surface depressions create an additional hazard to the underground mining operations because of the effects of high rainfall across the general mining area. Mine management has recognised the potential for inrushes of water or mud resulting from heavy rains and has installed additional pumping capacity in the eastern and western areas of the mine.

The effects of the sub-level caving method used to extract celestite ore is also evident in the tunnels on the 0 m. level of the Mine. Substantial timber and steel supports are installed in almost all mine roadways on this level and the maintenance of damaged supports is required on a regular basis.

Mining operations on the 0 m. level will continue until the celestite and lead/zinc ore reserves between the +11 m. level and the 0 m. level are extracted and removed via the East and West Shafts.

The planned extraction of the ore-bodies below the 0 m. level will use the currently unused 4-meter diameter and 110-meter deep concrete-lined vertical shaft and another shaft (yet to be excavated) to provide a minimum of two accesses to the working places required for an underground mine. Lateral (horizontal) development tunnels connecting the two shafts will be required to service the sub-level caving operations in the ore-bodies to be mined at the planned elevations below the 0 m. level.

The Controlled Property is irregular in shape with the following 7 coordinates formed the boundary of the Controlled Property. They are presented in the table below:

Inflection Point	Co-ordination X	Co-ordination Y
1	3343520.00	38597000.00
2	3343600.00	38597400.00
3	3343800.00	38597700.00
4	3343800.00	38598400.00
5	3343400.00	38598400.00
6	3343220.00	38597600.00
7	3343200.00	38597000.00

Source: from Sifa Mining

The real estate assets on the mine comprise 27 various major buildings and structures erected on 2 parcels of leased land. The various buildings and structures erected on the land are of single to 2-storeys in height and used for production, storage, office, dormitory and other ancillary supporting facilities. They were completed in 2000s. Together, they have a total gross floor are of approximately 2,599.10 sq.m.

Mining is conducted by two contractors and only celestite ore was being processed at the mine's mill, with any lead/zinc ore recovered and trucked to a plant located in the neighboring town of Daye, where it is processed on a toll basis. We were given to understand that Sifa Mining having no ownership interest in these facilities.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company is requested to provide us the necessary documents to support that the legally interested party in the Appraised Asset i.e. Sifa Mining has free and uninterrupted rights to assign the Appraised Asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full. Should this not be the case or only a restricted title was available (i.e. has a right to use but further application procedures are required), no commercial (market) value will be assigned to the Appraised Asset.

We have been provided with copies of the title documents and legal opinions dated 27 December 2007 issued by Guantao Law Firm (觀韜律師事務所), lawyers qualified to practice in China (the "Legal Opinion"). According to the Legal Opinion, Sifa Mining has obtained full legal and beneficial title in respect of the Appraised Asset granted under a Mining Operation Permit dated 25 September 2007 and issued by the Department of Land and Resources of Hubei Province. The Legal Opinion further opined that Sifa Mining is required to pay the necessary premium and expenses to the mining rights; to reach employment contracts with its employees and to pay necessary insurance premium; and to obtain the relevant land use rights and building ownership for construction of the mine.

However, we have not inspected the original documents that filed in the relevant local authorities to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not attorney of laws by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Appraised Asset. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the Legal Opinion with regard to the existing legally interested party in the Appraised Asset. No responsibility and liability is assumed in relation to those opinions or copies of documents.

INDUSTRY AND MARKET OVERVIEW (SEE NOTE)

The Economic Outlook of China

The economy of China is the fourth largest in the world when measured by nominal GDP (Gross Domestic Product). Its economic output for 2006 was 2.68 trillion US$. The GDP growth of China for last year was 11.10%. With the strong growth of China's economy at a compound annual growth rate of approximately 10.19% from 1990 to 2006, it is expected that its economic growth would remain at 8.5% to 9% from 2008 to 2011. Due to large scale investments both from domestic and foreign companies, China's booming economy has consistently overshot government targets in recent years. Economists further estimated that the 2008 Olympic Games in Beijing would benefit China's national GDP by an additional one per cent. Therefore, overall the prospects for the Chinese economy are favourable in the next few years.

Note: The information provided in this section relating to the mineral extraction industry and market is derived in part or extracted or referred to from various official and unofficial sources. The official sources include various quasi-governmental or world organisation websites (such as gov.cn, National Bureau of Statistics of China and World Bank). The unofficial sources include information provided by the management of the Company, various websites (include Bloomberg.com, steel35.com, asianmetal.cn, cnmn.com.cn, alibaba.com.cn, fenmoyejin.com, en.wikipedia.org and Yahoo! Finance), newspapers, research reports and journals (such as U.S. Geological Survey) from various industry practitioners or analysts. We need to state that such official and unofficial information have not been prepared or independently verified by us, and may not be consistent with other information complied within or outside the industry. None of our staff involved in preparing this report make any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon. The readers should conduct his/her due diligence with regard to the correctness and accuracy of such information for his/her own use.

For Hubei Province, despite of the Macro Regulation and Control from the Chinese government, the growth rate of the GDP of Hubei Province in 2006 was about 12.1% and the target growth rate in 2007 is 10%. For the development trend of GDP in recent years (as at the end of each year), please refer to the table below.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
GDP Growth (%)	9.1	9.3	11.5	11.4	12.1

Source: From National Bureau of Statistics of China

For Huangshi City, the GDP growth for 2006 was 13.9%, the highest growth since 1997. The fixed asset investment, retail sales of consumer products and the income from tourism in Huangshi City throughout 2006 was RMB13.805 billion, RMB14.827 billion and RMB0.845 billion, up 35.4%, 14.6% and 41.3% respectively comparing with 2005. Export in 2006 was increased by 43.1% to USD1.033 billion, compared to 2005.

As from statistic report of Huangshi City, economic structure of primary, secondary and tertiary industries are in scale of 7.9:53:39.1. In 2006, investment demand contributed 47.9% of the economic growth, equivalent to about GDP growth rate of 6.8% while the consumption demand contributed 45.6% of the economic growth, equivalent to about GDP growth rate of 6.48%. Growth in Consumer Price Index (CPI) was about 1.3% while the price for raw material and energy increased 10.8%.

Industry Overview

Since 1998, when the Chinese government issued the laws regulating exploration and mining rights, operating a mining business in China must first obtain those rights from the government with a price. The business was considered to be opened to foreign investors in 2003 when the Chinese government allowed the transfer of the mining rights to all kinds of entitles. It is now easier and more secure than ever for these foreign mining companies to operate in China. Apart from the above, several measures have also been taken to encourage foreign investment and participation in developing China's mining industry by the government. These measures include the privatisation of the mining sector, streamlining of permitting and approval processes, granting irrevocable exclusive mining rights to foreign entities and relaxing rules on repatriation of capital profit. These measures benefit not only the foreign investors but also the local miners in that the cost of mining can be reduced and thus more profit can be generated.

Recent years, the dynamic and growing economy of China had a huge impact on the world mining industry. According to some industry analysts, *"by the mid 2000s China had emerged as a world leader in both production and consumption of mined metals and was the global leader in zinc, and iron ore production, as well as a major source of copper, gold and lead. It also led the world in copper and zinc consumption, while its consumption of iron ore, lead, and gold substantially increased world demand for these metals" (extracted from "Mining, Metal", Encyclopedia of Global Industries, Thomson Gale, 2006).*

Mining is a very risky business and the initial work which needs to be carried out in order to find and prove a deposit will, more often than not, prove it to be uneconomical rather than profitable to exploit. Exploration can be split into two separate parts – one is to find a new mine in the vicinity of an old one, the other is built from scratch by deciding what geological environments are most likely to contain the mineral which is being sought then to be followed by reading through literature to find where those environments are to be found and then sending out an exploration team to test the hypothesis.

All mining activity takes place within the earth's crust, about the top 7 – 35 km of the solid matter comprising the bulk of the planet. However, the distribution of metals within the crust is by no means uniform, as can be seen by the differences in the types of rock which it contains, be it limestone, granite, sandstone or basalt. Nevertheless, these different rock types are generally of uniform composition, at least locally, and further concentrations need to occur in order to produce concentrations of materials which can be mined and sold at a profit. Such concentrations decide whether a mineral deposit is economically worth to extract or not. There are some generally accepted background concentrations of the major metallic elements and the concentration factors required for economic viability identified by some industry practitioners such as Charles Kernot (1999). These concentration factors are only of importance for the metals because of the geological controls on their formation.

Metal deposits are categorised both in terms of the metals which they contain and the controls on their origin which governs their three dimensional shape. The metals themselves are deemed to be either ferrous (containing iron) or non-ferrous. Non-ferrous metals are, in turn, subdivided into those which are precious, base or minor. The precious metals are essentially limited to gold, platinum and silver as these metals are relatively rare, but have great demand and widely traded.

The base metals are, essentially, the six major metals are aluminum, copper, lead, nickel, tin and zinc. These metals have a wide range of applications throughout industry and could be thought of as the industrial metals as opposed to the range of industrial trial minerals.

The minor metals are those metals produced either as by-products of the extraction of the major metals or are required for specific applications and are therefore produced in small quantities from primary deposits. Examples are opto-electronic elements gallium and germanium.

Strontium

According to the U.S. Geological Survey, Mineral Commodity Summaries, world production of strontium reached an estimated 500 thousand metric tons of strontium content in 2006, a 1.21% increase from 2005. Like previous years, China is still the world's leading producer of strontium carbonate, followed by Germany and Mexico. The table below presented the trend of world production of celestite in recent years, and the figures in 2006 was an estimate.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
Production (in thousand metric tons)	440	492	521	570	585

Source: U.S. Geological Survey, Minerals Year book-2006

Strontium can be obtained from two main sources of mine, which are celestite (which is found in the Controlled Property) and strontianite. China uses mostly domestic and some imported celestite to supply its strontium carbonate plants. While Chinese celestite reserves are smaller and of lower purification, it is questioned that whether Chinese celestite producers will be able to maintain high enough production levels to meet the high demand at strontium carbonate plant. In other words, the excess demand for domestic celestite may mean that the producers can clear their stock no matter how much to produce.

There are different kinds of usage for strontium. Commercially, it can be used as the ingredient of red color fireworks, signal flare, parts of car wheels and car engine, reflective traffic signs, energy saving lamps and ingredient in refining the zinc ore. Besides, as strontium is non-toxic and provides a dense glass that shields viewers from X-rays generated by the high voltage of the tube, it is now almost exclusively for cathode ray tubes in televisions and computers. Militarily, it is the key source of producing aircraft and tank with stealth technology and also the fuel for missile and rocket.

Market practitioners expected that most of the developed strontium mines, with few exception, will fully depleted in five years. It may further intense the market supply on the domestic celestite in the future. According to China Chemical News, Huangshi City is the third largest celestite base and situated at Mt. Shizili mining area of which the Controlled Property forms part in China.

According to price.mofcom.gov.cn, the celestite (imported from Mexico) with average grading of 94% is selling around US$80 – US$100 per tonne as at September 2007.

Zinc

World zinc production kept increasing since 2002 due to the strong demand from China. In 2006, the world production of zinc was estimated 10 million metric tonnes, a 2.04% growth from 2005. China, as continuing be the world leader in production of zinc, produced an estimated of 2.5 million metric tons of zinc in 2006. The table below indicated the world production of zinc in recent years.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
Production (in million metric tons)	8.36	9.01	9.60	9.80	10.00

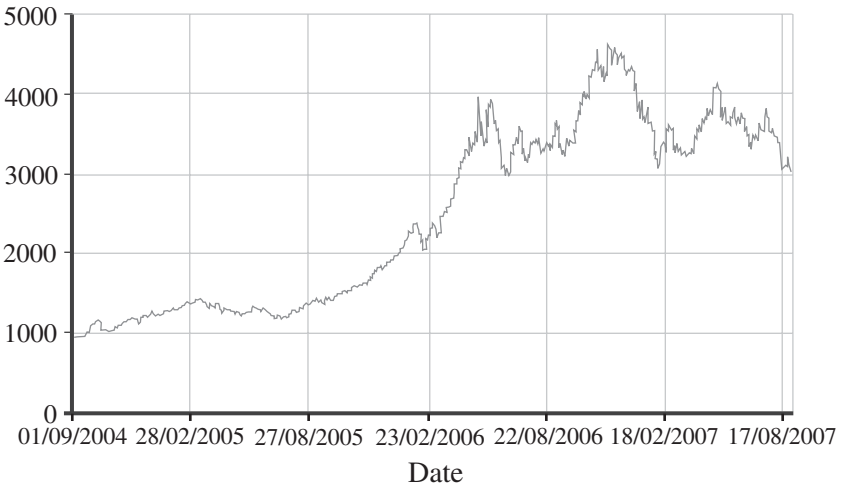
Source: U.S. Geological Survey, Mineral Commodity Summaries

In spite of the increasing trend of zinc production, it did not help relaxing its rising price. According to market analyst, the robust demand growth in China has been the driving factor behind the increase in 2006 and 2007 consumption and the U.S. now has only limited impact on the overall zinc demand as China's share of global zinc consumption is 2.6 times bigger than that of the U.S. According to the forecast from Antailke, a research agency, in August 2006, China may need 4.8 million metric tons of zinc by the end of the decade from 3.08 million tons in 2005. The imported zinc and zinc-related product kept increasing in recent years as follow:

Year	**2002**	**2003**	**2004**	**2005**
Imported amount (in million US$)	312	418	653	101

Source: National Bureau of Statistics of China

In fact, after four years of double-digit growth, the economic forecasters now expect China's growth to cool slightly just below 10% and, however, still will be enough to keep global nonferrous demand and price elevated. The following graph indicated the price trend of zinc price (in US$/ton) from September 2004 to September 2007.



Source: From London Metal Exchange

Lead

According to the U.S. Geological Survey, during 2006, the estimated world use of lead increased by 3% to 4% in which much of the growth was attributed to increased production of starting-lighting-ignition and industrial batteries for the telecommunications and information technology industries. The world production of lead mine in 2006 was estimated of 3.36 million metric tons in which over 30% of it was come from China. While the lead mine reserve of Australia is the largest in the world, lead mine production was account for about 23% of the world production. The table below indicated the world production of lead in recent years.

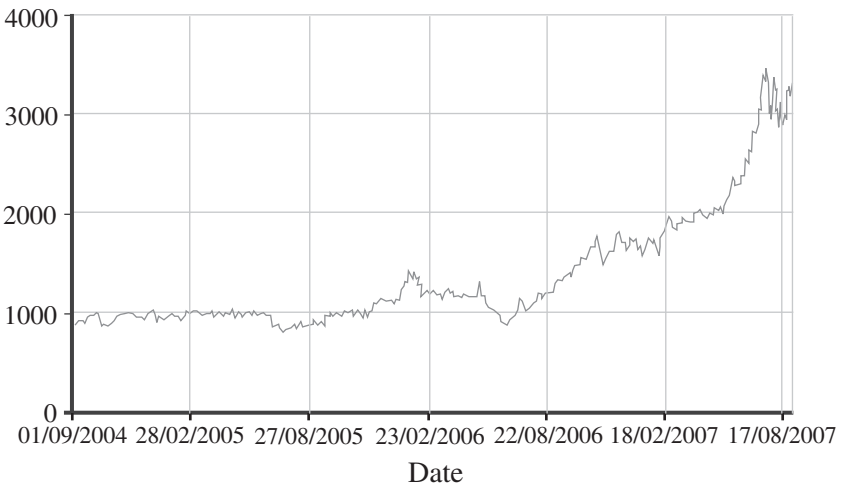
Year	**2002**	**2003**	**2004**	**2005**	**2006**
Production (in million metric tons)	2.91	2.95	3.15	3.27	3.36

Source: U.S. Geological Survey, Mineral Commodity Summaries

Increased in lead production are anticipated in the near future in Canada, China, India, and several European countries.

The demand of lead in China is also large. According to the International Lead and Zinc Study Group, China accounted for about 27% of the world lead demand in 2006. Market also forecasted that the China lead consumption may surge 43% to 2.3 million tons in 2010, according to Antaike in August 2006, as demand from lead-acid battery makers soars 65% to 1.79 million tons. In fact, the global lead demand was greater than supply by 73,000 tons in the first six months in 2007, according to a recent report from the World Bureau of Metal Statistics. Lead supplier also commented that the lead price will "remain at levels that are well above historic long term average".

The following graph indicated the price trend of lead (in US$/ton) from September 2004 to September 2007.



Source: London Metal Exchange

Silver

The world production of silver mine, according to the U.S Geological Survey, was estimated as 19,500 metric tons, a 1% increase from 2005. Major producers are Peru, Mexico, China and Australia, which totally made up of about 56% of the world production. The table below indicated the world mine production of silver in recent years.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
Production (in metric tons)	20,000	18,800	19,700	19,300	19,500

Source: U.S. Geological Survey, Mineral Commodity Summaries

Silver can be used for industrial applications, photography, jewelry, silverware, coins & medals, etc. According to The Silver Institute, the world total demand for silver fabrication was 840.5 million ounces in 2006, less than 1% decrease from 2005 and the historical demand for silver fabrication is listed as follows.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
Production (in million ounces)	823.9	837.4	828.6	848.3	840.3

Source: World Silver Survey 2007

The historical price calculated on the average monthly price quoted on New York Mercantile Exchange and the New York Commodities Exchange (COMEX) of silver was listed as follows.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
Average US$ per ounce	4.60	4.89	6.67	7.32	11.62

Source: COMEX Spot Settlement

Gold

Gold is one of the most well known metals in the world. It may have been the first metal used by humans. It occurs as nuggets or grains in rocks, underground "veins" and in alluvial deposits. Since the 1880s, South Africa has been the source for a large proportion of the world's gold supply, with about 50% of all gold ever produced having come from South Africa. At its highest in 1970, the production of gold from South Africa accounted for 79% of the world supply, producing about 1,000 tons. The other major producers are United States, Australia, China, Russia and Peru. The world's oceans also hold a vast amount of gold, however in very low concentrations. The table below gives the figures for the world production of gold in recent years.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
Production (in metric tons of gold content)	298	277	258	256	260

Source: U.S. Geological Survey, Mineral Commodity Summaries

Due to the strengthening of the South African currency, rand, several gold mines in South Africa had to curtail expansion operations and reduce gold production. In the United States, domestic mine output continued to be dominated by Nevada, where production accounted for about 82% of the U.S. total. In a recent assessment of U.S. gold resources, 33,000 tons of gold in identified and undiscovered resources. However, the gold resources in the U.S. are only a small portion of global gold resources.

China's gold production has risen significantly in recent years to an output of over 200 tons per year. It ranks fourth largest producer of gold in the world. Most of China's production comes from small, underground mines working vein deposits with little mechanisation or infrastructure. There are thought to be over 1,000 small to medium-sized mines in operation throughout the country with the average mine producing in the region of 16 koz/y.

Historically, gold has been considered one of the safest investments in the world. It is unusual in that it is both a commodity and a monetary asset. All the gold that has ever been mined still exists above ground in some form or another and the majority of above-ground stocks could easily be mobilised. Therefore, any upward movement of price is often met by the resale of above-ground stock. This is one of the reasons why the gold price is historically less volatile than most of the other commodity prices. Annual demand for gold falls into three main categories with the jewelry market being the largest which was worth $ 40 billion in 2005. The other two categories are industrial demand in the electronic sector and investment demand.

Up to October 2007, gold prices are up to nearly $750 an ounce, partly helped by the declining dollar and growing interest from institutional investors. Many analysts say the biggest driving factor has been the weakening dollar. The outlook for the gold price is optimistic and rising. Below is a chart showing the growth of gold price in the last ten years beginning in 1997.

VALUATION PROCEDURES ADOPTED

In performing the valuation of the Appraised Asset, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- To prepare and submit a list(s) of required document and information regarding the Controlled Property during the course of valuation. The completeness of our valuation depends on the availability of the required information being supply by the management of the Company or its appointed personnel.

- To read and based on the content of the supplied material such as product information, market information and financial information and its related materials such as historical geological studies, explanatory statements and relevant correspondence to arrive at our conclusion. In the course of our valuation, we will assume the information that in the materials is correct and we will only verify the provided information when and where possible. However, we will not ascertain the correctness of the information contained in the materials like an auditor in giving an audit opinion.

- To hold discussions with relevant personnel in order to have a better understanding on the Controlled Property and the Appraised Asset.

- To conduct a limited scope of physical inspection to the environs of the Controlled Property to have an understanding on the general environment of the Controlled Property. The purpose of the inspection is not to have a full scope investigation on the quantity and the quality of the subject as contained in the materials provided to us; rather, it is designed to give the valuer(s) a better understanding of the subject as contained in the materials provided.

- To conduct appropriate research and technical consultation in order to obtain sufficient information for arriving at our conclusion. The extent of research and consultation is at our discretion.

- To value the Appraised Asset using the appropriate premise of value and method(s).

- To document our findings in our appraisal report.

THE BASIS OF VALUATION AND ASSUMPTIONS

The Appraised Asset is valued on the basis of market value in continued use and as part of a going concern business of Sifa Mining. The continued use premise assumes that the Appraised Asset will be used for the purpose for which the Appraised Asset was conceived or is currently used. Implicit in this definition is the fact that the willing buyer would not pay more to acquire the Appraised Asset than he could reasonably expect to earn in the future from an investment in the Appraised Asset.

Our valuation has been made on the assumption that, as at the date of this report,

1. the legally interested party in the Controlled Property has free and uninterrupted rights to use or assign the interests of the Appraised Asset for the whole of the unexpired terms as granted and any premiums/administrative costs payable have already been fully paid;

2. the subject Mining Operation Permit is able to renew from time to time in order to achieve the planned extraction phase (see Note), say 50 years, and business;

3. the subject Enterprise Legal Person Business License is able to renew after August 2009 from time to time in order to achieve the planned extraction phase as stated in 2. above;

4. the legally interested party in the Controlled Property successfully complete the subsequent development program and are able to obtain the expected result within the planned extraction phase by using the Appraised Asset as part of its going concern business;

5. the subsequent feasibility studies and governmental endorsement confirm the quality and quantity discovered during the Controlled Property development stage under various reserve classification systems commonly adopted internationally or in China (the Solid Minerals Resource Classification (GB/T17766-1999));

6. all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed on which the valuation contained in our report are based;

7. there will not be material changes in government policies or political, legal (including legislation or regulations or rules), fiscal (including interest rate and exchange rate), market or economic conditions, the bases or rates of taxation in the PRC, where the Controlled Property is situated;

8. the contractors of the legally interested party in the Controlled Property successfully develop the Controlled Property as planned, and is able to mine, to transport and to process the predicted products and that the legally interested party in the Controlled Property is able to sell the predicted products to its clientele at market price as projected;

9. the Appraised Asset successfully yield the economic benefits as projected in the financial projection as provided by the management of the Company and Sifa Mining;

Note: According to GN 14 of the IVS, "The Minerals Industry generally has a planned extraction phase, though this phase is often extended through Mineral Reserve additions. Once extraction is completed, no more known economically recoverable asset remains in place at that time".

10. the prospective earnings would provide a reasonable return to the legally interested party in the Appraised Asset and that the legally interested party in the Appraised Asset has adequate working capital to implement the scheduled mining operations from time to time;

11. the legally interested party in the Appraised Asset has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as fire, change of government policy, labour dispute, implementation of serious statutory mining safety measures, geologic formation structurally deformed, soil erosion and other types of unexpected accident or natural disasters of catastrophes) to the scheduled mining operations; and

12. the Appraised Asset, as part of a going concern business of Sifa Mining, can be freely disposed and transferred free of all encumbrances for its existing or approved uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should this not be the case, it will have adverse impact to the reported findings and conclusion herein.

FACTORS CONSIDERED IN THE VALUATION

Unless otherwise stated, the valuation of the Appraised Asset has taken account of all pertinent factors affecting the Appraised Asset and its ability, if renewed successful, to generate future investment returns as part of a going concern business of the existing legally interested party in the Controlled Property i.e. Sifa Mining. The factors considered in the appraisal included, but were not limited to, the following:

- the nature and the characteristics of the Controlled Property such as the historical background and the ground work to develop the Controlled Property;

- the use of the Appraised Asset as part of a going concern business of the existing legally interested party in the Controlled Property;

- the cost and financial information (including the historical and projected) as contained in various documents;

- technical review of the mining operations and resource/reserve estimation by the technical experts;

- projected future results (including but not limited to the estimation of extraction tonnes, metallic grade and recovery rate) based on assumptions made by the appointed personnel from Sifa Mining;

- the nature of the Appraised Asset such as the remaining life and its characteristics;

- the nature and the going concern business of Sifa Mining in the Controlled Property;
- the existing legally interested party in the Appraised Asset is able to renew the subject Mining Operation Permit after the expiration date from time to time and be part of the going concern business of the existing legally interested party in the Controlled Property;
- the quality of the mining facilities;
- the capability of the existing contractors in the Controlled Property to develop the Controlled Property and its subsequent operations;
- the capability and determination of the contractors in the Controlled Property to follow the planned development schedule as imposed by Sifa Mining from time to time;
- the capability and determination of Sifa Mining to maintain its existing clientele and its expansion in the future;
- the capability and determination of Sifa Mining to continue the existing marketing strategy of its predicted product, if successful mined and processed;
- the capability and determination of the contractors in the Controlled Property to construct and implement the scheduled production process to extract ores for processing as predicted;
- the capability and determination of the contractors in the Controlled Property and Sifa Mining to follow the government and industry management quality standards and to review/up-lift its standards to catch the industry need from time to time;
- the capability and determination of the contractors in the Controlled Property and Sifa Mining to protect its mining operations against any disruption of the normal operation of the Controlled Property;
- the capability and determination of the contractors in the Controlled Property to maintain a cost effective and stable supply chain of the materials to produce its predicted products;
- the capability and determination of Sifa Mining to maintain an experienced management team as part of its going concern business to supervise the contractors;
- the capability and determination of the legally interested party in the Appraised Asset to provide a workable platform by using the Appraised Asset to the contractors to earn their economic income from time to time;
- the economic and industry data affecting the Controlled Property and the mineral extraction industry in China;
- the market-derived investment returns of similar business; and

- the risks facing the operations of the Controlled Property and the Appraised Asset as part of a going concern business of Sifa Mining.

APPROACH TO VALUE

In the process of valuing the Appraised Asset, we have considered the classical appraisal approaches to value, namely the Cost Approach (termed Asset-based Approach for business valuations), the Sales Comparison Approach (termed Market Approach for business valuations) and Income Approach (including market-related discounted cash flow) as stipulated in the relevant guidance notes of the IVS. While some intellectual properties are readily appraised by all three approaches, certain approaches provide more reliable results than others for particular type of intellectual property. With regard to the Appraised Asset, the Income Approach is often considered to include the more widely accepted methods and procedures for achieving a reliable value.

The Cost Approach seeks to estimate the market value of an intangible asset by quantifying the amount of money that would be required to replace the income producing capability of the intangible asset. In other words, this approach assumes that the intangible asset's value is indicated by the cost of developing or acquiring it. The disadvantage of this approach is, in many instances, will understate the value of an intangible asset as it does not take into consideration the stunning market potential and future growth of the industry and business, the owner's or operator's business model, and the impact of its management's abilities. We have considered this approach as the least applicable approach as it is difficult to assess the replacement cost of the Appraised Asset and the value of the expertise used in developing the Appraised Asset since 1950s'.

The Sales Comparison Approach establishes value based on recent sales or licensing of comparable assets. In the valuation of an intellectual property, similar assets recently sold or currently offered for sale are analysed and compared with the intellectual property being valued. Since intellectual properties are typically highly specialised, finding good market comparables is often difficult. Ipso facto, financial details of sale or licensing transactions are rarely disclosed as licenses are private legal agreements that are generally not transferable unless occurring as a part of a compete business transfer. However, details of these transactional data and the basis are seldom made available to the public through public domains. Under such circumstances, we have not relied on the Sales Comparison Approach in our estimate of the market value of the Appraised Asset due to insufficient supporting data (market-based transactional information, in this instance).

The Income Approach focuses on the income producing capability of an intellectual property. In other words, the value of an intellectual property is estimated as the present value of the future economic income attributable to the ownership of the intellectual property over its expected remaining useful life. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts or capitalises these benefits to its present value using a discount rate or capitalisation rate suitable for the risks associated with realising those benefits. In our opinion, this approach is the most appropriate in valuing the Appraised Asset since a rational buyer normally will purchase an asset only if the present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur only at an amount equal to the economic benefits of the Appraised Asset.

VALUATION METHODOLOGY

In choosing the Income Approach as the most appropriate approach, we have used the Discounted Cash Flow ("DCF") analysis to identify the indication value of the Appraised Asset. The DCF analysis is designed to serve the purpose of valuating the total sum of money to be received during the useful life of an asset by investing certain amount of capital after considered the time value of money (see Note). The use of DCF analysis reflects investment criteria and requires the valuer to make empirical and subjective assumptions.

In considering the DCF analysis as the most appropriate method to assess the value of the Appraised Asset, we have used the Net Present Value ("NPV") technique. By using this technique, the expected net cash flows (after deducting from net income, the capital expenditures and net changes in working capital and the addition of depreciation) generated from the Appraised Asset are set out year by year till the end of the expected extraction phase and brought to a present value by use of present value factors at the appropriate rate. In constructing the cumulative present value table, positive present values are netted off against deficit present values so as to arrive at the "net present value".

The NPV is the difference between the present values of project benefits and project costs. The NPV is computed using the following formula (for illustration purpose):

$$NPV = \sum_{i=0}^{n} \frac{b_i - c_i}{(1+r)^i}$$

Where b_i = benefits in period i
c_i = costs in period i
r = discount rate
n = discounting period
i = Period

The first step of the valuation is to estimate the economic income projection. The projections of the future revenues used in this valuation are prepared by the appointed personnel and provided by the management of the Company and Sifa Mining with reference to historical and current data, and they are responsible for the assumptions upon which the projections are based. We were given to understand that the estimated extraction volume of ores provided was based on Sifa Mining past extraction activities and the expected production capability of the mining site and its processing plant. Having discussed with the appointed personnel of Sifa Mining, we understood that the assumptions adopted by them reflected their judgment of the ability of the Appraised Asset to generate income from the market. The appointed personnel confirmed to us that they have had due regard to published research data, current industry conditions and relevant experience, and they attested that the supplied data are accurate and reasonable. We are given to understand that it represented the most likely result to be made by Sifa Mining via contractors in developing and operating the Controlled Property. These data have been utilised without further verification.

Note: The time value of money is based on the premise that one will prefer to receive a certain amount of money today than the same amount in the future, all else equal.

The next step is to estimate the appropriate present value factor i.e. discount rate. Discount rate equals cost of capital. The cost of capital represents investors' expectations and for any given investment is a combination of three basic factors, namely the risk-free rate, the expected inflation and a premium for risk. There are many ways to estimate the discount rate such as the Build-up Model, the Capital Asset Pricing Model and the Arbitrage Pricing Model for equity investment and the Weighted Average of Cost of Capital for normal project investment. The use of the appropriate model in each analyse depends on numerous factors, in particular the future capital structure of the investment. There is no universal model that applies to all cases. In this engagement, we have considered the Weighted Average Cost of Capital ("WACC") which is common in valuing a forward looking project.

The WACC Model is an average representing the expected return on all of a company's capital. Each source of capital, such as stocks, bonds, and other debt, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The resulting rate is what the firm would use as a minimum for evaluating a capital project or investment (extracted from investorwords.com for readers' easy understanding).

The WACC is computed using the following formula (for illustration purpose):

$$WACC = P_e \times R_e + P_l \times R_l$$

Where P_e = percentage of equity investment to total capital funds
P_l = percentage of loaned funds
R_e = opportunity cost of capital of equity funds
R_l = effective cost of loaned funds

In estimating the WACC in our valuation, we have adopted a market-derived WACC of similar publicly traded companies in the stock exchange of China where the Controlled Property and Sifa Mining are operating – China, they can form a reliable representative industry of mineral extraction business. The similar companies are: Tibet Mineral Development Co., Ltd, Yunnan Chihong Zinc & Germanium Co., Ltd., Shenzhen Zhongjin Lingnan Nonfemet Company Limited, TianJin Hongfeng Industry Company Limited, Zhongjin Gold Co., Ltd., Shandong Gold-Mining Co., Ltd., Guizhou Redstar Development Company Limited and Qinghai Jinrui Mineral Development Co., Ltd.

Name of the Listed Company	Market Capitalisation *(RMB in million)*	Weighting	WACC	Weighted Average WACC
Shenzhen Zhongjin Lingnan Nonfemet Company Limited	41,682.96	0.25	12.82%	3.15%
TianJin Hongfeng Industry Company Limited	7,244.06	0.04	13.52%	0.58%
Yunnan Chihong Zinc & Germanium Co., Ltd.	34,437.00	0.20	12.08%	2.45%
Tibet Mineral Development Co., Ltd.	8,822.53	0.05	13.45%	0.70%
Zhongjin Gold-Mining Co., Ltd.	38,914.40	0.23	14.21%	3.26%
Shandong Gold-Mining Co., Ltd.	31,520.00	0.19	14.08%	2.61%
Guizhou Redstar Developing Company Limited	5.302.75	0.03	13.82%	0.43%
Qinghai Jinrui Mineral Development Co., Ltd.	1,966.72	0.01	12.51%	0.15%
	169,890.42	1.00		13.31%

* *Due to rounding process, the figures will be different from the actual worksheet.*

Source: From Bloomberg, at September 2007

We took the view that cost of capital in a capital investment project is forward looking, same as the capital investment project itself. Thus, we need to take into consideration of the capital structure of the project in the future to determine its required cost of capital i.e. discount rate. We have cross reference our finding to the WACC of the Company because the capital structure of Sifa Mining will be tied up with the Company upon completion of the sale. From the Bloomberg, we noted that the WACC of the Company is 4.66% which reflected the cost of capital required for the Company as a handset retailer. Having considered the possible risks of the mining business to the Company upon completion of the sale of Sifa Mining as a subsidiary of the Company, an additional risk premium of, say 6% (such as additional cost of debt be required) was added to the existing Company's WACC to reflect the risk to be faced by the Appraised Asset as part of a going concern business of Sifa Mining, which in future, will become part of a going concern business of the Company. Thus, a reference WACC of 10.66% has been used in our consideration. We took the view that, for financial conservatism, a comparative high side representative industry WACC shall be employed in our valuation.

For the estimation of the inflation rate and long-term growth rate, we have made reference to the Hubei Province economy (of which Sifa Mining and the Controlled Property are incorporated and operating), China's economy and the lead, zinc and strontium ores markets in China. Having considered the quantity and quality of available data, and each analysed method in providing a valid indication of discount rate, we have, therefore, assigned a discount rate of 12% (rounding) in the appraisal before inflation factor (2 per cent. per annum) adjustment.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Appraised Asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Appraised Asset. Unless otherwise stated, it is assumed that the Appraised Asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

As at the Latest Practical Date of this circular, we are unable to identify any adverse news against the Appraised Asset or Sifa Mining which may affect the reported value in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Appraised Asset. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the value reported herein.

INSPECTIONS AND INVESTIGATIONS

We have conducted a limited scope of inspection to the Controlled Property in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the Controlled Property which were covered, unexposed, not being arranged or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of uninspected parts and our report should not be taken as making any implied representation or statement about such parts. No structural survey, investigation, test or examination has been made, but in the course of our inspections we did not note any serious defects in the sections inspected. We are not, however, able to report that the Controlled Property is free from rot, infestation or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the Controlled Property, and that the inspection and the use of our report do not purport to be a structural survey of the Controlled Property, in particular the adits. We have assumed that the Controlled Property is free of rot and inherent danger or unsuitable materials and techniques.

If the management of the Company is proposing to purchase the Controlled Property or its related assets and wants to satisfy them as to the condition of it, then the management of the Company should obtain a third party surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the areas, the coordinates or the elevations of the Controlled Property, but have assumed that the figures shown on the documents, in particular *the Final Report of Surveying the Resource Reserve in the Mining Area of Mt. Shizili Supplement* and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries of the Controlled Property. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the Controlled Property that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the Controlled Property should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Controlled Property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the Controlled Property. We have not carried out any investigation into past or present uses, either of the Controlled Property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Controlled Property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Controlled Property or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might affect the conclusion now reported. Also, we made no comments on the environmental impact of the design of the mining facilities and the mining operations which was silent in the documents provided though a Sewage and Waste Disposal Permit was granted to the Controlled Property.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of this appraisal, we were furnished with various copies of documents related to this appraisal and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company. In our valuation, we have assumed that the Appraised Asset is able to sell and purchase in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such risks. No responsibility or liability is assumed.

Our procedures to value did not include undertaking a feasibility study of the proposed expansion of the mining operations or the Controlled Property. Accordingly we do not express an opinion as to the merit or demerit of any future expansion (if any).

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis on the Controlled Property and the study of possible alternative development options and the related economics do not come within the scope of our report.

We are not contracted to conduct a due diligence to review the existing mineral extraction industry and the official policy on granting out mining rights in China. In the course of valuation, we have solely depended on the advice given by the management of Sifa Mining via the Company. We are unable to accept any responsibility for the reliability of the advice.

Also, we are not contracted to conduct a detailed geological study or Controlled Property plan, thus, our report is not a detailed evaluation of the feasibility of the Controlled Property. In the course of the valuation, we have solely depended on the advice given by the management of Sifa Mining via the Company. We are unable to accept any responsibility for the reliability of the advice.

Our engagement did not include an independent geological survey to verify the information provided. Since we are not the authorised person to conduct geological survey in China and the enormous resources required in conducting a detailed inspection and survey, we were further instructed to conduct our valuation based on the information given in the various reports or explanatory statements. We are unable to accept any responsibility for the reliability of the information given in these documents.

When we adopted the work products from other professions, external service/data providers and/or the management of Sifa Mining via the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also apply in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of Sifa Mining via the Company. We have sought and received confirmation from the management of the Company that no material factors have been omitted from the information supplied. The valuation is based upon the assumption of full disclosure between the Company and us of material and latent facts that may affect the appraisal. No responsibility is assumed for withheld information (if any).

Unless otherwise stated, the base currency of our report is Renminbi ("RMB") Yuan.

LIMITING CONDITIONS OF THIS REPORT

This report is provided strictly for the sole use of the Company. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular for the Company's shareholders' reference.

Our opinion of value in this report is valid only for the stated purpose and only for the Date of Valuation. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of our services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

OPINION OF VALUE

Based on the investigation, analysis, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as at the Date of Valuation, the market value of the Appraised Asset as part of a going concern business of Sifa Mining (before taking into consideration any transaction costs), is reasonably stated by the amount of **RENMINBI ONE THOUSAND AND SEVENTY MILLION YUAN ONLY (RMB 1,070,000,000.00).**

STATEMENTS

Our opinion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the guidelines as contained in the IVS and have been made in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of our report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present nor prospective interest in the Appraised Asset, the Company, Sifa Mining or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi *BSc PgD RPS (GP)*
Managing Director

Contributing professional and semi-professional members in the report:
Elsa Ng Hung Mui *BSc MSc RPS(GP)*
Terry Fung Chi Hang *BSc*
Sam Lai Siu Nam *BBA*
Vivian Ting Wai *BSc MSc*

Notes:

1 Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Scotland, Finland, Germany, Guyana, Canada and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, coking coal plant, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, semiconductors, mineral resources, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, Malaysia, Singapore, Canada and the United States of America. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors ("HKIS").

2 Ms Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 9 years of experience in valuing properties in mainland China. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS. Over the length of her valuation experience, she has valued and managed the valuation of a number of mineral resources projects for fund raising, financial reporting and initial public offering in Singapore, Malaysia and in Hong Kong.

3 Mr Terry Fung Chi Hang is a graduate surveyor who has been involved in valuation of real estate properties both in Hong Kong and in mainland China for more than 2 years. He obtained a Bachelor Degree in Estate Management and involved in various assets valuations, mine valuation and agriculture property assets valuation.

4 Mr Sam Lai Siu Nam has been conducting business enterprise, financial and intangible asset valuations in Hong Kong since graduation in 2006. He has experiences in valuing a wide variety of financial assets such as employee stock option, convertible bond, equity-linked note and financial guarantee contract and business enterprises such as mining, forestry, property development, toll road and commercial retail business for purposes like merger and acquisition, disposal and annual accounting.

5 Ms Vivian Ting Wai specialises in financial analysis and valuation. She has been conducting business enterprise, financial and intangible asset valuations in Hong Kong since her graduation of Master of Science Degree in Financial Mathematics and Actuarial Science. She has experiences in valuing a wide variety of financial assets such as employee stock option, convertible bond, equity-linked note and various business enterprises.

The following is the text of the technical assessment report prepared by LCH(Asia-Pacific) Surveyors Limited, for the purposes of inclusion in this circular, in respect of the Huangshi City Mt. Shizili Celestite Mine.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

17th Floor
Champion Building
287-291 Des Voeux Road Central
Hong Kong

31 December 2007

The Directors
China Fortune Holdings Limited
Rooms 1505-7 on 15th Floor
Tower A, Regent Centre
63 Wo Yi Hop Road
Kwai Chung, New Territories
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Fortune Holdings Limited (hereinafter referred to as the "Company") to LCH (Asia-Pacific) Surveyors Limited (hereinafter referred to as "LCH" or "we"), we were retained to analyse and prepare an agreed-upon procedures audit review of a mineral resource/reserve currently 黃石市鍶發礦業有限責任公司 (translated as Huangshi City Sifa Mining Company Limited and hereinafter referred to as "Sifa Mining") has interest as of August 2007, and to document our findings and conclusions (hereinafter referred to as the "Study") in a technical assessment report which follows.

In performing the Study, we organised a Study Team and includes the following professional members:

Joseph Ho Chin Choi	*RPS (GP)*
Alan K. Stagg	*AIMA, Principal Economic Geologist and Lead Professional*
Robert G. Dunn, Jr.	*Registered Professional Geologist*
Leonard J. Karr	*Certified Professional Geologist*
Dr. John W. Wilson	*Fellow of Institute of Mining*
Michael Ricci	*Registered Professional Engineer*
Elsa Ng Hung Mui	*RPS(GP)*

The mine property covered by the Study is the Huangshi City Mt. Shizili Celestite Mine having an area of approximately 0.62 square kilometers (or "sq. km." used in the report) and lying in Tuan Cheng Shan Economic Development Zone, Huangshi City, Hubei Province (hereinafter referred to as "Mt. Shizili Mine" or the "Controlled Property"), the People's Republic of China (hereinafter referred to as the "PRC" or "China") which is controlled and operated by Sifa Mining. The Controlled Property forms part of the Mt. Shizili mining area which having an area of approximately 4.53 square kilometers. The Mine (to be defined in the report) is an operating mine on the Controlled Property and subject to various historical geographic studies, but no feasibility study was conducted or provided.

Two types of mineralised bodies have been identified by the previous workers on the Controlled Property – gold and strontium-lead-zinc. Twenty-five gold-bearing bodies have been delineated, the majority of which are located at the surface and in the near-subsurface in an east-northeast-trending fault zone hosted by diorite and quartz diorite. These bodies variously occur as irregular veins and lenses, with dip typically being to the north-northwest. Gold content has been reported to be in the range of 1.16 to 15.40 grams per ton ("gpt"). The combined grouping of strontium-lead-zinc-bearing bodies identified on the Mt. Shizili mining area contain three different basic mineral assemblages, characterised by the Study Team, as Sr (Strontium) Ore, Sr-Pb-Zn (Strontium-Lead-Zinc) Ore and Pb-Zn (Lead-Zinc) Ore. These bodies have been placed in four groups by previous workers, numbered I through IV, with 155 discrete bodies having been delineated. These bodies occur in the subsurface, some at depths of more than 500 meters below the surface.

Mining activities controlled and operated by Sifa Mining are developed in the I_2 Ore Body (hereinafter referred to as the Mine), the largest of the mineralised bodies identified in the mining area, which extends in an east-northeast direction across the eastern portion of the Controlled Property for a distance of around 600 meters. In the Study, the I_2 Ore Body has been divided into three units, representing the primary mineral assemblage in each. These units are designated as Unit I_2A, Unit I_2B and Unit I_2C. The predominant ore being produced from the Mine is celestite from the western portion of the body, with ore currently being extracted from the 0 m. (meter) level and above.

As a result of the various field works, drilling, and underground mining that has been conducted to-date, the detailed exploration stage has been completed for a portion of the I_2 Ore Body, notably in the central and westcentral portions of the Mine. The remainder of the work conducted to-date outside the central and westcentral portions of the Mine is thus considered to represent the general exploration stage.

During the mine visit, nine samples were taken to check the tenor of the mineralisation and to check for important by-product metals associated with the celestite and lead-zinc mineralisation. The analytic methods that were used provided results for a large number of elements and oxides, including elements believed to be of significance for the Mt. Shizili mining area. These elements include gold (Au), silver (Ag), cadmium (Cd), arsenic (As), uranium (U), lead (Pb), zinc (Zn), barium (Ba), iron (Fe) and strontium (Sr). Silicon dioxide (SiO_2) content was also determined.

Our technical team estimates that there are approximately 8,412,000 metric tonnes of Sr ore, approximately 508,000 metric tonnes of Sr-Pb-Zn ore and approximately 1,079,000 metric tonnes of Pb-Zn ore in the I_2 Ore Body. The cut-off grade of Sr is in the region of 37.6% to 46.79%, Pb is in the region of 0.27% to 0.93% and Zn is in the region of 4.91% to 5.12%. The deposit is classified

either as 122 and 2S22 using China's Solid Minerals Resource Classification. We noted that in the various local geology reports, a lower grade 333 Pb of approximately 785 metallic tonnes with cut-off grade of 0.55% and a lower grade 333 Zn of approximately 1,898 metallic tonnes with cut-off grade of 1.33% were reported. However, these were excluded from our Study for not economically viable to extract.

Under the Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (generally known as the JORC Code), the mineral resources would be classified as a proved ore reserve (122) and indicated mineral resource (2S22).

Gold has been reported and tonnage estimated for the Controlled Property by various geology reports. Based on a review of the information these geologist reports, it appears that the mineralisation occurs as a series of discrete ore shoots within an east-northeast-trending fault zone hosted by diorite and quartz diorite. The amount of gold estimated amounts to 1,883 kilograms (60,566 troy ounces) at an average grade of 3.2 gpt. It is likely that some portion of the gold estimated has been recovered by mining, particularly the largest deposit, the No. 12 body, which appears to be the deposit surface mined above the celestite mine. However, we were given to understand that surface mining apparently is not allowed on the Controlled Property.

The mine is divided into eastern and western districts where access to the celestite ore bodies in these districts is provided by two inclined shafts, one known as the East Shaft and the other the West Shaft. A vertical shaft also exists on the property, although this shaft is currently not in use. The bottom of both inclined shafts terminate at the 0 m. level (sea level) and are connected by a nominal 2 m. x 2 m. horizontal tunnel. This tunnel provides access to the ore bodies, the transportation of ore from the mine, the ventilation to the underground workings, and the removal of water from the mine workings.

The Mine uses the sub-level caving method to mine the celestite ore. Development within the ore body consists of driving a series of parallel crosscuts or adits from the central tunnel connecting the two shafts to the extremities (boundaries) of the ore-body. The vertical interval between levels in a wide ore body such as this one ranges between 7 and 15 meters, depending on the tendency of the ore to cave. At the Mine, ore development and extraction has been completed at the +23 m. and +11 m. levels and mining is now taking place only at the 0 m. level. Thus the celestite ore between the 0 m. level and the overlying +11 m. level is currently being mined.

Mining is conducted by two contractors and only celestite ore was being processed at the mine's mill, with any lead/zinc ore recovered and trucked to a plant located in the neighboring town of Daye, where it is processed on a toll basis.

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia which in line with the International Reporting Template for Exploration Results, Mineral Resources and Mineral

Reserves by the Committee for Mineral Reserves International Reporting Standards. Such guidelines entitle the technical expert to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated in the report. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. It is emphasised that the findings and conclusions presented in the report are based on the documents and facts known to the technical expert at the reference date. If additional documents and facts are made available, we reserve the right to amend the report and its conclusion.

Neither LCH nor any members of the Study Team has any material present or contingent interest in the outcome of the Study, nor do they have any pecuniary interest or other interest that could reasonably be construed as having the capability of affecting their independence or that of us.

LCH has no prior association with the Company regarding the Controlled Property, nor does the Company have any beneficial interest in the outcome that could be construed as having the capability of affecting its independence.

LCH's fee for the completion of the Study is based on its standard professional hourly and daily fees plus reimbursement of all out-of-pocket expenses. The payment of these fees is not contingent in any fashion upon the outcome of the Study.

Estimates of mineral reserves and resources and of mining and processing performance are projections based on the best information available to the estimator and on the estimator's experience. Such projections are thus forward-looking statements as the term is used in the securities industry and, by their nature, can be expected to differ from actual performance.

The ultimate differences between such projections and actual performance are a result of some combination of the inherent uncertainties associated with the interpretation of physical and analytical data; with variations in the ultimate implementation and execution of mining and processing plans; with the ability to meet construction and production schedules in response to a variety of factors such as labor supply, materials availability, economic conditions, weather, and others; with the availability of machinery and equipment; regulatory changes; and with market conditions.

The impact of possible variations in forward-looking statements and discussions of the risk in various aspects of the mining and processing operation that is the subject of the Study are discussed in more detail in the appropriate sections of the report.

We appreciate the opportunity to be of service to your company. Should you have any queries, please feel free to contact us and would be pleased to discuss our report with you in greater detail.

Yours sincerely,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph C. Ho
Managing Director

TABLE OF CONTENTS

SECTION I – INTRODUCTION

A. BACKGROUND

China Fortune Holdings Limited (hereinafter referred to as the "Company") is considering the acquisition of an interest in the Huangshi City Mt. Shizili Celestite Mine (hereinafter referred to as "Mt. Shizili Mine" or the "Controlled Property") of which is controlled and operated by 黃石市鍶發礦業有限責任公司 (translated as Huangshi City Sifa Mining Company Limited and hereinafter referred to as "Sifa Mining"). Sifa Mining holds the mining rights of the Controlled Property of an area approximately 0.62 square kilometers (or "sq. km." used in the report) lying in Huangshi City, Hubei Province, the People's Republic of China (hereinafter referred to as the "PRC" or "China"). Mt. Shizili Mine produces primarily celestite, a mineral from which the element strontium is derived, and lesser amounts of lead and zinc.

Figure 1 – General Location Map
Mt. Shizili Mine
Hubei Province, PRC

The Controlled Property is located approximately one kilometer from the Huangshi City Economic and Technology Development Zone on the outskirts of Huangshi City. It is approximately seven kilometers from the Huangshi City railroad station and a similar distance from the Changjiang navigation wharf on the Yangtze River. It is conveniently located for access to major neighboring cities via a good road system. The regional airport at the city of Wuhan lies approximately 90 kilometers (or "km" used in the report) by road from the mine.

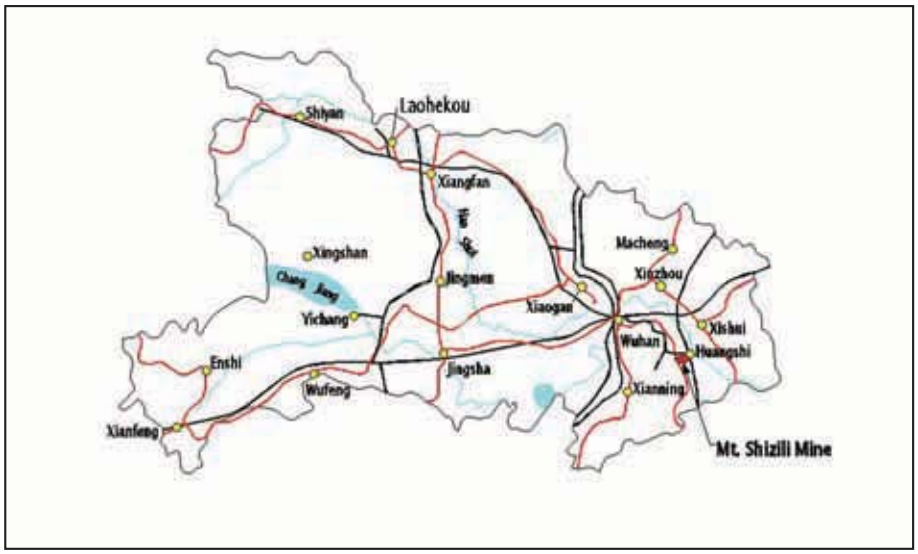


Figure 2 – Regional Location Map
Mt. Shizili Mine
Hubei Province, PRC

The Controlled Property forms part of the Mt. Shizili mining area and is near the major city of Wuhan on the Yangtze River. The region has been, and continues to be, a significant mineral producing area. Copper was produced and smelted in the vicinity of Daye in the province during the Song Dynasty (960 to 1279 AD).

The Mt. Shizili mining area lying from Zhang's Ancestral Temple on the east to Xiaojiapu on the west, and from Fujiazhuang Village on the south to Wuqi School Farm on the north. The area is administered by the Economic and Technology Development Zone of Huangshi City and Xialu District.

The geographical coordinates of Mt. Shizili mining area are: Longitude 114°59'49" – 115°02'00" and Latitude 30°12'06" – 30°12'48". It covers an area of about 4.53 square kilometers. Transportation by land and water to the mining area is very convenient.

The landform of this mining area is mountainous, hilly region. Its highest point – the peak of Mt. Shizili is 143.62 meters in elevation and its lowest point – Zhangjia Lake, at the northeast, is about 15.20 meters in elevation.

The mining area is very close to the center of Huangshi City, with developed economy, sufficient supply of water and electricity, highly concentrated mining and mill processing industries and affluent labor force. The aquaculture industry near the lake region is highly developed with a variety of fishes, shrimps and crabs produced.

Local miners worked the Mt. Shizili mining area from 1998 until 2000, at which time mining operations were terminated by order of the government. It was at this time that Sifa Mining was formed and proceeded to obtain the necessary government license to commence operations on the Controlled Property. This led to the development of the Mine (to be defined later in the report), which is currently extracting celestite ore and processing it at a nearby mill.

Mining is conducted by two contractors and only celestite ore was being processed at the mine's mill, with any lead/zinc ore recovered and trucked to a plant located in the neighboring town of Daye, where it is processed on a toll basis. We were given to understand that Sifa Mining having no ownership interest in these facilities.

B. SCOPE OF WORK

At the request of the management of the Company, LCH (Asia-Pacific) Surveyors Limited (hereinafter referred to as "LCH" or "we") was retained to prepare the Study of the Mine on behalf of the Company. The objectives of the Study were as follows:

- Describe the geologic characteristics of the mineral-bearing bodies and characterise them by type, dimensions, and grade.
- Conduct an assessment of the estimates of reserves and/or resources prepared by various geologic teams, considering anticipated dilution and mining recovery.
- Review and characterise the development and production plan currently in place at the Mine.
- Describe the current status of the development and production plan.

In accomplishing these objectives, the following tasks were conducted:

- An initial review of various geologic maps and reports pertaining to the Mine.
- A site visit to the mine and its environs and to the mill and ore processing currently processing the mine's production.
- A detailed review of geologic maps, drill holes, cross-sections, and reports.
- Construction of a computer-based geologic model to develop estimates of tonnage and grade.
- Preparation of a spreadsheet-based compilation of all assay data to assess the reasonableness of estimates of grade.
- A detailed review of various mine planning and commercial documents related to the mine's development and operation.

- Interviews at the site and by telephone with persons knowledgeable of the mine and the associated operations.

- The preparation of a report presenting the results of the Study.

The Study objectives and the tasks completed in accomplishing them comprise the Scope of Work.

C. STUDY TEAM EXPERIENCE

Members of the Study Team have been in business since late 1960's. The technical experts of the Study Team provide a broad range of services to both government and industry, including, but not limited to, services related to geology, mining, environmental, mineral economics and market research, acquisitions and divestitures, property management, appraisals, and litigation support and expert testimony. Most of the Study Team's members are based in the United States (U.S.) with members of the LCH having a broad range of international experience.

D. STUDY TEAM AND RESPONSIBILITIES

The Study Team consisted of the following persons, with individual project responsibilities as shown:

- **Joseph C. Ho, Registered Professional Surveyor (General Practice)**

  – B.Sc. – University of Reading

  – Pg.D. – University of Greenwich

  – Chartered Valuation Surveyor

  – Member of The Hong Kong Institute of Surveyors

  – Registered Business Valuer registered with the Hong Kong Business Valuation Forum

  – Valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors

  – He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996

– He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, coking coal plant, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, agricultural property assets, mineral resources, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, Singapore, Canada and the United States

– He has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, Australia, South East Asia, Scotland, Finland, Germany, Guyana, Canada and the United States for various purposes since 1988

– He has experience in conducting technical review of mineral resources/reserves and mining activities

Project Responsibilities – Project Coordinator, Conduct Site Visit and Responsible for Report Review

• **Alan K. Stagg, PG, AIMA – Principal Economic Geologist**

– B.S. – Geology, University of Tennessee

– Graduate Study – Geology, University of Tennessee

– Registered Professional Geologist – Alabama, Arkansas, Illinois, Indiana, Kentucky, New Hampshire, North Carolina, Pennsylvania, Tennessee, Texas, Utah, Virginia, Washington, and Wyoming

– Certified Minerals Appraiser by the American Institute of Minerals Appraisers

– 43 years experience in the mining industry, with particular emphasis on the exploration for and economic evaluation of mineral and fuel deposits and of mining operations. This experience includes a broad range of natural resources, including both base and precious metals; industrial rocks and minerals such as crushed and dimension stone, sand and gravel, a variety of clays, gypsum, phosphate, and trona; coal, and oil and natural gas

– Stagg has international experience in Australia, Canada, China, Mongolia, Russia, and South America

Project Responsibilities – Team Leader, Develop Task Assignments, Oversee Geologic and Reserve Assessment, Lead Professional in Report Preparation

- **John W. Wilson PhD – Associate Senior Mine Engineer**

  – B.Sc. (Hons) – Mining Engineering, University of Durham

  – M.Sc. – Mining Engineering, University of Newcastle-Upon-Tyne

  – Ph.D. – Mining Engineering, University of Witwatersrand

  – Program for Management Development – Harvard Business School

  – Member of the European Federation of National Engineering Associations

  – 48 years experience in the mining industry with particular emphasis on executive management, mine management, and mine engineering in metalliferous, coal, and aggregate mines, mining equipment companies, academia, and geotechnical consulting companies. Mine engineering experience includes mine feasibility studies, mine design and strata control, safety and health in mines, deep level hard rock mining, underground mine construction, and mechanisation in mines

  – Wilson has international experience in numerous countries, including Australia, China, Iran, South Africa, South America, and Russia, among others

  Project Responsibilities – Conduct Site Visit, Review Geologic and Reserve Assessment in Context of Mining, Conduct Operational Assessments, Participate in Report Preparation

- **Robert G. Dunn, PG – Associate Senior Geologist**

  – B.A. – Geology, Southern Illinois University

  – Graduate Study – Geology, Southern Illinois University

  – Registered Professional Geologist – Illinois, Kentucky, Missouri, and Tennessee

  – 40 years experience in the mining industry, with particular emphasis on the exploration for base metals deposits and the ongoing mapping, evaluation, and interpretation of base metals deposits in and associated with active mines. His experience at active mines includes annual ore reserve updating; budgeting; developing annual mine and pillar extraction plans; overseeing prospecting, drilling, and sampling; working with the mills to obtain blended ore; and monitoring monthly production goals. Dunn has worked extensively in the central and southeastern U.S. and in other areas of the U.S.

– Dunn has international experience in Ireland and Peru

Project Responsibilities – Conduct Site Visit and Reconnaissance Geologic Investigation, Develop and Implement Check Sampling Program, Participate in Geologic and Reserve Assessment, Participate in Report Preparation

- **Leonard J. Karr, PG – Associate Senior Mine Geologist**

– B.S. – Geological Engineering, Michigan Technological University

– M.S. – Geology, Colorado State University

– Certified Professional Geologist – American Institute of Professional Geologists

– 28 years experience in the mining industry, with particular emphasis on the exploration for precious metals deposits and the mapping, evaluation, and interpretation of precious metals deposits and active mines. His experience at active mines included exploration and grade control, the development and implementation of underground exploration programs, exploration budgeting, ore definition, and reserve estimation. His exploration experience includes the development and implementation of grass roots and advanced exploration programs in Latin America, the western United States, and southeast and central Asia

– Karr has international experience in Central America, China, Indonesia, Mexico, New Guinea, South America, and Thailand

Project Responsibilities – Participate in Geologic and Reserve Assessment, Participate in Report Preparation

- **Michael Ricci, PE – Senior Mine Engineer**

– B.S. – Mining Engineering, University of Kentucky

– Registered Professional Engineer – Kentucky, Ohio, Tennessee, Virginia, and West Virginia

– 26 years experience in the mining industry with particular emphasis on geologic and mine modeling. Ricci was proficient in the early use of the CPS® software package, followed by extensive experience with CAMERA®, a DOS-based modeling software that ran with AutoCAD® as the graphic front end. Upon the purchase of CAMERA® by Carlson Software, Ricci became actively involved in the development of the Advanced Mining Module of SurvCADD,® and continued his involvement with Carlson by working with the developers of two additional modules

Project Responsibilities – Perform Geologic Modeling, Participate in Report Preparation

- **Scott Jack – Senior CADD Operator**

  – A.A.S. – Architectural Drafting Technology, West Virginia State University

  – A.A.S. – Computer-Aided Drafting and Design, West Virginia State University

  – 17 years experience in the natural resource industry with an emphasis on computer-aided drafting and design in support of reserve estimation, mine design, and mine sequencing and scheduling

  Project Responsibilities – Map Preparation and Assist in Geologic Modeling

- **Elsa Ng Hung Mui – Registered Professional Surveyor (General Practice)**

  – B.Sc. – The University of Hong Kong

  – M.Sc. (Finance) – The Chinese University of Hong Kong

  – Chartered Valuation Surveyor

  – Member of The Hong Kong Institute of Surveyors

  – Valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors

  – Over the length of her valuation experience, she has valued and managed the valuation of a number of mineral resources industry related projects for fund raising, financial reporting and initial public offering in Singapore.

  Project Responsibilities – Project Co-ordination and Financial Modeling

E. SITE VISIT

As a part of the Study, a site visit to the mine and its environs was conducted by Joseph C. Ho, Terry C. Fung and Sam S. Lai during the period between 5 July and 18 July 2007. A further visit was conducted by Robert Dunn, John Wilson and Vivian W. Ting together with our interpreters during the period 21 August through 24 August 2007 (the "Site Visit"). During these visits, the inspection team was accompanied by the management of the Company and Sifa Mining.

During the Site Visit, the Study Team conducted reconnaissance trips across the area, visited the mine and conducted underground inspections, and conducted a sampling program. Interviews were conducted with persons knowledgeable of the deposit and the Mine as well as mining-related activities in the Mt. Shizili mining area, and documents were obtained and reviewed.

F. SOURCES OF DATA

The primary sources of data were a series of reports, maps, and geologic data provided by the management of the Company and Sifa Mining including the following that were of particular importance.

- Notice of Hubei Province Geology and Mineral Bureau on Releasing Review Comment about Geologic Survey Report on Hubei Province Huangshi City, Mt. Shizili, Mt. Fengli Pb-Zn-Sr Mine (1994)
- Geological Report of Universal Investigation on Lead, Zinc and Strontium (Sr) Ores – Mt. Shizili, Mt. Fengli in Huangshi , Hubei Province (January 1994)
- Overview of Huangshi City Sifa Mining Industry Co., Ltd., Mt. Shizili Pb-Zn-Sr Mining Area (22 May 2007)
- Notice of Hubei Province Mineral Resource Commission on Releasing Approval Letter of Supplementary Geologic Report on Hubei Province Huangshi City Mt. Shizili Celestite (Sr) Mine I_2 Orebody (2000)
- View Point on Celestite Exploitation in Mt. Shizili, Hubei Province (January 2002)
- Supplementary Geological Report on I_2 Orebody of Celestite Mine in Mt. Shizili, Huangshi City, Hubei Province, China (May 2000)
- The Final Report of Surveying the Resource Reserve in the Mining Area of Mt. Shizili in Huangshi City of Hubei by Southeast Hubei Geology Brigade (August 2007)
- The Final Report of Surveying the Resource Reserve in the Mining Area of Mt. Shizili Supplement (August 2007)
- Geologic maps of the Mine and the Controlled Property
- Records of various drill holes including assay data
- Map showing the extent of workings in Mine.
- A series of conceptual cross-sections through the mineralised bodies associated with the Mine.

G. ORGANISATION OF REPORT

The contents of the report presented herein are summarised below.

- ***Section I – Introduction*** – contains a brief background of the proposed project and presents the scope of work, methodology, Study Team, sources of data, and results of the site visit.

- ***Section II – Resource/Reserve Classification Systems*** – contains discussions of China's Solid Minerals Resource Classification (GB/T 17766-1999) and of the more widely used resource classification systems known as the JORC Code.

- ***Section III – Geologic Framework*** – contains brief descriptions of the physiography, structure, and stratigraphy of the region and of the Mt. Shizili mining area.

- ***Section IV – Reserve/Resource Assessment*** – presents China's exploration standards, discusses the exploration history and results of this work for the Mt. Shizili mining area, and assesses the tonnage estimates prepared by the Mine's owner.

- ***Section V – Development and Production Overview*** – addresses mine design, mining methods, prospecting and mine development, and a variety of issues related to the extraction of ore and the operation of the Mine.

- ***Section VI – Milling and One Processing*** – presents brief discussions of these processes, both of which are provided by second party operators.

SECTION II – RESOURCE/RESERVE CLASSIFICATION SYSTEMS

A. INTRODUCTION

The geologic assessment of mineral reserves and resources is a critical analysis resulting in a judgment of the geologic nature, significance, status, quality, and potential of the reserves and resources in the area under consideration.

The estimation of mineral reserves and resources is a process by which all information available from the area studied is used to define the extent, quality, and estimated tonnage present in the deposit(s) under consideration.

B. MINERAL RESOURCE CLASSIFICATION SYSTEMS

A number of mineral resource and reserve classification systems are in use throughout the world. In China, the system in use is the *Solid Minerals Resource Classification* (GB/T17766-1999). Of particular relevance in the international sphere for work conducted in China is the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves,* prepared by The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, generally known as the "JORC Code."

The purpose of the majority of such systems is to provide a defined framework within which public reporting of information regarding coal resources and reserves is to be made. For example, conformance with the JORC Code is required for public reporting in Australia and New Zealand. It should be noted that no classification system is required by the Stock Exchange of Hong Kong, the venue in which public reporting related to the Study is to be made.

Most systems address two basic aspects of resource/reserve classification-the level of geologic assurance and the level of economic viability of the tonnage being estimated. Accordingly, the definitions of terms used in each system incorporate each of these aspects.

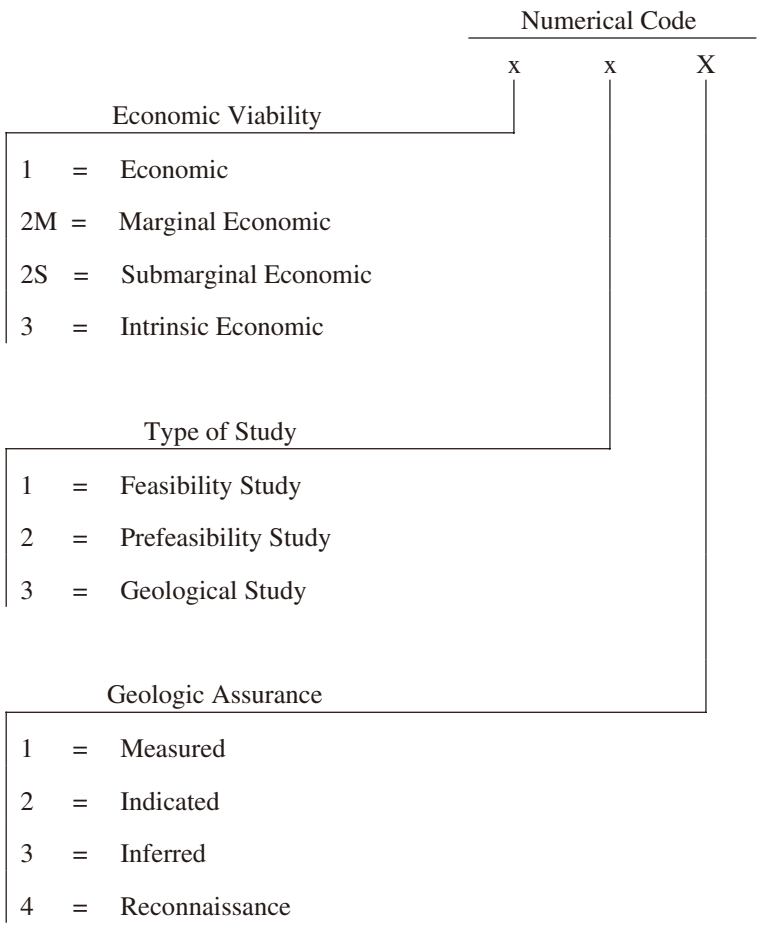
In the Chinese system, deposits are typically placed in one of three classes, based on the technical aspects of their mining condition. These three classes are as follows:

- Class 1 – Simple mining technical condition.
- Class 2 – Medium mining technical condition, further divided as follows:
  - Type 1 – Engineering geology and environmental geology simple but with hydrogeologic problems.
  - Type 2 – Environmental geology and hydrogeology simple but with engineering geologic problems.
  - Type 3 – Engineering geology and hydrogeology simple but with environmental geologic problems.
  - Type 4 – At least two of engineering geology, environmental geology, and hydrogeology being medium to complicated.
- Class 3 – Difficult mining technical condition.

In China's *Solid Minerals Resource Classification*, a three-number code is used to denote the level of geologic assurance and the level of economic viability, such as 121 or 333. These numerical codes incorporate three aspects of a coal deposit as determined from the study that has been conducted-economic viability, type of feasibility study, and level of geologic assurance. The numerical codes are defined in Figure 3.

Accordingly, a code of 121 means the tonnage is classified a measured economic resource based on a prefeasibility study, with a code of 333 meaning the tonnage is classified an inferred intrinsic economic resource based on a geological study.

Figure 3 – Definition of Numerical Code
China's *Solid Minerals Resource Classification*



In establishing the level of **geologic assurance** in the systems cited above other than the Chinese system, either two or three modifiers are typically used, depending on the system. It should be noted that geologic assurance not only refers to tonnage estimates but also to quality characteristics. The highest level of geologic assurance typically uses the qualifying adjectives *Proved* or *Measured*, with the next lower level using the terms *Probable* or *Indicated* as the qualifying adjective. Each system provides a definition of the criteria required for each designation, with the primary component involving the distance between data points and their two-dimensional relationship.

Suitable distances between data points can vary considerably, depending on the thickness and lateral continuity of the coal seam under consideration and on depositional and structural features unique to that seam.

In establishing the level of **economic viability**, the terms *Resources* and *Reserves* are the key terms generally used. Definitions excerpted from the JORC Code adequately reflect the typical meanings of these two terms.

Resource

- JORC Code –

  – *Mineral Resources* – 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.

Reserve

- JORC Code –

  – *Ore Reserve* – 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 the 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 summary, **resources** are considered to be potentially economic to extract, although this has not been determined at the date of the estimate, and their estimation is based on geologic knowledge. Various degrees of geologic assurance are applied to resource estimates.

Similarly, estimates of **reserves** are based on geologic knowledge. However, a number of additional criteria must be met, including the ability to extract economically as well as meeting legal, environmental, and a number of other factors. These criteria include the development of a detailed and specific mine plan and the preparation of a feasibility study that establishes the technical, economic, and legal viability of mining the deposits.

SECTION III – GEOLOGIC FRAMEWORK

A. REGIONAL GEOLOGY

The Controlled Property lies a short distance to the west of the Yangtze River valley on the western Yangtze platform fold belt of the Yangtze meta-platform and the Daye concave (Figure 4). The region generally comprises a triangle bounded on the northeast by the northwest-trending Xiangyang – Guangji fault system, on the south by the west-east trending Jilong Mount – Gaoqiao fault system, and on the northwest by the northeast-trending Lliangzi Lake fault system. The region is characterised by structurally complex geology associated with igneous intrusive activity.

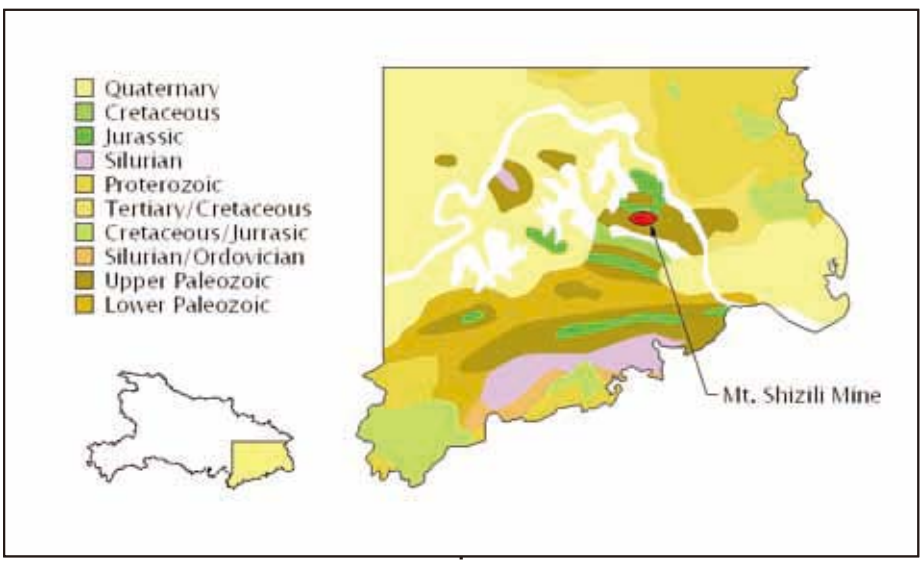


Figure 4 – Regional Geologic Map
Mt. Shizili Mine
Hubei Province, PRC

Regional stratigraphy predominantly comprises the Daye section of the Lower Yangtze subarea of the Yangtze area, with the strata ranging in age from Neoproterozoic to Cenozoic. Middle-lower Devonian strata and lower Carboniferous Series strata are absent.

A series of folds are present in the area, including the west-east trending Wangren – Baoan anticline, the Daye syncline, and the Yinzu antcline. Notable faults include the west-east trending Tieshan – Zhangshan system, the Maopu – Yangzin system, the northeast-trending Huangshi – Lingxiang system, and the Xialu – Jiangquiao system. These structures had a considerable role in the formation and location of mineral deposits in the region.

Two periods of significant igneous activity are recognised in the region, designated the Yashanian and Himalayan periods. Polymetallic deposits associated with this activity include those containing combinations of copper and iron; copper and gold; copper and molybdenum; copper, tungsten, and molybdenum'; and lead, zinc, and strontium. Nonmetallic minerals of note in the region include barite, calcite, celestite, diopside, feldspar, fluorite, gypsum, phosphorite, tremolite, and wollastonite. Industrial rocks present include clay, including kaolin, dolomite, granite, limestone, marble, and shale.

The area within which the Controlled Property lies is known as the Mt. Shizili mining area, in which there is an abundance of polymetallic deposits variously containing copper, iron, gold, silver, lead, and zinc and nonmetallic deposits containing limestone, dolomite, marble, and celestite. This mining area, which contains approximately 4.53 square kilometers, is a significant part of the mineralised zone along the middle and lower reaches of the Yangtze River and an important mineral producing area. Elevations across the mining area are in the general range of 15 to 145 meters (or m used in the report) above mean sea level, creating an area with low to moderate relief.

B. CONTROLLED PROPERTY GEOLOGY

The discussions below are based on information and knowledge obtained during the Site Visit, on reviews of published geologic information, and on reviews of documents obtained during the Study.

Stratigraphy – Rocks lying at the surface consist of Quaternary-age clay, clayey loam, sand, and gravel, and siltstone and shale of the Middle Triassic Puyin Formation. Occasional lenticular limestone beds are present within the Puyin Formation.

Sedimentary rocks in the subsurface consist of the following in descending order.

Middle Triassic

- Puyin Formation – consists of siltstone and shale with local interbeds of lenticular limestone. Although the units original thickness was likely on the order of 680 meters, only remnants remain as a result of erosion and intrusive activity.

Middle and Lower Triassic

- Jialing River Formation – consists of thin to moderately bedded dolostone and calcite dolostone. Bands of textured pseudocrysts of gypsum are present throughout the unit and well-developed salt breccias are present. This unit comprises the wall rock of a number of mineralised bodies in Groups I and II on the Controlled Property.

Lower Triassic

- Daye Formation –

  – 4th Lithologic Section – consists of massive to medium-bedded limestone in the basal portion, medium-bedded dolomitic limestone and local bioclastic limestone in the middle portion and medium-bedded oolitic limestone in the upper portion. This unit comprises the wall rock of the mineralised bodies in Group III on the Controlled Property. The unit is around 240 meters thick.

  – 3rd Lithologic Section – consists of thinly bedded argillaceous limestone, locally with stylolitic structure. Stylolites are filled with clay, carbonaceous material, and dolomite. This unit, which comprises the wall rock of the mineralised bodies in Group IV, is the lowest unit reached by drilling on the Controlled Property. The unit is around 235 meters thick.

The Mt. Shizili mining area is dominated by an intrusive quartz diorite porphyrite of Late Yanshanoam Phase, second and third incursions, which intruded between the Puyin and underlying Jialing Formations at shallow depths. This body, which lies in parallel unconformable contact with the two formations, is highly fractured and altered, exhibiting intense silicification, seriticization, and kaolinisation. The body masks an underlying broad anticline, the axis of which crosses the mining area in an east-northeast direction. Iron-rich caps associated with the intrusion have been mapped along the outcrop.

Structure – The most significant structural feature associated with the mineralisation in the Mt. Shizili mining area is the blind anticline that lies beneath the quartz diorite intrusion. Drilling has intersected the stratigraphic contacts in the sedimentary rocks beneath the intrusion. This allows the orientation of the axis of the anticline and the attitude of its limbs to be established and mapped. A number of faults have been identified across the Controlled Property, designated F1, F2, and F3 by previous workers. F1 is a north-northeast-trending and thought to be a strike-slip fault, with the west side moving south relative to the east side. F2 essentially strikes in a west-east direction with the dip being 75 to 80 degrees to the south. This fault is offset by F3, which strikes to the north-northeast and which is also considered to be a strike-slip fault. Movement is interpreted as being to the north on the west side relative to the east side, the opposite of F1.

Mineralised Bodies – Two types of mineralised bodies have been identified on the Controlled Property mining area -gold and strontium-lead-zinc. Twenty-five gold-bearing bodies have been delineated, the majority of which are located at the surface and in the near-subsurface in an east-northeast-trending fault zone hosted by diorite and quartz diorite. These bodies variously occur as irregular veins and lenses, with dip typically being to the north-northwest. Gold content has been reported to be in the range of 1.16 to 15.40 grams per ton ("gpt"). The largest of the bodies that has been identified, designated No. 12, lies in the central portion of the Controlled Property. A portion of these bodies have been mined at the surface, and the grade and quantities of gold contained in the remaining bodies is insufficient to allow their economic exploitation by any type of mechanised method. Additionally, it is the Study Team's understanding that surface mining is no longer permitted on the Controlled Property.

The combined grouping of strontium-lead-zinc-bearing bodies identified on the Controlled Property area contain three different basic mineral assemblages, characterised by the Study Team as follows:

- Sr Ore – Those portions of the deposits containing the mineral celestite ($SrSO_4$), which is mined for its strontium content, with negligible or no detectable lead and zinc content.

- Sr-Pb-Zn Ore – Those portions of the deposits containing predominantly celestite with associated lead and zinc content.

- Pb-Zn Ore – Those portions of the deposits containing only lead and zinc.

These bodies have been placed in four groups by previous workers, numbered I through IV, with 155 discrete bodies having been delineated. These bodies occur in the subsurface, some at depths of more than 500 meters below the surface. Brief discussions of the four groups of mineralised bodies are presented below. For ease of discussion, elevations are expressed in terms of distance above or below sea level, using the 100-meter designation of levels as done by previous workers and as currently used at the Mine. For example, the 0 m level lies at sea level, with the +100 m. level being 100 meters above sea level and the -100 m. level being 100 meters below sea level.

- Group I – This is the largest group, consisting of 25 bodies of differing size generally occurring above the -100 m. level in the eastern portion of the mining area. The Mine is developed in the I_2 Ore Body, the largest of the mineralised bodies identified in the mining area. Mineralisation is generally associated with the contact between the quartz diorite porphyrites and the silty claystone of the Puyin Formation and the dolostone of the Jialing River Formation. Mineralisation is predominantly celestite, with local lead and zinc-bearing occurrences. The I_2 Ore Body is the subject of the Study.

- Group II – This group consists of 95 bodies of differing size generally occurring between the 0 m. and -400 m. levels in the eastern portion of the mining area. Mineralisation occurs within the Jialing River Formation within favorable strata and fracture zones that form between the sedimentary layers. It extends to the contact with the underlying Daye Formation, where the dolostone of the lower Jialing River Formation rests on the limestone of the upper Daye Formation. Mineralisation is predominantly celestite, with lesser lead and zinc-bearing occurrences.

- Group III – This group consists of 32 relatively small bodies lying in the east-central portion of the mining area between the -200 m. and -600 m. levels. Mineralisation occurs within the 4th Section of the Daye Formation as lenticular bodies associated with fracture zones that form between stratigraphic layers. It is predominantly lead and zinc, with lesser amounts of celestite.

- Group IV – This group contains three small bodies lying between the -500 m. and -700 m. levels within limestone of the Daye Formation. Mineralisation is predominantly lead and zinc.

C. I_2 ORE BODY GEOLOGY

Mining activities controlled and operated by Sifa Mining are developed in the I_2 Ore Body and where a mine is developed (hereinafter referred to as the "Mine"), which extends in an east-northeast direction across the eastern portion of the Controlled Property for a distance of around 600 meters. The I_2 Ore Body has irregular configuration, with much of the western and central portion of the body being a discrete, massive deposit in the rough form of an inverted V. To the east, the body loses its continuity and is represented by small mineralised bodies above and below that appear to represent divergence and diminution of mineralisation from the main body.

In the Study, the I_2 Ore Body has been divided into three units by the Study Team, representing the primary mineral assemblage in each. These units are designated as follows in descending order of their relative position within the I_2 Ore Body.

- Unit I_2A – The predominant mineralisation in this unit is celestite, with there being no significant lead and zinc content.

- Unit I_2B – On the central and eastern portions of the body, the center of this unit contains significant lead and zinc content in conjunction with celestite, which the Study has designated Unit I_2B_2. Above and below this ore zones containing only lead and zinc, which the Study Team has designated I_2B_1, and I_2B_3, respectively.

- Unit I_2C – The predominant mineralisation in this unit is celestite, with there being no significant lead and zinc content. To the east, it appears that this unit is represented by small mineralised bodies lying below Unit I_2B, which appear to represent ore shoots that diverge from the main body and which die out further to the east.

Figure 5 illustrates the conceptual relationship of these three units and the configuration of the I_2 Ore Body from West to East.

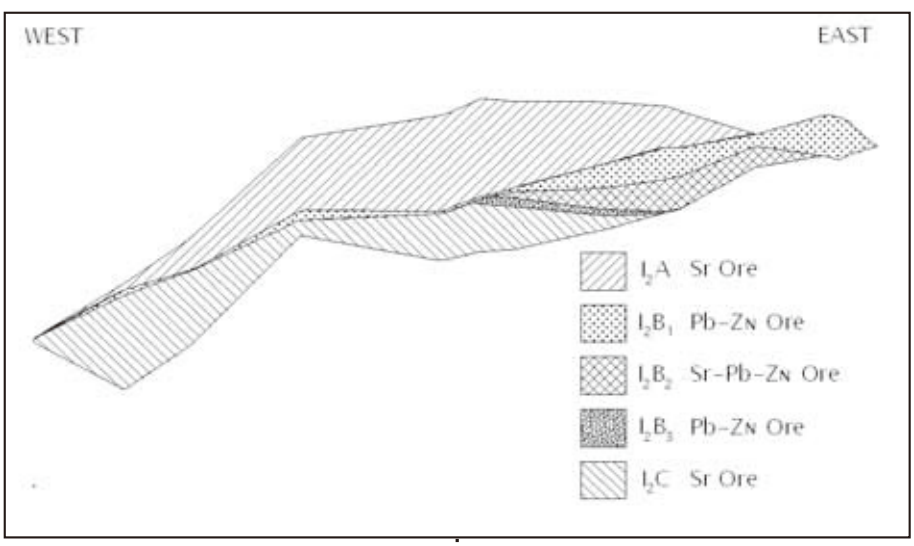


Figure 5 – Conceptual Cross-Section
I2 Ore Body – View to North
Mt. Shizili Mine
Hubei Province, PRC

The predominant ore being produced from the Mine is celestite from the western portion of the of the I_2 Ore Body, with ore currently being extracted from the 0 m. level and above. Where observed during the mine visit, the ore consisted of massive celestite, with both the ore and the unmineralised wall rock being brecciated. No sedimentary features were observed, although a coating of dust from mining and the closely spaced nature of mine roof supports made direct observation of the wall rock difficult. During the visit, the mine's chief engineer stated that dolostone was present below the floor in areas. The relationship of mine development to the body is illustrated in Figure 6.

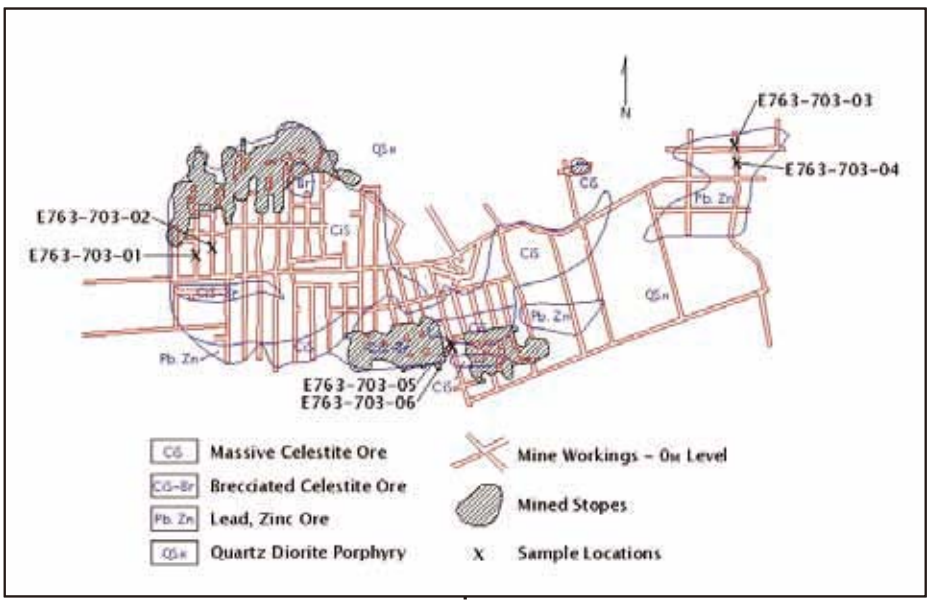


Figure 6 – Plan View of Mine Workings
0 Meter Level
Mt. Shizili Mine
Hubei Province, PRC

The predominant ore-hosting strata and preferred wall rock for lead, zinc, and strontium mineralisation at the Mine are carbonates in the Lower Triassic Daye Formation and in the Middle and Lower Triassic Jialing River Formation. The predominant ore-forming mechanism was the introduction of lead, zinc, and celestite mineralisation during episodic emplacement of magma in the Late Yanshanian Period.

During the initial phase, diorite porphyry was emplaced, followed by a second phase in which quartz diorite porphyry was emplaced. These episodes resulted in the formation of the Mt. Shizili anticline, which is capped by the intrusive igneous rocks and thus can't be discerned at the surface. Fracturing and brecciation along the axis of this anticline and the creation of fracture zones between various sedimentary strata in the adjoining rocks are the predominant controlling factor in the formation of ore, with the highly irregular contact between the intrusion and the fractured carbonate rocks being the most important setting for massive, high-grade strontium ore. Generally, the larger the fracture zone, the larger the ore body.

The conceptual relationship of the I_2 Ore Body and associated mineralisation to the surrounding rocks is illustrated in Figure 7.

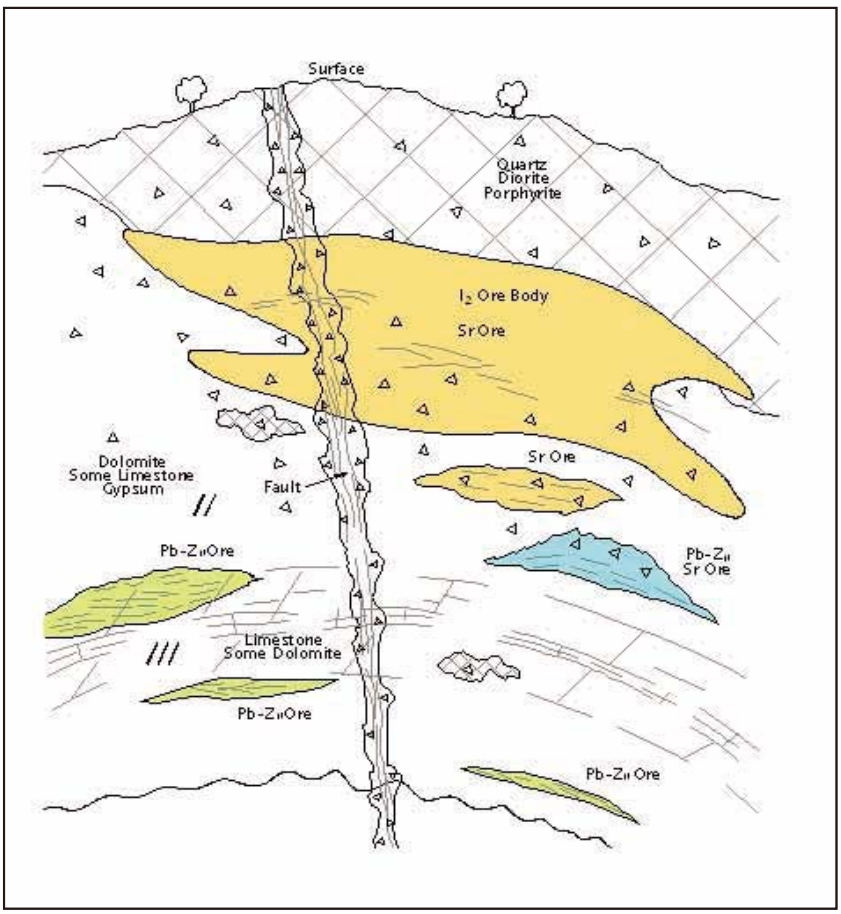


Figure 7 – Conceptual Relationship of I_2 Ore Body and Associated Mineralisation
Mt. Shizili Mine
Hubei Province, PRC

Lead and zinc are present in the celestite ore as galena (PbS) and sphalerite (ZnS), respectively, in a relatively thin zone extending through the middle of the ore body over portions of the Mine. Local, relatively high-grade occurrences containing only these two minerals, discussed previously, have been identified in the southwest corner of the Mine, in the eastcentral portion, and in the northeast portion. Additionally, lead and zinc are locally present as the oxidised minerals cerusite ($PbCO_3$) and smithsonite ($ZnCO_3$).

Geochemical analysis – During the mine visit, nine samples were taken to check the tenor of the mineralisation and to check for important by-product metals associated with the celestite and lead-zinc mineralisation. The sampling and analysis program and the methods used were designed to provide a "finger print" of the trace element content of the samples and to verify the presence of the primary metals that are to be recovered. The sample locations are as follows:

Underground Mine Samples

- These samples, which were taken by mine personnel in conjunction with Dunn, consist of two-meter long chip samples taken at breast height.

  – Two samples of celestite ore taken at crosscuts on the 0 m. level near the ore loading area in the western portion of the Mine. Samples numbered E763-104-01 and -02.

  – Two samples of lead-zinc ore taken by the mine engineering staff at a crosscut and along the adit sidewall on the 0 m. level in the northeasternmost portion of the Mine. Samples numbered E763-104-03 and -04.

  – One sample of celestite ore taken by the mine engineering staff north of a fault along an adit sidewall on the 0 m. level in the southcentral portion of the Mine. Sample numbered E763-104-05.

  – One sample, thought to be of waste rock (intrusive material), taken from a fault along the adit sidewall on the 0 m. level near sample -05 in the southcentral portion of the mine. Sample numbered E763-104-06. The results of the sample analysis showed this sample was not in waste but in celestite ore.

  The locations of these sample are shown on Figure 6.

Drill Core Samples

- One sample of celestite ore taken by Dunn from Drill Hole ZK1604 at a depth of approximately 50 meters. Sample numbered E763-104-07.

Mill Samples

- One sample of celestite "fines" concentrate from the stockpile at the mill taken by Dunn. Sample numbered E763-104-08.

- One sample of selected chunks of celestite from mine-run feed to the mill taken by Dunn. Sample numbered E763-104-09.

Samples were divided into three splits, two of which were retained by the Study Team at its office. The third split was sent to Activation Laboratories, Ltd. in Ancaster, Ontario, Canada ("Activation"). After crushing, splitting, and pulverizing, analyses were conducted using Activation's Code 4E Research – Total Identification package, a unique system employing inductively coupled plasma ("ICP"), instrumental neutron activation analysis ("INAA"), inductively coupled plasma-mass spectrometry ("ICC/MS"), and X-ray fluorescence ("XRF") technologies to completely characterise geologic samples.

Samples that were out of Code 4E range were assayed. This included three zinc samples and seven strontium samples, which were assayed using Activation's Code 8 – Assay package. ICP/OES analysis was used for the zinc samples and FUS/ICP analysis was used for the strontium samples.

The analytic methods that were used provided results for a large number of elements and oxides, including elements believed to be of significance for the Mt. Shizili mining area. These elements include gold (Au), silver (Ag), cadmium (Cd), arsenic (As), uranium (U), lead (Pb), zinc (Zn), barium (Ba), iron (Fe) and strontium (Sr). Silicon dioxide (SiO_2) content was also determined. The basis for determining these elements is as follows.

- Strontium, in the form of the mineral celestite ($SrSO_4$), is the primary mineral of economic interest in the Mt. Shizili mining area.

- Lead and zinc are metals that are of secondary interest in the Mt. Shizili mining area, occurring both as primary minerals and as oxidised minerals.

- Gold, silver, and cadmium are considered to be potentially beneficial secondary by-products.

- Barium, in the form of the mineral barite ($BaSO_4$) can be a contaminant if it exceeds two to four per cent. in the strontium ore concentrates.

- Arsenic, cadmium, lead, and uranium can create potential environmental concerns.

- Silicon dioxide was determined because of its reported association with gold.

Analytic results are reported in parts per billion ("ppb") for gold and in parts per million ("ppm") for the other elements with the exception of sulfur, assayed zinc, and oxides, which are reported as percentages. It was concluded from the analytic data that barium is present primarily as the mineral barite and the strontium is present primarily as the mineral celestite. The identification of specific minerals in the deposit would require other methods, such as X-ray diffraction or microscopic examinations of thin sections and polished sections of samples. This can be a complex effort.

A summary of the imported content of barite, celestite, and iron in the samples taken during the Site Visit is present in Table 1.

Table 1 – Imputed Content
Barite, Celestite, and Iron
LCH Samples
Mt. Shizili Mine
Hubei Province, PRC

Sample ID	Percentage by Weight $SrSO_4$	$BaSO_4$	Fe
E763-104-01	79.29	5.27	0.23
E763-104-02	67.51	5.44	0.94
E763-104-03	2.79	2.91	13.71
E763-104-04	0.68	1.44	11.16
E763-104-05	62.44	4.76	2.59
E763-104-06	76.52	5.95	1.31
E763-104-07	73.49	9.68	9.10
E763-104-08	81.05	5.10	1.13
E763-104-09	90.63	5.44	0.06

The detailed results of the analyses are presented in Addendum A.

SECTION IV – RESERVE/RESOURCE ASSESSMENT

A. EXPLORATION STANDARDS

Based on China's technical standards, exploration is generally divided into four stages, as follows:

- Reconnaissance –

This level of work identifies areas of enhanced mineral potential on a regional scale based primarily on the results of a variety of tasks, including geological studies, regional geologic mapping, airborne and indirect methods, preliminary field inspection in addition to geologic inference and extrapolation. The objective is to identify mineralised areas worthy of further investigation towards deposit identification. Estimates of quantities should be made only if sufficient data are available and when an analogy with known deposit(s) of similar geologic character is possible, and then only on an order-of-magnitude basis.

- Prospecting –

This level of work comprises a systematic process of searching for a mineral deposit by narrowing down areas of promising enhanced mineral potential. The methods utilised are outcrop identification, geological mapping, and indirect methods such as geophysical and geochemical studies. Limited trenching, drilling, and sampling may be carried out. The objective is to identify a deposit that will be the target for further exploration. Estimates of quantities are inferred, based on interpretation of geological, geophysical, and geochemical results.

- General Exploration –

This level of work involves the initial delineation of an identified deposit. Methods used include surface mapping; widely spaced sampling, trenching, and drilling for preliminary evaluation of mineral quantity and quality (including mineralogical tests on a laboratory scale if required), and limited interpolation based on indirect methods of investigation. The objectives are to establish the primary geologic features of the deposit, give a reasonable indication of continuity, and provide an initial estimate of size, shape, structure, and grade. The degree of accuracy should be sufficient to allow a decision to be made as to whether a prefeasibility study and detailed exploration are warranted.

- Detailed exploration –

This level of work involves a detailed three-dimensional delineation of a known deposit achieved through sampling, such as from outcrops, trenches, drill holes, shafts, and tunnels. Sampling grids are closely spaced such that size, shape, structure, grade, and other relevant characteristics of the deposit are estimated with a high degree of accuracy. Processing tests involving bulk samples may be required. A decision whether to conduct a feasibility study can be made from the information provided by detailed exploration.

B. EXPLORATION HISTORY

Geologic studies involving the Mine in which the deposit lies were initiated during the 1950's when geologic teams began organised mineral exploration in the area. Exploration methods were relatively simple and the work, which extended into the 1960's, was directed towards shallow iron ore deposits.

By the 1970's and 1980's, mineral exploration had entered a comprehensive phase that included research-based concepts of mineralisation theory and prediction. During this phase, lead-zinc and gold deposits were discovered in succession. In the mid- to late-1980's, the 601 Geology Brigade of Zhongnan Authority of China Metallurgical Exploration General Authority conducted a detailed survey of the gold deposit in the Xiaojiapu region. A report titled *Geology Report on the Gold Mine Deposit of Xiaopiapu in Huangshi City of Hubei Province* presenting the results of this work was submitted in 1992. A deposit in the Mt. Shizili mining area was outlined that contained gold, silver, and lead.

As additional exploration program was being conducted in the area in the mid-1980's by the Southeast Hubei Province Geology Brigade ("SHGB"). This program resulted in the discovery of a major celestite deposit during the search for deep lead and zinc mineralisation. This deposit was considered to be a potential mine that would require additional exploration. This work, subsequently conducted, was completed in 1992. The results were presented in a report titled *An Exploration Geology Report on Lead-Zinc-Strontium Deposits in Mt. Shizili – Fengli Mountain in Huangshi City of Hubei Province* and submitted in January 1994 (the "1994 Report"). This work essentially confirmed that an economically exploitable deposit of lead-zinc and substantial strontium was present at Mt. Shizili in the I_2 Ore Body. It became evident that mining would be conducted. It also became evident as a result of this work that a lead-zinc deposit that was discovered at nearby Fengli Mountain was of insufficient size to be of economic interest.

The results of this work were reviewed by the Hubei Province Geology and Mineral Bureau, with its review comment issued on 18 July 1994.

Additional work was required in order to justify exploitation of the I_2 Ore Body. This work, which was conducted by the Southeast Hubei Geological Brigade, had the following stated work purpose and objective. (paraphrased from the translated report).

- To use geologic information obtained from private mines to further block out the boundary of the I_2 Ore Body, improve engineering control, and explore for a certain ratio of Class C reserve.

- To use the drainage system from private mines to conduct pump tests in order to forecast hydrologic conditions of the I_2 Ore Body and use private mines to conduct engineering geology surveys and assess ground control issues.

- Conduct a systematic investigation of the impact of past mining on surface conditions.

- Conduct tests to determine the amenability of the ore to processing.

The results of this work were presented in a report titled *Supplementary Geologic Report on Hubei Province Huangshi City Mt. Shizili Celestite (Sr) Mine I_2 Orebody"* dated May 2000 (the "2000 Report"). The results of this work were reviewed by the Hubei Province Mineral Resource Commission Office, with its review comment issued on December 14, 2000. A summary of the approved tonnage estimates of strontium ore in the I_2 Ore Body is presented in Table 2.

Table 2 – Summary of I_2 Ore Body Reserve/Resource Estimates
As Of December 2000
Southeast Hubei Province Geological Team
Mt. Shizili Mine
Hubei Province, PRC
(000's metric tonnes unless otherwise noted)

Level	**Class**	**Quantity**	**Grade**	**$SrSO_4$**
>0 m.	C	108	68.41%	74
	D	1,096	59.70%	655
Subtotal	**C + D**	**1,205**	**60.50%**	**729**
<0 m.	D	2,685	51.90%	1,393
Total – I_2 Ore Body		**3,889**	**54.57%**	**2,122**

Source: *Approval Letter of Supplementary Geologic Report on Hubei Province Huangshi City Mt. Shizili Celestite (Sr) Mine I_2 Orebody, December 2000*

Note: Numbers may not add because of rounding.

C. RESULTS OF FINAL EXPLORATION

The final step in the evaluation and exploitation of the I_2 Ore Body involved a review and evaluation of all exploration data for all bodies, including data gathered subsequent to the presentation of the 2000 Report, and the preparation of a final report. This work, which was commissioned by Sifa Mining, had the following stated purpose and tasks (paraphrased from the translated report).

- To summarise the data obtained in the prior phases of exploration and summarise the reserves at the strontium and gold deposits contained in the 1992 and 1994 Reports.

- To review and evaluate data obtained during subsequent exploration of the strontium deposit and prepare updated estimates of reserves and resources.

This work, which was begun in 2003, was completed in 2006 and issued in a report titled *The Final Report of Surveying the Resource Reserve in the Mining Area of Mt. Shizili in Huangshi City of Hubei* and dated August 2007 (the "2007 Report"). In this report, the additional exploration data that had been acquired zone used to prepare current tonnage and grade estimates for ore bodies I_2, I_{12}, I_{24-25}, and II_{92-96}. A summary of these estimates is presented in Addendum B. It should be noted that, as stated in the 2007 Report, the estimates for the I_2 Ore Body are for the original reserves and do not reflect tonnage that has been extracted in recent mining. No changes to the reserve/resource estimates for the Group III and Group IV deposits were made in the 2007 Report because there were no new data.

A summary of the various estimates of celestite ore in the I_2 Ore Body contained in the three reports discussed above is presented in Table 3.

Table 3 – Summary of Strontium Ore Estimates
I_2 Ore Body
1994, 2000, and 2007 Reports
Mt. Shizili Mine
Hubei Province, PRC
(000's metric tons unless otherwise noted)

	Estimate Date		
Item	**1994**	**2000**	**2006**
Ore	4,111	3,889	10,682
Grade (%)	55.21	54.57	50.30
$SrSO_4$	2,270	2,122	4,749

As a result of the field work, drilling, and underground mining that has been conducted to-date, the detailed exploration stage has been completed for a portion of the I_2 Ore Body, notably in the central and westcentral portions of the Mine. However, additional data are needed to more accurately define the I_2 Ore Body to the west of the active mine workings, where the I_2 Ore Body is present below the 0 m. level, and in the eastern portion of the mine, where the body appears to comprise a series of ore shoots that diverge from the main body and likely thin to extinction. The remainder of the work conducted to-date outside the central and westcentral portions of the Mine is thus considered to represent the general exploration stage.

It should be noted that in each of 1994, 2000, and 2007 Reports, problems regarding the concentration and recovery of the lead and zinc minerals is discussed, particularly the oxidised minerals. Poor quality concentrates, low recovery, and high costs are mentioned. Because the detailed mineralogy and the response to beneficiation of the lead and zinc-bearing portions of the I_2 Ore Body is not known with certainty, it would be speculative to attempt to forecast the results and the economics of recovering this material.

D. ASSESSMENT OF TONNAGE ESTIMATES

The 2007 Report was used as the basis for the Study Team's assessment of tonnage estimates for the I_2 Ore Body. In conducting this work, detailed reviews of the geologic data provided and of observations made during the mine visit were conducted first in order to gain an understanding of the configuration of the I_2 Ore Body.

The second step was to assess the reasonableness of the tonnage and grade estimates contained in the 2007 Report. This step was conducted using the Advanced Mining Module of SurvCADD®, a Windows-based geologic modeling program. The data available for the delineation of the deposit consisted of information obtained from the following series of drill holes:

- ZK1201
- ZK1202
- ZK1203
- ZK1204
- ZK1601
- ZK1602
- ZK1603
- ZK1604
- ZK1605
- ZK2001
- ZK2003
- ZK2004
- ZK2005
- ZK2401
- ZK2402
- ZK2403
- ZK2601
- ZK2602
- ZK2603
- ZK2801
- ZK2806
- ZK2807

These holes were generally drilled along exploration lines that extend in a north-northwest to south-southeast direction across and perpendicular to the strike of the I_2 Ore Body. The underlying exploration lines are spaced at approximate 100-meter intervals, although drilling was not conducted along all lines. The lines are identified by even numbers in ascending order to the east of a zero base line and by odd numbers in ascending order to the west of the zero base line. The zero base line lies to the west of the westernmost extension of the I_2 Ore Body.

Cross-sections were constructed along the exploration lines numbered 12, 16, 20, 24, 26, and 28. These line numbers are incorporated in the drill hole numbering system, as can be seen in the tabulation above. These cross-sections, which contain the lithologies and mineral occurrences of each of the drill holes, were used in the reserve assessment contained in the 2007 Report and are a part of that report.

The Cross Section Exploration Line 16 of Mt. Shizili Mine in Huangshi City is illustrated in Figure 8.

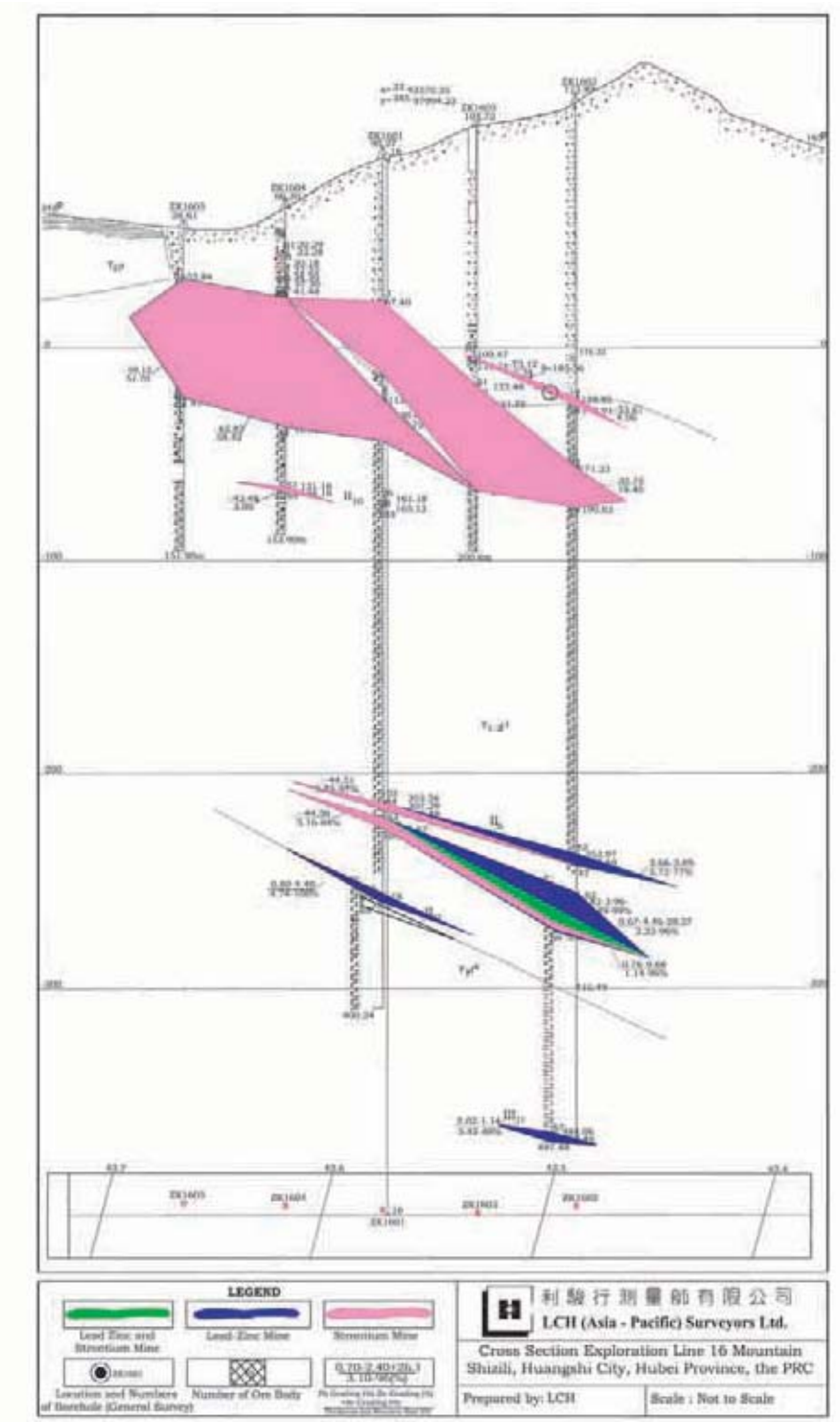


Figure 8 – Cross Section Exploration Line 16, Mt Shizili Mine, Huangshi City, Hubei Province, the PRC
(For illustration purpose only)

The vertical limits of the I_2 Ore Body can be reasonably established from the drill data, since each hole intersected the full thickness of the body. The lateral limits of the body cannot be defined with any degree of certainty, however, because, in most instances, the body extends beyond the last drill hole at either end of the cross-section. In constructing the cross-sections, it was assumed that the bodies thinned to extinction beyond the last drill intersection at a distance approximately equal to or less than the thickness of the vertical intercept of the body in that drill hole. It is thus possible that the body may be larger than indicated by these interpretations. These interpretations are reasonable for the purpose of estimating tonnage and grade, however, in that they limit the distance to which data are extrapolated and thus provide a relatively high degree of assurance. The data presented on the cross-sections were the basis for developing the model used in the SurvCADD® program.

Once the cross-sections had been entered into the model, vertical construction lines based on the drill holes and the cross-sections were placed at each endpoint, intersection, and inflection point from which the top and bottom elevation of the individual units within the I_2 Ore Body were established. The units were then modeled by constructing grids on one-meter spacing representing the top and bottom structure of the units. The gridding algorithm was triangulation using a global-trending routine for extrapolating grid points.

Upon completion of the modeling, volumes were calculated and converted to tonnes using bulk densities (see Note) based on the assumed mineral content of the volumes being estimated. The key assumptions in estimating bulk densities in the Study are that the dominant mineralisation in the I_2 Ore Body is celestite, with a specific gravity of 3.9, and that the specific gravity of the host rock is 2.66. The least-squares method equation used in estimating bulk density in the 1994 Report and the 2007 Report was used in modeling. This equation is as follows:

$$Y = 2.6602 + 0.0112X$$

In which :
Y is the bulk density of the ore
X is the $SrSO_4$ grade

The bulk density of the lead and zinc ore was assumed to be 2.82 tonnes per cubic meter.

The assumptions on cut-off points for grade are those used in the 2007 Report, summarised in Table 4.

Table 4 – Summary of Cut-Off Grades
Reserve/Resource Estimates
I_2 Ore Body
Mt. Shizili Mine
Hubei Province, PRC
(%)

	Pb		Zn		$SrSO_4$	
Ore Type	**Boundary**	**Industry**	**Boundary**	**Industry**	**Boundary**	**Industry**
Primary	0.30	0.70	0.7	1.3	15.0	25.0
Oxidised	0.70	1.50	1.5	3.0	15.0	25.0

Boundary = Lower limit of *low grade* material.

Industry = Lower limit of *economic* material

Note: Bulk density expresses the weight of a material per zone unit of volume, in this report expressed as tonnes per cubic meter.

In assessing the reasonableness of the tonnage and grade estimates presented in the 2007 Report for the I_2 Ore Body, increments of the I_2 Ore Body lying between pairs of cross-sections were modeled to yield estimates of the original volumes of material, excluding any extraction from mining. The estimates contained in the 2007 Report were developed in this fashion using a number of mathematical formulas to yield volumes. The pairs of cross-sections for which estimates were prepared are as follows, in a west-to-east direction:

- Section 28 – Section 26
- Section 26 – Section 24
- Section 24 – Section 20
- Section 20 – Section 16
- Section 16 – Section 12

The original volumes estimated in the LCH model and the original volumes presented in the 2007 Report were then compared. The results of this work are presented in Table 5.

Table 5 – Comparison of Incremental Estimates of Original Volumes
LCH Versus 2007 Report
Sections 28 to 12 – I_2 Ore Body
Mt. Shizili Mine
Hubei Province, PRC
(cubic meters)

Increment	**2007 Report**	**LCH**	**Variance**
Section 28 to 26	142,894	145,521	+1.84%
Section 26 to 24	197,096	212,493	+7.81%
Section 24 to 20	819,715	841,796	+2,69%
Section 20 to 16	1,060,708	1,033,979	-2.52%
Section 16 to 12	839,669	735,834	-12.37%
Overall	3,060,082	2,969,623	-3.00%

Source of 2007 Report Data = Table 4

A portion of the variance between pairs of sections is likely attributable to the methodology used in the 2007 Report, which appears to assume that all holes were drilled on an exploration line. However, based on the information provided the Study Team, it appears that not all holes were drilled on, or in close proximity to, an exploration line. This would not be an unusual circumstance, given that holes cannot always be located on the surface exactly where a plan may have them. In the LCH modeling, the volumes between exploration lines was computed based on the actual locations of the holes derived from the information provided. Any differences between adjacent increments resulting from differing locations of individual holes should be compensated for when considering the total area between the extremes of the I_2 Ore Body, and this appears to be the case, as evidenced by an overall variance of a negative 3.00 per cent.

A further test of the comparability of the estimates presented in the 2007 Report and the LCH modeling would be to review and compare estimates of tonnage and grade of the various ore types. Although an effort was made to do this, this was not possible because the various ore types in the 2007 Report are divided into segments between the exploration lines, with the definition of these segments not provided in the report. Accordingly, the Study Team was unable to make more than general correlations of the ore types and units that it developed with those used in the 2007 Report. It is the Study Team's opinion, however, that the substantial conformance of the two estimates of the volumes of material contained within the I_2 Ore Body provide support for the reasonableness of the tonnage and grade estimates prepared by the Study Team for the remaining ore.

The tonnage and grade estimates prepared by the Study Team reflect the ore that remains in the I_2 Ore Body outside the areas in which sublevel caving has been conducted. It is possible that scattered ore remains within these areas that will ultimately be recovered by sublevel caving at the next level developed below the 0 m. level. It is not possible from the information available, however, to prepare estimates of the tonnage of any such material that remains. No recovery or dilution factors have been applied to these estimates.

In preparing its estimates of tonnage and grade, the Study Team relied upon the extent of prior mining as delineated on maps provided by Sifa Mining. Additionally, it relied upon boundaries of the various ore-bearing units at the 0 m. level as delineated on maps provided by Sifa Mining.

The Study Team's estimates of remaining tonnage and grade are presented in Table 6.

Table 6 – Summary of Tonnage and Grade Estimates
As Of August 2007
I_2 Ore Body – Mt. Shizili Mine
Hubei Province, PRC
(000's metric tonnes unless otherwise noted)

		Pb		Zn		$SrSO_4$	
Ore Type	**Tonnes**	**Grade (%)**	**Tonnes**	**Grade (%)**	**Tonnes**	**Grade (%)**	**Tonnes**
>0 m. Level							
Sr	1,304	–	–	–	–	51.15	667
Sr-Pb-Zn	17	0.28	<1	4.96	<1	37.70	6
Pb-Zn	292	0.54	2	3.74	11	–	–
<0 m. Level							
Sr	7,108	–	–	–	–	44.22	3,143
Sr-Pb-Zn	491	0.27	1	5.18	25	37.77	185
Pb-Zn	787	1.02	8	5.34	42	11.06	74
I_2 Ore Body							
Sr	8,412	–	–	–	–	46.79	3,810
Sr-Pb-Zn	508	0.27	1	5.12	26	37.60	191
Pb-Zn	1,079	0.93	10	4.91	53	6.86	74

The detailed estimates are presented in Addendum C.

The tonnage estimates prepared by the Study Team are classified as follows using China's *Solid Minerals Resource Classification* (GB/T17766-1999):

- Tonnage contained in the Sr and Sr-Pb-Zn ore types lying above the 0 m. level is classified 122. This is considered by the Study Team to be equivalent to the classification of measured mineral resource in the JORC Code, although additional knowledge about and the inclusion of diluting materials and allowances for losses and a detailed feasibility study would allow this material to be classified a proved ore reserve.

- Tonnage contained in the Sr and Sr-Pb-Zn ore types lying below the 0 m. level is classified 2S22. This is considered by the Study Team to be equivalent to the classification of indicated mineral resource in the JORC Code.

- Tonnage contained in the Pb-Zn ore type is classified 2S22. This is considered by the Study Team to be equivalent to the classification of indicated mineral resource in the JORC Code.

A summary of the estimates by classification is presented in Table 7.

Table 7 – Summary of Tonnage
By Resource Classification
I_2 Ore Body – Mt. Shizili Mine
Hubei Province, PRC
(000's metric tons)

Ore Type	**122**	**2S22**
>0m. Level		
Sr	1,304	–
Sr-Pb-Zn	17	–
Pb-Zn	–	292
Subtotal	**1,321**	**292**
<0m. Level		
Sr	–	7,108
Sr-Pb-Zn	–	491
Pb-Zn	–	787
Subtotal	**–**	**8,386**
Total – I_2 Ore Body	**1,321**	**8,678**

All tonnage is considered to comprise a Class 2, Type 4 deposit, defined as having a medium mining technical condition with at least two of engineering geology, environmental geology, and hydrogeology aspects being medium to complicated. Further discussions of these issues are presented in Sections V and VI of the report.

In addition to tonnage in the I_2 Ore Body, additional tonnage was estimated in the 2007 Report in ore bodies I_{12}, I_{24}, and I_2 and in ore bodies $II_{92\text{-}96}$. The I_{12}, I_{24}, and I_{25} bodies were estimated to contain around 259 thousand tons of celestite ore with average grades in the range of 37 to 59 per cent. SrSO4 and around 357 thousand tons of lead – zinc ore with an average grade of 0.14 per cent. lead and 4.94 per cent. zinc. This tonnage was classified 333, and was not considered to be of economic significance at the date of the Study.

The $II_{92\text{-}96}$ bodies were estimated in the 2000 Report to contain around 361 thousand tons of celestite ore with average grades in the range of 26 to 40 per cent. celestite and around 16 thousand tons of lead-zinc ore with an average grade of 8.2 per cent. lead and 0.64 percent zinc. This tonnage was classified 333 and was not considered to be economic significance at the date of the Study. However, it is suggested that further investigation of the reported tonnage be conducted to determine if this is significant.

Additional tonnage was estimated in various groups in the 1994 Report. This tonnage, all of which is classified 333, is contained in a variety of small bodies that are considered not to be of economic significance at the date of the Study. However, it is suggested that further investigation of the reported tonnage be conducted to determine if this is significant.

E. REVIEW OF GOLD POTENTIAL

Gold has been reported and tonnage estimated for the Controlled Property in both the 1994 and 2007 Reports. Based on a review of the information in these reports, it appears that the mineralisation occurs as a series of discrete ore shoots within an east-northeast-trending fault zone hosted by diorite and quartz diorite. The ore shoots are thin, generally less than three meters in width; short, generally less than 100 meters in length; and steeply dipping. It is unlikely their vertical continuity will exceed their strike length. There has been mining of these deposits dating back to at least 1993, most, if not all, of which appears to have focused on shallow, oxidised ore exposed at the surface.

Gold is reported to occur as very fine grained free gold. This explains the favorable cyanide leach test results that have been reported, indicating gold recoveries of more than 80 per cent. What is not reported, however, is the relative proportions of oxide versus sulfide ore. Additionally, it is unclear if the gold occurs as free gold in the sulfide ore or if it is encapsulated in sulfide minerals such as pyrite and arsenopyrite. The latter is considered most likely. This has significant implications regarding the economics of mining this material because sulfide ores leach poorly, and none of the metallurgical data explicitly addresses gold recovery from the sulfide ore. It is also likely that the gold grades of the oxide ore are higher than those of the sulfide ores because of supergene enrichment. In summary, it is likely that recovery of gold from the sulfide ore will be considerably less than 50 per cent. and less than 60 per cent. from the oxide ore.

The amount of gold estimated amounts to 1,883 kilograms (60,566 troy ounces) at an average grade of 3.2 gpt (Table 3-1, 2007 Report). This is an extremely small amount, with even small operators typically requiring several hundred thousand ounces of low cost, metallurgically simple ore to justify development and mining. The amount of gold estimated for the Controlled Property is thus not worth developing by any sort of mechanised method, especially if the mining and metallurgical issues discussed above complicate the mining and recovery process. It is also likely that some portion of the gold estimated has been recovered by mining, particularly the largest deposit, the No. 12 body, which appears to be the deposit surface mined above the celestite mine. Mining economics would be further complicated by the fact that the geometry of gold-bearing veins would require underground mining, which is more costly than surface mining, and by the fact that surface mining apparently is not allowed on the Controlled Property.

SECTION V – DEVELOPMENT AND PRODUCTION OVERVIEW

A. MINE DESIGN ISSUES

The mine is divided into eastern and western districts where access to the celestite ore bodies in these districts is provided by two inclined shafts, one known as the East Shaft and the other the West Shaft. A vertical shaft also exists on the property, although this shaft is currently not in use. The bottom of both inclined shafts terminate at the 0 m. level (sea level) and are connected by a nominal 2 m. x 2 m. horizontal tunnel. This tunnel provides access to the ore bodies, the transportation of ore from the mine, the ventilation to the underground workings, and the removal of water from the mine workings.

The East Shaft is 180 meters long, has an inclination of approximately 17 degrees, and is concrete lined throughout its length. The West Shaft is 125 meters long, inclined at 23.5 degrees, and is randomly supported with timber and steel. Both shafts are equipped with electric hoists for hauling ore from the mine and for lowering empty mine cars to the loading points at the base of the inclines.

The Mine uses the sub-level caving method to mine the celestite ore. Development within the ore body consists of driving a series of parallel crosscuts or adits from the central tunnel connecting the two shafts to the extremities (boundaries) of the ore-body. The vertical interval between levels in a wide ore body such as this one ranges between 7 and 15 meters, depending on the tendency of the ore to cave. At the Mine, ore development and extraction has been completed at the +23 m. and +11 m. levels and mining is now taking place only at the 0 m. level. Thus the celestite ore between the 0 m. level and the overlying +11 m. level is currently being mined.

In order to minimise the dilution of the ore during caving operations, the crosscut adits are mined in sequence so that caving occurs at the working faces in an approximate straight line and caving follows the retreat mining in the crosscut adits.

The extraction of wide ore bodies (that is, greater than 25 meters) at relatively shallow depths (say, 100 meters), causes significant surface subsidence, manifested as sinkholes or large depressions on the surface. This process is evident at the Mine and attempts have been made to prevent access to the caved areas on the surface by displaying suitable warning signs.

These sinkholes or surface depressions create an additional hazard to the underground mining operations because of the effects of high rainfall across the general mining area. Mine management has recognised the potential for inrushes of water or mud resulting from heavy rains and has installed additional pumping capacity in the eastern and western areas of the mine.

The effects of the sub-level caving method used to extract celestite ore is also evident in the tunnels on the 0 m. level of the Mine. Substantial timber and steel supports are installed in almost all mine roadways on this level and the maintenance of damaged supports is required on a regular basis. These issues are discussed in more detail later in the report.

Mining operations on the 0 m. level will continue until the celestite and lead/zinc ore reserves between the +11 m. level and the 0 m. level are extracted and removed via the East and West Shafts.

The planned extraction of the ore-bodies below the 0 m. level will use the currently unused 4-meter diameter and 110-meter deep concrete-lined vertical shaft and another shaft (yet to be excavated) to provide a minimum of two accesses to the working places required for an underground mine. Lateral (horizontal) development tunnels connecting the two shafts will be required to service the sub-level caving operations in the ore-bodies to be mined at the planned elevations below the 0 m. level.

B. DILUTION AND MINING LOSS

In mining, **dilution** is the tonnage of material that is extracted falling below the economic cut-off grade for the mine. The material being extracted may contain the mineral being mined but not in sufficient quantities to be recovered economically by itself. Dilution is an important factor in determining the economic viability of a deposit.

Once a mineralised trend or zone has been defined sufficiently to be designated an ore body, a mining method is chosen to produce the maximum amount of ore to be recovered with minimum dilution. Mining methods such as block caving, sub-level caving, or room and pillar mining have characteristic dilution and recovery rates that are dependent on factors such as the mining depth, rock competency, ore type, and methods of internal mine support.

Self-supported openings or stopes are more selective and yield lower dilution rates than block caving methods. A high degree of control over what rock is broken as ore in self-supported openings develops dilution rates ranging from 5 to 15 per cent. and recovery rates ranging from 60 to 85 per cent. Caving systems rely almost entirely on the inherent ability of the rock to fracture. Features such as dykes, joint patterns, and heterogeneity control the caving and can add unwanted dilution. Excessive dilution during caving may result in an early termination of mining, in turn reducing the overall mine recovery. Dilution in excess of 15 per cent. is usually expected in block caving with extraction rates in the range of 85 to 100 per cent. Experience based on known mines is the best indicator for predicting dilution rates for different caving and other mining methods.

During mining operations, local rock characteristics and the efficiency of the chosen mining method have a direct effect on dilution. Highly fractured or incompetent roof and ribs do not support open stopes, adding waste to the mined ore. Unexpected ground problems, marginal-grade mineralised zones around the orebody, and crushed pillars, all add unwanted dilution.

Mining costs also increase when poor roof conditions must be supported by excessive timbering or other support techniques. Controlling and reducing dilution by increasing mining costs is profitable as long as the increased mining cost is equal or less than the economic effects of reduced dilution.

Dilution tonnage is usually estimated according to the quantity of waste mined with the ore, based on the mismatch between orebody and mining geometry, over break in blasting, or lack of accurate location of the ore-waste contact. Dilution grade is usually estimated as the grade of the waste at the ore-waste contact, and mining losses and grades are estimated according to similar procedures.

In order to minimise dilution, daily sampling at the working areas in a mine can provide ore grade control for each day's production. The mine's head grade can be watched closely to assure that the mill receives the proper grade of ore from the mine. The mine-head, can be monitored by taking grab samples from mine cars, trains or shipments of ore from the mine. The sample assays for a working day can be computed with respect to tonnages for a weighted average grade that should provide an approximate value for the mine-head grade.

Except under unusual circumstances and in relatively small areas, some **mining loss** occurs under any system. This loss may be pillars left in place to support the ground; pillars crushed before they can be recovered; pockets or extensions or ore made inaccessible for some reason; or a continuing, daily loss through ore becoming mixed with waste for one reason or another. As in the case of barren areas in the deposit, permanent pillars may be deducted by specific measurement. Other losses, continuing and unpredictable in nature, are accounted for better by discounting the overall tonnage figures than by attempting detailed deduction or by the use of higher cubic foot per ton factor.

Dilution, the additional tonnage mined in winning a previously estimated quantity of metal, is common to all caving methods of mining with the possible exception of top-slicing under most favorable conditions. The term *dilution* must be distinguished from *recovery*, the percentage of previously estimated economic metal content in the ore body actually extracted by the mining operations. When the ore limits within a mineral deposit are defined by an economic assay boundary, it is entirely possible, in mining, to recover 75 to as much as 110 per cent. of metal previously estimated, depending upon the dilution incurred. Dilution in this case brings in added tonnage of material of less than estimated cutoff grade, however, it nevertheless is tonnage containing metal. Thus some portion of the metal recovered may not be the identical metal on which the estimates were made.

In some cases, an apparent recovery of 100 per cent. may be attained but at a lower grade. A recovery of 100 per cent. with zero dilution represents maximum efficiency of operations. Dilution affects not only the mining costs, but also the selling price of the ore. This effect is most evident when barren waste comes in during mining to dilute the product. Dilution is a factor that should be considered carefully in estimating the value of an orebody adaptable to a caving system of mining.

At the Mine, the mining conditions are considered to be complex because of the potential of water or mud inrush hazards, geotechnical and mine support requirements, and irregularities in the shape of the ore bodies. These considerations have resulted in an estimated recovery rate of 70 per cent. of the ore reserves by the SHGB. Observations of the caved ore materials and the presence of material other than celestite at several underground headings in the mine shows that this estimate, which reflects dilution of the ore caused by weak blocky ground, appears to be reasonable.

Based on discussions with the mine management, it is estimated that additional dilution caused by mining, loading, transportation, and stockpile storage could amount to 10 to 15 per cent, even though hand-sorting of lump ore at each working face takes place in the mine and regular underground sampling of development headings and mined ore is practiced.

C. CELESTITE MINING METHODS

The selection of a mining method for extracting and recovering an ore is largely dependent on the physical conditions of the rock comprising and surrounding the ore body and on the geometry of the ore body itself.

The wide lens-shaped ore-bodies in the Mt. Shizili mining area and the prohibition of surface mining by the local governing authorities has resulted in the selection of the sub-level caving method to extract the celestite and the lead/zinc ore at the Mine.

The horizontal tunnel at the 0 m. level that commences at the bottom of the West Shaft is approximately 250 meters in distance from the bottom of the East Shaft. This tunnel, nominally 2 m. x 2 m. in cross-section and heavily supported with timber, is the primary roadway leading to the development of the celestite ore body currently being mined from the 0 m. level. Crosscut adits are advanced at 90 degrees to the north and south from the main east-west roadway and at 10-meter intervals until they reach the boundary or limit of the celestite ore body on the 0 m. level.

The sub-level caving method practiced at the Mine requires drilling and blasting of the ore between the 0 m. level and the overlying +11 m. level and retreating from the cross-cut adits towards the main roadway between the two shafts. Three stoping areas are shown on this figure, two mining from the north and one mining from the south.

The principal sequence of mining is governed by the ore body geometry and its variation in thickness. At the Mine, the sequence is to mine from the top of the ore body downwards and from the outer edges or boundaries of the ore body at each sub-level towards the main roadway connecting the East and West Shafts. This is consistent with industry standards for mining steeply dipping, wide, lens-shaped ore deposits.

The equipment used for excavating the mine development tunnels and sub-level crosscut adits consists of compressed air-powered hand-held machines to drill blast holes, which are charged with explosives and shot to break the rock in the advancing tunnels and to bring down the celestite ore in the mine crosscut adits.

The waste rock from the tunnel development is hand loaded into wheelbarrows and transferred into side-tipping mine cars at a loading point located at the base of each shaft. The mine cars carrying waste rock are hauled to the surface by a steel rope and a drum hoist located at the top of each inclined shaft. Similarly, in the crosscut adits (known as stoping areas), the blasted ore is hand-sorted to separate the high grade “lump” ore from the lower grade “fines”. Each product is then hand-loaded and transported to the transfer point in wheelbarrows.

Each shaft is equipped with rail and an electrically powered hoist that is used to haul ore and waste rock out of the mine and to lower empty mine cars and mine supplies into the mine.

The mining practiced at this mine, like that in use at other small mines in southern China, is labor intensive and employs only a rudimentary level of mechanisation.

D. PROSPECTING AND MINE DEVELOPMENT

Although cored boreholes from the surface through the ore bodies play a very important role in defining the dimensions and metal grades of the ores, underground mine development and prospecting is also very important. At the Mine, a prospecting and mine development approach is practiced. That is, the development tunnels and crosscut adits are used for exploring and sampling of the ore body and then eventually used for the mining operations.

The development tunnels at the lowest level of the mine, the 0 m. level, are used to explore and define the lateral extent or boundaries of the ore bodies, define the dimensions and quality of the ores on this level, and as access roads for the new stopes necessary for extracting the ore between the 0 m. level and the overlying +11 m. level.

The design principle for the selection of crosscut adits to the mining areas from the main roadway tunnels is to excavate the crosscut adits at an angle (90 degrees in the case of the Mine) from the main roadway and develop these crosscut adits at approximate 10-meter intervals. Each crosscut adit is advanced through the ore body to define its limits, whether defined by faulting, decrease in ore grade, or geological cut off of the ore body. These crosscut adits provide additional sites for sampling the celestite ore for grade analyses within the ore body.

E. ORE EXTRACTION

The prospecting and development work currently in progress on the 0 m. level of the mine is not only defining the ore-bodies at this level, but also creating mining blocks or sections that will be mined from the 0 m. level up to the floor of the overlying +11 m. level and within the lateral boundary of the ore body defined on this level.

In a given block, the ore is mined on the 0 m. level by drilling the overlying ore in the roof of each crosscut adit and then blasting the ore so that it can be loaded in the crosscut adit and transported to the surface via the hand-loaded wheelbarrows and side-tipping mine cars.

During the mine visit, two areas of the mine were in production – the larger stope on the north side and the smaller stope on the south side of the main roadway between the two shafts. The blocking out of additional stopes on the 0 m. level is currently in progress.

In development headings the blast holes are drilled essentially parallel to the floor of the heading, whereas longer inclined and near-vertical holes are drilled in the ore production crosscut adits. In both cases, whether hand-held drills or bar-mounted, long-hole jack hammers are used, the machines are powered by compressed air. Cartridge explosives and non-electric detonators are used in blasting.

When development headings encounter non-mineralised rock, this material is removed from the mine after blasting and sent to the waste rock storage pile on the surface.

F. GEOTECHNICAL AND GROUND SUPPORT

Although no geotechnical information was provided during the mine visit, there was reference to geotechnical work performed in the past and reported in the 2000 Report and again in the 2007 Report. This work concluded that the engineering geology around the ore bodies was complicated and indicated blocky rock conditions and a dominance of soluble salts. In addition, laboratory tests carried out by the SHGB has shown that the mechanical properties of samples taken from the rocks surrounding the mine workings are generally of low strength, typically in the range of 25.94 to 37.85 MPa, and significantly weaker when the rocks are water-saturated, typically in the range of 6.53 to 16.10 MPa. The compressive strength of the ore body rock was found to typically be in the range of 10.58 to 31.00 MPa, with poor stability.

The SHGB warned that the upper level dolomitic conditions, the resultant karst effects, and the presence of loose sand and gravel could possibly cause water inrushes, sand surges, and even excavation collapses in mining operations. It was reported that the roof and sidewall conditions required the use of supports to maintain a safe working environment during the sinking of the inclined shafts, and it can be anticipated that, as the ore bodies approach the contact zone, roof stability may be poor and floor bulging and sidewall failure could occur.

The design of the mine, like others in the region, is based primarily on local geological conditions and on practical experience in conjunction with limited knowledge gained from geological site investigations relating to ground control.

During its mine visit, the Study Team noted that the underground tunnels and the West Shaft are heavily supported with timber and steel beams or sets throughout most of the underground mine workings. The East shaft is concrete-lined from top to bottom. Where roof conditions are particularly poor, concrete walls are built on the sides of affected tunnels to support the steel or timber beams holding up the weak roof. Sidewall rock pressure and/or weak rock aggravated by the hydrostatic water pressure or water saturation of the rocks, has necessitated the installation of closely spaced substantial timber posts.

The crosscut adits driven towards the boundary of the ore body have an arch-shaped profile because they were excavated with curvature to the roof and sidewalls. These crosscut adits were noted to stand up well to the rock and hydrostatic water pressure conditions, as evidenced by the absence of support in these excavations.

The “heavy” strata conditions (that is, the weight that of the overlying rock mass) noted in the central roadways at the 0 m. level can be attributed to the load redistribution caused by the caving of the ore body at this level, earlier mining at the +11 m. and +23 m. levels, and the increasing hydrostatic pressure resulting from increase in depth below the overlying ground water. Support maintenance is required on a regular basis in order to replace broken timbers and concrete wall failures as mining operations continue.

In general, careful ground support and strata control are required throughout the mine workings, and it is clear that this issue must be closely monitored by mine management. At the time the mine extends the development and exploitation of the ore reserves below the 0 m. level, it would be appropriate to consider the introduction of more “active” support in the form of the timely installation of rock bolts for sidewall and roof support of tunnels. In particularly poor conditions, the use of grouted bolts and steel mesh to contain loose rock should be considered.

When wide ore bodies are mined at shallow depths using the sub-level caving technique, significant surface subsidence will occur, and this is evident at the Mine. Sinkholes have already been noted on the surface and they will eventually coalesce and deepen as mining progresses.

During the Study Team’s mine inspection, a visit was made on the surface to the area that is subsiding above the underground mine workings. Wide tension cracks were noted as far as 20 to 30 meters beyond the visible limits of the sinkhole. This is a dangerous situation, and it is strongly recommended that barriers be erected around all areas that have subsided and other areas that will

ultimately subside to prevent entry into this dangerously unstable area. At present, a small barrier and warning sign exists at the site visited. However, it is recommended that a fence surrounding the entire mining area be installed and that additional signs be posted where appropriate.

The 2007 Report makes reference to the plan to backfill (that is, to fill in) the sinkholes and subsided areas created on the surface by the underground mining in order to reduce or eliminate the rainfall catchment area and thus prevent the flow of additional water into the mine. Although no mention was made of this strategy during the mine inspection, if this proposal is implemented, great care must be taken in carrying out this hazardous operation. Fill operations must ensure that employees and equipment are located at a safe distance from the surface subsidence, that is, beyond all tension cracks that surround the sinkholes and subsidence depressions.

Two additional areas of geotechnical concern described in the 2007 Report are of note.

- The potential exists for slope failure below an abandoned surface gold mine near the top of Mt. Shizili, where several fissures have been observed that are 10 to 30 meters in length and 1 to 5 centimeters in width (the widest being 15 to 20 centimeters).

- The potential exists for slope failure and/or the sliding of a waste dump situated on the slope of Mt. Shizili near the site of the abandoned gold mine higher on the mountain. This situation could result in a landslide that would endanger personnel and buildings located at the base of Mt. Shizili and near the outskirts of Huangshi City. This waste storage area was built on the side of Mt. Shizili with loose overburden material taken from the abandoned gold mining operation.

The report states that some movement, likely the result of heavy rains, caused a one meter rock to fall out of the wall surrounding the waste material and roll to the front door of the mine workers' dormitory bungalow at the base of the hill.

The Study Team was not made aware of the existence of the abandoned gold mine and the waste rock dam during the mine visit and, accordingly, they were not examined during the mine inspection nor was there any discussion regarding them.

From the descriptions in the 2007 Report of the unstable dam impoundment and the steep slopes in the old surface gold mine, it appears that the potential for dangerous ground failure exists due to the potential instability of the dam wall and landslides from the steep open pit slopes. These failures could result in damage to property and personnel. This situation should be monitored closely and remedial work carried out if displacement is observed to continue.

G. WATER MANAGEMENT

Water inflow to the Mine is significant and pumps are installed and in operation in both the western and eastern portions of the mine. It is anticipated that the rate of inflow may increase as a result of the karst terrain developed in the overlying limestone and dolomite and because of the increasing rainfall catchment area created by the growth in the subsidence zone on the surface that overlies the mine workings.

Current pumping facilities were designed on the basis of hydrogeological tests carried out by the Geology Exploration Department and described in the 2000 Report. These tests indicated that the inflow of water at the 0 m. level would be approximately 2,500 cubic meters per day ("cmd"). Data provided by the mine manager during the Study Team's inspection indicate a combined capacity of the two pumps installed at the sump located near the West Shaft of 1,300 cmd. The three pumps installed at the sump located near the East Shaft have a combined capacity of 1,400 cmd. At the time of the mine visit, only two pumps were required to handle water at the latter site.

Water collected from the mine workings is channeled to underground sumps for initial settling of fines at the pump stations, after which the water is pumped from the mine to surface holding ponds for further settlement of fines. When necessary, the water is treated and then pumped to the nearby lake.

It is reported in the 2000 and 2007 Reports that the mining area has two major acquifers-a karst acquifer and a weathered fissure acquifer composed of dolomite, dolomitic breccia, and limestone. Water-bearing formations such as these present the possibility of a water inrush and/or a sand surge in underlying mining areas. Additionally, because the hydrostatic head will increase at the lower levels of the mine, additional pumping capacity will be required to keep the mine dry and to ensure that the water does not saturate the rocks in proximity to the tunnels and stopes, thus reducing their overall strength.

An interview with mine management indicated that there is an acute awareness of the importance of the inflow of water in the mine and they ensure that sufficient pumping capacity is available in the mine at all times.

It was noted in the 2007 Report that the early estimates of 3,000 cmd of water a day water to be pumped from the mine at the 0 m. level proved to be reasonably accurate. Also, at this rate of pumping it has been noted that the groundwater level in the area has dropped more than 3 meters. This indicates that the ground water resource in the mining area has been interrupted and is causing a decline in the water level of the wells in nearby villages. This may have an impact on domestic water supply in the future.

According to the 2007 Report, additional hydrologic tests and modeling have been carried out to determine the pumping requirements at the -50 m. level. The engineers conducting this work used the experience obtained from the ground water pumping at the 0 m. level and the predicted results obtained from the 0 m. level work described in the 2000 Report. It has been determined that the largest amount of surge water at the -50 m. level will be 10,000 cmd, which indicates that the mine will be required to increase its pumping capacity when extraction takes place at this lower level.

H. MINING SUPPORT SERVICES

A number of support services are required in underground mining, notably, a ventilation system, the provision of compressed air and electricity, and a water handling system. These are discussed below by item.

Ventilation – Natural ventilation in conjunction with small mobile fans are commonly used at small, shallow underground mines under favorable conditions. This combined source of fresh air in a mine eliminates the need for large, permanently installed fans to supply the required quantities and velocity of air to working faces.

Because the 0 m. level workings are at the base of an inclined slope well below the surface level, they have no direct access to the outside atmosphere. Accordingly, two fans have been installed underground to ventilate the eastern portion of the mine, with smaller mobile fans used to force air into the crosscut adits leading to the mining areas in the west portion of the mine. Intake air enters the mine via the West Shaft and is coursed to development headings and working face areas with the aid of brattice or brick stoppings. The return air is evacuated up the East Shaft.

The mine ventilation engineer performs daily checks on the ventilation in the mine and the mine ventilation plan is updated at monthly intervals. When stoping begins in the eastern areas of the mine, additional mobile fans will be required to force fresh air along the crosscut adits that lead to the working faces. Additional ventilation capacity will also be required when the mine exploits the ore bodies below the 0 m. level.

It should be noted that as the mine workings increase in depth, atmospheric "fogging" will increase during the summer months due to the difference in temperature and humidity between the ambient atmosphere at the surface and the ambient atmosphere in the mine. This will create poor visibility in the mine and increased condensation of moisture on all surfaces, notably the roof, and the sides and floor of tunnels and stopes, including the supports installed in these excavations. This "wetting" effect on the rock surfaces will add to the negative impact of water, thus causing the weakening of exposed rocks and the deterioration of wooden supports.

Compressed Air – Compressed air is the power source used for operating hand-held rock drills and air leg-mounted drills that are used to drill holes for blasting rock in development headings and in the sub-level caving crosscut adit faces. The use of this type of equipment is prevalent in the region. There are four compressors installed near the surface at the mine-two at the East Shaft and two at the West Shaft. Each shaft has one compressor with a capacity of 10 cubic meters per minute ("cmm") and one with a capacity of 6 cmm. These are considered adequate for the production needs at the mine.

Electric Power Supply – Electricity is required to power the mine electric generator, two surface winding hoists, five pumps, two primary fans and a number of auxiliary fans, mine lighting (including at the working faces), a large drill for long-hole drilling in stopes, and an emergency power supply for the mine.

An electric power distribution plan for the mine was provided by the mine engineering department during the interview with mine management. The close proximity of the mine to Huangshi City and its coal-fired electric power plant should ensure that there will be no significant disruptions to the supply of electricity to the mine.

Water Supply – Water pumped from the mine is discharged into a settling pond adjacent to the mine and sedimentation is allowed to occur before the water is pumped to the nearby lake. Water from this lake is used for mining operations and is available for fire control, if required. Domestic drinking water is provided at the mine, with the water variously obtained from a well and from the Huangshi City water supply system.

The milling and processing plant is located approximately five kilometers from the mine, with a plentiful supply of water available from the nearby lake and the city. At the mill, water is used to wash the "lump" celestite and in the milling process to improve the quality of the "fines" celestite.

In general, there is a plentiful supply of water to meet all needs of mining and associated operations.

I. WORK FORCE ISSUES

Key work force issues are discussed by item below.

Production Scheduling – According to the mine manager, the mine currently works three shifts per day and seven days per week. All underground production is out-sourced to two independent contractors, one assigned to the East Shaft district of the mine and the other to the West Shaft district of the mine. There are a total of 110 workers currently employed between the two contractors; this number is expected to increase to 140 as production is increased from 800 tonnes per day to 1,000 tonnes per day by May 2008. The mine manager prefers to use two contractors to encourage competition, which he believes will improve the overall productivity of the mine.

The contractors are responsible for employing workers, for ore production, for mine development and advancement, and for the maintenance of equipment.

Mine Engineering and Management – The mine manager, assistant mine manager, and mine staff are responsible for the design and planning of the mine; production overview; technical services, such as sampling, surveying, sales, and laboratory work; finance; mine security; milling; mine safety; and the overall performance of the mine. As far as production is concerned, management is responsible for providing engineering services, power, supply, and equipment. Overall, there are 19 people on the manager's staff who perform these functions.

The manager reports to the board of Sifa Mining, with the board setting production goals and associated cost targets for the manager to achieve.

Work Force Training – The contractors are responsible for the training of their employees and, as government certified subcontractors, are required to comply with China's laws relating to the training, health, and safety of its employees.

The mine manager stated that the training of all employees at the mine is the responsibility of Sifa Mining until the contractor takes over this responsibility. In addition, there are regular safety training sessions provided to group teams by management and basic training provided by the relevant department associated with Sifa Mining.

Occupational Safety and Health – The mine is in possession of the government Certificate for Safety and Health that was issued in 2005. The possession of this certificate indicates that the mine has met the safety requirements set and enforced by the government.

Although no mine safety or accident reports were provided at the interview with mine management, it was stated that the mine has a good safety record. It was noted that government inspectors make monthly inspections of the mine.

It was observed that some safety-related posters and notice boards were on display at the entrance of the mine and at various locations within the mine. A Mine Rescue Plan showing the routes to be followed by mine employees in the event of an emergency evacuation from the mine were provided during the interviews with mine management.

It was stated that details of all employee accidents are submitted to the mine manager and presented by him to the company's Safety Committee. Such accidents are reviewed and analyzed by the Committee to seek ways and means of avoiding similar accidents in the future. Training courses that deal with mine safety are also provided at regular intervals by the mining company and its contractors.

Because of the close proximity of Huangshi City to the coal mines, metal mines, and stone quarries in Hubei Province, there is a plentiful supply of qualified mine workers in the area.

Infrastructure and Work Force Accommodation – The region has abundant agriculture products, prosperous commerce and markets, a relatively well-developed social economy, and a social environment that is very conducive to mining and its utilisation.

Access roads at the mine's facilities, including the East and West Shafts, offices, and the mill site), are in good condition. Roads to Huangshi City, the railway station, and the dock on the Yangtze River are also in good condition.

Living accommodation for mine workers is provided in close proximity to the mine and offices.

J. ENVIRONMENTAL ISSUES

It was stated by the mine manager that the mining contractors are responsible for environmental issues at the Mine. Applications for this certification were recently approved by the panel that deals with such industrial contractor applications. The contractor's environmental responsibilities include meeting quality standards required for water used at the mine, vegetation of the subsided areas on the surface, maintaining government standards on air quality, and meeting prescribed noise and dust levels.

When asked to show the company's Certificate for Sewage and Waste Disposal, the mine manager stated the mine does not have sewage for disposal so the Department of Environmental Protection does not require the Company to have this certificate.

It was emphasised by management that only sedimentation was required to clarify water pumped from the mine before being discharged to the prescribed lake near the mine. Given that the responsibility for environmental issues at the mine resides with the mine contractors, no further assessment of these issues was conducted by the Study Team.

It is noteworthy that surface mining on Mt. Shizili mining area is not permitted by the local government.

K. RECOMMENDATIONS

The following recommendations are suggested regarding mine development and production matters.

- General safety issues –

  – Consider the installation of concrete steps over the length of the East and West inclined shafts. Wet conditions, in conjunction with exposed haulage rope guide rollers, railroad ties, pipe columns, cables, and similar material, are conducive to accidents at the beginning and end of workers' shifts. Additionally, the extensive use of timber for support in the West Shaft is a restriction on travel through the shaft.

  – Consider fabricating a simple mantrip car for lowering and raising workers from the mine at prescribed times so as not to interfere with ore production and supply needs.

  – Improve general housekeeping at the surface around the mouths of both the East and West Shafts. Management's emphasis on a clean work place sends a strong message to the work force as well as to visitors, and helps instill safety consciousness in the work force.

  – Place safety guards around the hangers and rollers for the haulage ropes that are located at the surface between the hoist and the mouths of both shafts.

  – Post more safety notices and boards that are clearly visible to workers in places where accidents are most likely to occur. Examples include the transfer loading point at the bottom of each shaft, crosscut adit entries, areas containing roof falls, areas around underground sumps, and at pumping stations.

  – Install barricades and notice boards at the entrance to all mined-out areas that are no longer used or that are unsafe for travel.

  – Although a mine rescue plan for exiting the underground workings exists, the signs, arrows, and lights should be clearly visible to all employees at the intersections of roadways and crosscut adits and at other openings. Direction arrows were not

seen during the Site Visit, although these may be present in some areas. If so, they should be particularly eye catching.

- Mine development issues –

  – Make an effort to excavate all tunnels and development headings with an arch-shaped profile, using light explosive charges for the perimeter blast holes. This may greatly improve roof and sidewall conditions, as is evidenced in the results of doing this in the crosscut adits.

  – In planning the mine layout for ore extraction from the levels below the 0m. level, consider excavating the tunnels and roadways with a greater height, followed by the use of small front-end loader. This would improve production efficiency significantly and also improve safety at the working faces on the edges of the caved areas.

  – When developing tunnels and roadways from the levels below the 0m. level, consider the development of curvature to the tunnel profiles when blasting, followed by the use of rock bolts on a designed pattern in conjunction with wire mesh in areas of weak rock conditions. This will become increasingly important if further caving redistributes rock pressure onto newly developed tunnels and roadways.

  – The effects of concomitant increases in rock pressure and in hydrostatic pressure as mining depths increase has serious adverse impact on mine tunnel and slope stability. Every effort should thus be made to ensure that all excavated areas are kept dry at all times.

  – Tunnels and crosscut adits require support maintenance on an ongoing basis. Accordingly, the observed failure of timbers, which are generally of poor quality, and concrete plinths should be addressed in a timely fashion to avoid further deterioration and potential failure of excavated areas.

  – Stations for monitoring roof-to-floor convergence and/or sidewall convergence should be installed at selected locations within the mine where the effects of deterioration or failure is critical to the safety of the work force and to the continued operation of the mine. Such stations are valuable to mine management in ensuring that repairs will be made on a timely basis if measured ground movement indicates such a need.

- Surface safety issues

  – The sinkholes and areas of incipient subsidence at the surface should be fenced off. This should be done throughout the area that is affected and in additional areas that develop as mining continues.

– Because of the weakening affects of precipitation and continued settlement above areas of caving in the mine, all efforts to examine these areas should be stopped and secure fences installed around the perimeters with notices prohibiting access beyond the fence lines.

– Although not discussed during the Site Visit, the 2007 Report makes reference to a plan to backfill the sinkholes and subsided areas from the surface in an effort to prevent precipitation from entering mined out areas. Should this be attempted, great care must be taken to avoid personnel or equipment being place in areas where surface cracks are visible around the subsided areas. The downward movement at the tension cracks is unpredictable.

SECTION VI – MILLING AND ORE PROCESSING

A. INTRODUCTION

At the time of the mine visit, only celestite ore was being process at the mine's mill, with any lead/zinc ore recovered trucked to a plant located in the neighboring town of Daye, where it is processed on a toll basis. Sifa Mining is currently building a lead/zinc processing plant for its use about 10 kilometers from the mine in order to process all lead/zinc ore produced from the mine.

B. CELESTITE ORE PROCESSING

The celestite ore from the mine is sorted by hand at the underground working areas before removal from the mine. Consequently, the high grade 'lump" ore requires only washing at the surface in order to make a saleable product. This material reportedly is sold at the mill.

The "fines," or lower grade celestite-bearing material, is also loaded by hand at the underground working areas and transported to the surface for storing at the stockpiles located at the East and West Shafts. The choice of shafts for transporting ore from the mine depends on which provides the shortest distance to the surface. The "fines" product is trucked approximately five kilometers to the mill for processing.

Because the celestite has a specific gravity of 3.9 (significantly higher than the gangue minerals of dolomite, calcite, quartz, and clay), the ore can be separated from these impurities and increased to commercial grade by using simple physical methods.

The mill employs a simple gravity separation plant, which has two identical circuits. Each uses a wheel loader for loading, a ball mill for breaking and crushing, and vibrating tables for screening and separation. Upon drying, the celestite "fines" are stockpiled and the waste is disposed of in a tailings pond. The mill is able to upgrade the "fines" to approximately 78 per cent. strontium sulphate ($SrSO_4$), which constitutes a saleable product. The "lump" celestite ore, which contains 84 to 85 per cent. $SrSO_4$, is washed and stockpiled at the mill site.

The Study Team was informed by the mine manager that the company plans to build a new plant on a site closer to the mine than the current milling facility, with the new plant to be designed to convert the washed celestite ore ($SrSO_4$) to strontium carbonate ($SrCO_3$). Reportedly, the investment in this plant will provide a significant increase in income for Sifa Mining and provide an attractive rate of return to the company. An independent confirmation of this representation was outside the Study Team's scope of work and no such confirmation was made.

C. LEAD/ZINC ORE PROCESSING

Although there are reserves at the mine containing combined celestite, lead, and zinc, there are no plans to beneficiate this material at the mill. According to the mine manager, these reserves comprise a relatively small tonnage and there are no plans for them to be mined.

The mill currently under construction by Sifa Mining to process the lead/zinc ore will contain an impact crusher, ball mills, vibrating screens, and froth flotation cells. Similar circuits are planned for the recovery of lead and zinc concentrates, where the lead concentrate would be recovered first, followed by the zinc concentrate.

It should be noted that in the 2007 Report, the SHGB reported that its attempts to recover lead and zinc concentrates from the lead/zinc ore at the mine were complicated and the material was difficult to beneficiate. This is ascribed to the oxidation of the mine-run sulfide ores and the presence of similar density gangue material such as barite and siderite. For this reason, it will be necessary to crush the complex ores and grind them in a closed-circuit ball mill to a size fine enough to liberate the lead and zinc ore from the gangue. With the addition of the appropriate reagents, the finely ground ore will be processed in rougher and scavenging cells to yield lead and zinc concentrates. Based on the studies conducted by the SHGB, it is anticipated that reagent consumption will be high and that lead and zinc yields will be relatively low.

ADDENDUM A – RESULTS OF ANALYSES
LCH SAMPLING
MT. SHIZILI MINE
HUBEI PROVINCE, PRC

Samples Taken By; R. Dunn
Date: August 22 & 23, 2007

Analyses Conducted by: Activation Laboratories, Ltd.
Analysis Report Date: October 16, 2007

Analyte Symbol	SiO_2	Al_2O_3	Fe_2O_3(T)	MnO	MgO	CaO	Na_2O	K_2O	TiO_2	P_2O_5	LOI	Total	Au	Ag
Unit Symbol	%	%	%	%	%	%	%	%	%	%	%	%	ppb	ppm
Detection Limit	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.005	0.01	0.01	0.01	5	0.5
Analysis Method														MULTIINAA
	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	FUS-ICP	INAA	FUSICIP
Sample ID														
E763-104-01	17.13	0.13	0.34	< 0.01	0.04	0.35	0.09	0.11	0.018	< 0.01	2	19.9	< 5	3.1
E763-104-02	27.66	0.25	1.35	< 0.01	0.04	0.15	0.1	0.05	0.011	< 0.01	2.47	31.92	< 5	2.6
E763-104-03	14.37	1.38	19.61	2.22	0.18	0.42	< 0.01	0.1	0.049	< 0.01	27.47	65.78	< 5	2.7
E763-104-04	42.61	5.09	15.96	1.25	0.16	0.51	0.05	0.17	0.199	0.07	17.73	83.78	341	2.9
E763-104-05	20.19	3.77	3.7	0.13	0.1	0.26	0.07	0.1	0.046	< 0.01	12.89	41.24	64	2.7
E763-104-06	16.57	1.78	1.88	0.04	0.02	0.13	0.12	0.13	0.007	< 0.01	5.19	25.78	< 5	1.9
E763-104-07	3.07	0.46	13.01	< 0.01	0.15	0.38	0.11	0.1	0.017	< 0.01	8.17	25.45	13	2.1
E763-104-08	13.08	0.29	1.61	0.01	0.16	0.44	< 0.01	0.05	0.006	< 0.01	2.67	18.04	11	3
E763-104-09	5.66	0.06	0.09	< 0.01	< 0.01	0.2	< 0.01	0.04	< 0.005	< 0.01	0.82	6.78	< 5	0.5

Analyte Symbol	As	Ba	Be	Bi	Br	Cd	Co	Cr	Cs	Cu	Hf	Hg	Ir	Mo
Unit Symbol	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppb	ppm
Detection Limit	2	3	1	2	1	0.5	1	1	0.5	1	0.5	1	5	2
Analysis Method		MULTIINAA												
	INAA	FUSICIP	FUS-ICP	TD-ICP	INAA	TD-ICP	INAA	INAA	INAA	TD-ICP	INAA	INAA	INAA	TD-ICP
Sample ID														
E763-104-01	21	31000	< 1	< 2	< 1	2.6	< 1	< 1	< 0.5	4	< 0.5	1	< 5	< 2
E763-104-02	122	32000	< 1	< 2	< 1	3.1	1	10	< 0.5	7	< 0.5	< 1	< 5	2
E763-104-03	249	17100	< 1	5	< 1	706	225	< 1	< 0.5	9	< 0.5	< 1	< 5	139
E763-104-04	379	8500	< 1	2	< 1	251	156	21	< 0.5	14	2.2	< 1	< 5	71
E763-104-05	270	28000	< 1	< 2	< 1	1030	20	39	1.2	39	< 0.5	< 1	< 5	24
E763-104-06	204	35000	< 1	< 2	< 1	56	4	14	< 0.5	15	< 0.5	< 1	< 5	4
E763-104-07	762	57000	< 1	< 2	< 1	27.7	8	24	< 0.5	7	< 0.5	< 1	< 5	5
E763-104-08	162	30000	< 1	< 2	< 1	20.5	2	< 1	< 0.5	12	< 0.5	< 1	< 5	7
E763-104-09	5	32000	< 1	< 2	< 1	0.9	< 1	< 1	< 0.5	2	< 0.5	< 1	< 5	< 2

Analyte Symbol	Ni	Pb	Rb	S	Sb	Sc	Se	Sr	Ta	Th	U	V	W	Y
Unit Symbol	ppm	ppm	ppm	%	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm
Detection Limit	1	5	20	0.001	0.2	0.1	3	2	1	0.5	0.5	5	3	1
Analysis Method	TD-ICP	TD-ICP	INAA	TD-ICP	INAA	INAA	INAA	FUS-ICP	INAA	INAA	INAA	FUS-ICP	INAA	FUS-ICP
Sample ID														
E763-104-01	1	454	< 20	1.07	15	0.2	< 3	378300	< 1	< 0.5	< 0.5	5	< 3	< 1
E763-104-02	2	339	< 20	1.16	27.1	0.6	< 3	322100	< 1	< 0.5	< 0.5	< 5	< 3	< 1
E763-104-03	520	595	< 20	2.94	16.1	5.2	< 3	13310	< 1	0.9	10.9	15	< 3	23
E763-104-04	269	505	< 20	3.92	26.3	4.9	< 3	3256	< 1	2.8	22.1	26	8	32
E763-104-05	60	2770	< 20	2.83	28.6	2.2	< 3	297900	< 1	1.8	9.9	18	10	4
E763-104-06	8	409	< 20	1.53	11.9	0.9	< 3	365100	< 1	< 0.5	< 0.5	< 5	< 3	< 1
E763-104-07	23	98	< 20	10.7	23.7	0.6	< 3	350600	< 1	0.7	7.4	8	< 3	< 1
E763-104-08	2	240	< 20	1.18	12.5	0.4	< 3	386700	< 1	0.8	< 0.5	< 5	3	< 1
E763-104-09	< 1	57	< 20	1.4	2.6	0.1	< 3	432400	< 1	< 0.5	< 0.5	< 5	< 3	< 1

Analyte Symbol	Zn	Zr	La	Ce	Nd	Sm	Eu	Tb	Yb	Lu	Mass	Zn
Unit Symbol	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	g	%
Detection Limit	1	2	0.2	3	5	0.1	0.1	0.5	0.1	0.05		0.001
Analysis Method	TD-ICP	FUS-ICP	INAA	INAA	INAA	INAA	INAA	INAA	INAA	INAA	INAA	ICP-OES
Sample ID												
E763-104-01	158	10	2	< 3	< 5	< 0.1	< 0.1	< 0.5	< 0.1	< 0.05	1.947	–
E763-104-02	490	3	2.9	4	< 5	0.2	< 0.1	< 0.5	< 0.1	< 0.05	1.949	–
E763-104-03	> 10000	8	7.1	14	< 5	1.4	< 0.1	1.2	1.7	0.26	1.96	19.5
E763-104-04	> 10000	52	11.7	20	< 5	2.1	< 0.1	< 0.5	2.8	0.53	1.62	9.72
E763-104-05	> 10000	13	8.4	15	< 5	0.8	0.5	< 0.5	0.5	< 0.05	1.509	0.965
E763-104-06	1630	5	3.1	4	< 5	0.2	< 0.1	< 0.5	< 0.1	< 0.05	1.358	–
E763-104-07	820	3	2.8	4	< 5	< 0.1	< 0.1	< 0.5	< 0.1	< 0.05	1.634	–
E763-104-08	1600	3	2.6	< 3	< 5	0.2	< 0.1	< 0.5	< 0.1	< 0.05	1.548	–
E763-104-09	64	5	1.5	< 3	< 5	< 0.1	< 0.1	< 0.5	< 0.1	< 0.05	1.529	–

Addendum B

As at December 2006 Mt. Shizili Mine Area Investigated Gold, Silver, Pb, Zn, Sr Resource/Reserve Summary Table

Type	Mine Type	Ore Body Group No.	Ore Type	Resource Reserve Type	Ore Quantity (kt)	Pb		Zn		$SrSO_4$		Au		Associated Ag		Associated Pb	
						Ave. Grade(%)	Metal Quantity (t)	Ave. Grade (%)	Metal Quantity (t)	Ave. Grade(%)	Mineral Quantity (t)	Ave. Grade (g/t)	Metal Quantity (kg)	Ave. Grade(g/t)	Metal Quantity (kg)	Ave. Grade (%)	Metal Quantity (t)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Industrial Ore Body	Pb, Zn, Sr	I	Sr Ore	122b+333	9869.70					51.19	5052697.40						
			Pb-Zn-Sr Ore	2S22+333	644.54	0.51	3292.68	5.80	37363.15	35.90	231365.88						
			Pb-Zn Ore	2S22+333	1662.65	0.55	9124.29	6.44	107020.77								
			Sub-total	122b+2S22+333	12176.89	0.54	12416.97	6.26	144383.92	50.26	5284063.28						
		II	Sr Ore	333	7035.78					34.02	2393488.25						
			Pb-Zn-Sr Ore	333	289.92	0.48	1395.07	2.70	7820.02	35.78	103735.88						
			Pb-Zn Ore	333	3039.82	1.03	31245.03	3.01	91435.36								
			Sub-total	333	10365.51	0.98	32640.10	2.98	99255.38	34.09	2497224.13						
		III	Pb-Zn Ore	333	718.89	0.92	6609.90	2.98	21409.59								
			Sr Ore	333	23.05	0.00		0.00		33.85	7803.56						
			Sub-total	333	741.94	0.92	6609.90	2.98	21409.59	33.85	7803.56						
		IV	Pb-Zn-Sr Ore	333	24.38	1.52	369.98	10.20	2485.92								
			Sub-total	333	24.38	1.52	369.98	10.20	2485.92								
		Total	Sr Ore	122b+333	16928.53					44.03	7453989.21						
			Pb-Zn-Sr Ore	2S22+333	934.46	0.50	4687.75	4.84	45183.17	35.86	335101.76						
			Pb-Zn Ore	2S22+333	5445.74	0.87	47349.20	4.08	222351.64								
		Total		122b+2S22+333	23308.72	0.82	52036.95	4.19	267534.81	43.60	7789090.97						
	Au	Total		333+122b	358.55							4.30	1543.34	29.56	10598.94	0.53	1485.00
Low Grade Ore	Pb, Zn, Sr	I	Pb-Zn Ore	333	1091.68	0.56	6069.68	1.95	21273.71								
		II	Sr Ore	333	2837.13					21.01	595940.81						
			Pb-Zn Ore	333	1421.72	0.29	4081.29	0.77	10887.34								
		III	Pb-Zn Ore	333	50.22	0.36	178.34	0.29	147.44								
		IV	Pb-Zn Ore	333	13.80	0.35	48.32	0.47	64.88								
		Total	Sr Ore	333	2837.13					21.01	595940.81						
			Pb-Zn Ore	333	2577.42	0.40	10377.63	1.26	32373.37								
		Total		333	5414.55	0.40	10377.63	1.26	32373.37	21.01	595940.81						
	Au	Total		333+122b	230.81							1.47	340.21	10.62	2451.07	0.24	162.97

ADDENDUM C – RESERVE ESTIMATION WORKSHEET
LCH MODEL +0M. LEVEL
MT. SHIZILI CELESTITE MINE
HUBEI PROVINCE, PRC

Last Revised by: A Stagg
Date: October 22, 2007

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Date: October 22, 2007

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Increment	Unit	Cubic Meters	% $SrSO_4$	Bulk Density	Tonnes Ore	Tonnes $SrSO_4$	Pb %	Pb Tonnes	Zn %	Zn Tonnes
12-16	I2A1	20,601.8	48.73	3.21	66,049	32,187	0.00	0.00	0.00	0.00
16-20	I2A1	110,941.3	52.12	3.24	359,892	187,590	0.00	0.00	0.00	0.00
20-24	I2A1	158,238.5	52.94	3.25	514,766	272,507	0.00	0.00	0.00	0.00
24-26	I2A1	38,459.8	49.25	3.21	123,526	60,838	0.00	0.00	0.00	0.00
26-28	I2A1	278.3	49.62	3.22	895	444	0.00	0.00	0.00	0.00
			51.97		**1,065,129**	**553,566**				
12-16	I2A2	330.5	0.00	2.66	879	0	0.80	7.03	1.08	9.49
16-20	I2A2	141.5	0.00	2.66	376	0	0.80	3.01	1.08	4.07
20-24	I2A2	0.3	0.00	2.66	1	0	0.08	0.00	1.08	0.01
24-26	I2A2	464.4	0.00	2.66	1,236	0	0.80	9.88	1.08	13.34
26-28	I2A2	188.3	0.00	2.66	501	0	0.80	4.01	1.08	5.41
28-32	I2A2	0.9	0.00	2.66	2	0	0.80	0.02	1.08	0.03
12-16	I2B1	1,560.0	21.85	2.90	4,532	990	0.62	28.23	2.35	106.68
16-20	I2B1	2,557.6	10.04	2.77	7,091	712	0.54	38.29	1.40	99.14
20-24	I2B1	223.5	9.12	2.76	617	56	0.81	5.00	3.74	23.09
24-26	I2B1	14,423.2	1.06	2.67	38,540	409	0.48	184.61	4.06	1,565.49
26-28	I2B1	71,333.8	1.01	2.67	190,568	1,922	0.58	1,101.48	3.68	7,014.81
28-32	I2B1	18,961.9	1.05	2.67	50,666	534	0.40	204.69	4.15	2,101.13
			1.58		**292,015**	**4,623**	**0.54**	**1,562.30**	**3.74**	**10,910.33**

Increment	Unit	Cubic Meters	% $SrSO_4$	Bulk Density	Tonnes Ore	Tonnes $SrSO_4$	Pb %	Pb Tonnes	Zn %	Zn Tonnes
12-16	I2B2	0.0	38.93	3.10	0	0	0.34	0.00	5.44	0.00
16-20	I2B2	0.0	41.68	3.13	0	0	0.36	0.00	5.09	0.00
20-24	I2B2	19.3	36.42	3.07	59	22	0.29	0.17	6.26	3.70
24-26	I2B2	5,040.1	37.45	3.08	15,522	5,813	0.29	44.86	5.18	803.88
26-28	I2B2	337.8	41.49	3.12	1,056	438	0.19	2.01	1.72	18.15
28-32	I2B2	0.0	0.00	2.66	0	0	0.00	0.00	0.00	0.00
			37.70		**16,637**	**6,273**	**0.28**	**47.04**	**4.96**	**825.73**
12-16	I2B3	0.0	0.00	2.66	0	0	0.21	0.00	8.72	0.00
16-20	I2B3	0.0	0.00	2.66	0	0	0.27	0.00	10.87	0.00
20-24	I2B3	6.8	0.00	2.66	18	0	0.26	0.05	10.49	1.90
24-26	**I2B3**	**387.5**	**0.00**	**2.66**	**1,031**	**0**	**0.30**	**3.11**	**11.79**	**121.52**
26-28	I2B3	3.7	0.00	2.66	10	0	0.29	0.03	11.31	1.11
28-32	I2B3	0.0	0.00	2.66	0	0	0.00	0.00	0.00	0.00
12-16	I2C	28,452.3	43.94	3.15	89,691	39,410	0.00	0.00	0.00	0.00
16-20	I2C	46,088.0	49.98	3.22	148,400	74,164	0.00	0.00	0.00	0.00
20-24	I2C	10.0	43.45	3.15	32	14	0.00	0.00	0.00	0.00
24-26	I2C	67.5	45.51	3.17	214	97	0.00	0.00	0.00	0.00
26-28	I2C	153.9	45.41	3.17	488	221	0.00	0.00	0.00	0.00
28-32	I2C	13.4	45.23	3.17	42	19	0.00	0.00	0.00	0.00
			47.69		**238,866**	**113,926**				

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Increment	Unit	Cubic Meters	% $SrSO_4$	Bulk Density	Tonnes Ore	Tonnes $SrSO_4$	Pb %	Pb Tonnes	Zn %	Zn Tonnes
8-12	I2A1	24,101.5	44.27	3.16	76,065	33,674	0.00	0.0	0.00	0.0
12-16	I2A1	266,945.2	47.30	3.19	851,545	402,781	0.00	0.0	0.00	0.0
16-20	I2A1	421,693.8	46.12	3.18	1,339,613	617,830	0.00	0.0	0.00	0.0
20-24	I2A1	224,240.1	45.57	3.17	710,972	323,990	0.00	0.0	0.00	0.0
24-26	I2A1	3,765.9	49.72	3.22	12,115	6,024	0.00	0.0	0.00	0.0
26-28	I2A1	30.1	49.75	3.22	97	48	0.00	0.0	0.00	0.0
			46.29		**2,990,407**	**1,384,346**				
8-12	I2A2	1,301.9	0.00	2.66	3,463	0	0.80	0.0	1.08	37.4
12-16	I2A2	601.4	0.00	2.66	1,600	0	0.80	12.8	1.08	17.3
16-20	I2A2	41.1	0.00	2.66	109	0	0.80	0.9	1.08	1.2
20-24	I2A2	195.7	0.00	2.66	521	0	0.80	4.2	1.08	5.6
24-26	I2A2	429.9	0.00	2.66	1,144	0	0.80	9.1	1.08	12.4
26-28	I2A2	48.4	0.00	2.66	129	0	0.80	1.0	1.08	1.4
28-32	I2A2	4.6	0.00	2.66	12	0	0.80	0.1	1.08	0.1
8-12	I2B1	15,390.6	36.10	3.06	47,165	17,026	0.91	430.6	3.63	1,713.5
12-16	I2B1	57,173.5	22.35	2.91	166,405	37,191	0.63	1,055.0	2.40	3,993.7
16-20	I2B1	20,960.6	11.45	2.79	58,447	6,692	0.62	360.0	1.58	923.5
20-24	I2B1	39,348.1	9.58	2.77	108,896	10,432	0.82	892.9	3.79	4,121.7
24-26	I2B1	37,468.7	1.03	2.67	100,106	1,031	0.48	475.5	5.48	5,486.8
26-28	I2B1	57,088.6	0.61	2.67	152,257	929	1.74	2,643.2	6.71	10,208.8
28-32	I2B1	11,918.8	0.75	2.67	31,807	239	4.11	1,307.2	6.19	1,969.8
			11.06		**665,083**	**73,541**	**1.08**	**7,164.5**	**4.27**	**28,417.8**

Increment	Unit	Cubic Meters	% $SrSO_4$	Bulk Density	Tonnes Ore	Tonnes $SrSO_4$	Pb %	Pb Tonnes	Zn %	Zn Tonnes	
8-12	I2B2	0.0	39.55	3.10	0	0	0.35	0.0	5.30	0.0	
12-16	I2B2	0.0	38.93	3.10	0	0	0.34	0.0	5.44	0.0	
16-20	I2B2	0.0	37.96	3.09	0	0	0.34	0.0	5.70	0.0	
20-24	I2B2	80,766.2	36.40	3.07	247,781	90,192	0.29	718.6	6.27	15,523.5	
24-26	I2B2	62,867.3	38.57	3.09	194,397	74,979	0.28	542.4	4.70	9,142.5	
							0.29	1,260.9	5.58	24,666.0	442,178
26-28	I2B2	15,567.6	41.51	3.13	48,650	20,195	0.17	80.8	1.56	758.5	
28-32	I2B2	0.0	0.00	2.66	0	0	0.00	0.0	0.00	0.0	
			37.77		490,829	185,366					
8-12	I2B3	0.0	0.00	2.66	0	0	0.22	0.0	9.20	0.0	
12-16	I2B3	0.0	0.00	2.66	0	0	0.21	0.0	8.72	0.0	
16-20	I2B3	0.0	0.00	2.66	0	0	0.19	0.0	8.03	0.0	
20-24	I2B3	30,690.1	0.00	2.66	81,642	0	0.26	211.5	10.38	8,473.6	
24-26	I2B3	14,765.7	0.00	2.66	39,280	0	0.32	126.5	12.42	4,878.9	
26-28	I2B3	388.0	0.00	2.66	1,032	0	0.29	3.0	11.35	117.2	
28-32	I2B3	0.0	0.00	2.66	0	0	0.00	0.0	0.00	0.0	
							0.28	**340.9**	**11.04**	**13,469.7**	121,954
8-12	I2C	94,470.4	41.04	3.12	294,733	120,959	0.00	0.0	0.00	0.0	
12-16	I2C	577,249.9	41.39	3.12	1,803,195	746,342	0.00	0.0	0.00	0.0	
16-20	I2C	412,966.1	44.48	3.16	1,304,302	580,154	0.00	0.0	0.00	0.0	
20-24	I2C	225,228.2	43.51	3.15	708,908	308,446	0.00	0.0	0.00	0.0	
24-26	I2C	1,096.2	45.50	3.17	3,475	1,581	0.00	0.0	0.00	0.0	
26-28	I2C	904.6	45.40	3.17	2,866	1,301	0.00	0.0	0.00	0.0	
28-32	I2C	50.8	45.23	3.17	161	73	0.00	0.0	0.00	0.0	
			42.72		**4,117,641**	**1,758,856**					

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 Practicable Date were as follows:

Authorised:		*HK$*
1,000,000,000	Shares of HK$0.1 each	100,000,000

Issued and fully paid:		*HK$*
372,790,000	Shares of HK$0.1 each	37,279,000

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions held by the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) 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 interest and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Shares

Name of Director	Number of Shares interested	Capacity and nature of interests	Approximate % of total issued Shares of the Company
Chang Wing Seng, Victor	200,000 (L)	Beneficial interests	0.05%
Chen Yi Gang	100,000 (L)	Beneficial interests	0.03%
Fung Oi Ip, Alfonso	150,000 (L)	Beneficial interests	0.04%
Lau Siu Ying *(Note 1)*	383,580,013 (L)	Beneficial interests	102.89%
Lo Wing Yat	100,000 (L)	Beneficial interests	0.03%
Luo Xi Zhi	100,000 (L)	Beneficial interests	0.03%
Wong Lit Chor, Alexis	100,000 (L)	Beneficial interests	0.03%

(L) denotes long position

Note 1: Of the 383,580,013 Shares:–

i. 194,280,000 Shares are beneficially owned by Mr. Lau Siu Ying, in which 2,000,000 Shares are options granted to Mr. Lau Siu Ying.

ii. 188,300,013 Shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn are held by a discretionary trust. The beneficiaries of the discretionary trust include Mr. Lau Siu Ying, his spouse and his children.

iii. 1,000,000 Shares are options granted to Mr. Lau Siu Ying's spouse and therefore Mr. Lau Siu Ying is deemed to be interested pursuant to the SFO.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest 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 the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the parties (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Interest in the Shares

Name of substantial shareholders	Nature of interests	Number of Shares held	Approximate % of total issued Shares of the Company
Lau Siu Ying *(Note 2)*	Beneficial interests	383,580,013 (L)	102.89%
Future 2000 Limited *(Note 3)*	Beneficial interests	188,300,013 (L)	50.51%
Lee Wai, Timothy *(Note 3)*	Interests of controlled corporation	188,300,013 (L)	50.51%

(L) denotes long position

Note 2: Please refer to Note 1.

Note 3: Mr. Lee Wai, Timothy owns the entire issued share capital of Future 2000 Limited and therefore is deemed to be interested in the Shares held by Future 2000 Limited pursuant to the SFO.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company were aware of any person (other than a Director or the chief executive of the Company or a member of the Group) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company 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 other members of the Group or had any options in respect of such capital as at the Latest Practicable Date.

5. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

On 22 August 2007, Synergy Technologies (Asia) Limited ("Synergy Technologies"), an indirect wholly owned subsidiary of the Company, has issued a Writ of Summons with general endorsement to claim for damages exceeding HK$1 million against a Taiwanese company called Gigabyte Communications Inc ("GCI"). for breaches of distribution agreement and after-sale service agreement. Synergy Technologies is in the course of serving the said Summons on the defendant, which is established in Taiwan, out of jurisdiction of Hong Kong.

On 26 November 2007, Zhuhai Lei Ming Da Telecom Equipment Company Limited (珠海市雷鳴達通訊設備有限公司), a subsidiary of the Company, as lessee, commenced legal proceedings in Zhuhai to claim against 珠海市大聯貿易發展有限公司 and 珠海市南屏鎮資產經營中心, as lessors, for damages of not less than RMB390,000 arising from leasing of a premise unlawfully.

On 21 December 2007, Synergy Technologies received a claim for USD 216,560 for goods sold and delivered instituted by GCI in Taiwanese Court. The Company is seeking legal advice in Hong Kong and Taiwan to deal with this proceeding.

Save as disclosed herein, as at the Latest Practicable Date, there was no claim in relation to exploration rights made or notified either by third parties against the Company.

7. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

8. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advice, which is contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants
LCH	Chartered Surveyors

South China Capital	A deemed licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 of the SFO
Wallbanck Brothers Securities (Hong Kong) Limited	A licensed corporation permitted to carry on business in types 4, 6 and 9 regulated activity (advising on securities, advising on corporate finance and asset management) under the SFO

Deloitte Touche Tohmatsu, LCH, South China Capital and Wallbanck Brothers Securities (Hong Kong) Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusions of their respective letters and references to their names in the form and context in which they appear.

9. EXPERT'S INTEREST IN ASSETS

As at the Latest Practicable Date, Deloitte Touche Tohmatsu, LCH, South China Capital and Wallbanck Brothers Securities (Hong Kong) Limited:

(a) were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up; and

(b) did not have any shareholding interest 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.

10. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

(a) the First Confirmation Letter;

(b) the Second Confirmation Letter;

(c) the Further Acquisition Agreement;

(d) the Supplemental Agreements;

(e) the agreement dated 17 October 2007 made among the Company and Mr. Lau Siu Ying in respect of disposal of 49% interest in Fortune Telecom (China) Distribution Limited engaged in handset distribution business;

(f) the agreement dated 14 August 2007 made among the Company, Mr. Lam Bing Sum and Intelligence Tech Limited in respect of the acquisition of 2,750,000 shares in Intelligence Tech Limited;

(g) the Acquisition Agreement;

(h) the agreement dated 5 June 2007 and the supplemental agreements dated 4 September 2007 made between the Company and TeleChoice International Limited in respect of establishment of a joint venture company;

(i) the agreement dated 25 May 2007 made between the Company and Galaxy China Opportunities Fund in respect of the subscription of 40,000,000 new Shares;

(j) the agreement dated 2 April 2007 made among the Company, Carefree Times International Limited, DW Mobile Technology Limited and Pang Chor Fu in respect of the acquisition of 53,500 shares in DW Mobile Technology Limited;

(k) the agreement dated 15 February 2007 made among the Company, Zhuhai Lei Ming Da Telecom Technology Development Company Limited (珠海市雷鳴達通訊技術發展有限公司), Kuang Huai Biu, Kuang Bing Jiu and Zhuhai Lei Ming Da Telecom Equipment Company Limited (珠海市雷鳴達通訊設備有限公司) ("JV Company") in respect of the acquisition and subscription of totally 51% equity interest in the JV Company; and

(l) the agreement dated 29 December 2005 made among the Company, Well Force International Inc., Synergy Pacific (Holding) Limited and Synergy Technologies (Asia) Limited in respect of the Restructuring, acquisition of equity interest in Synergy Technologies (Asia) Limited and disposal of equity interest in Synergy Pacific (Holding) Limited.

11. GENERAL

(a) The secretary and qualified accountant of the Company is Mr. Lam Man Kit. Mr. Lam is yet to be a full member of the HKICPA. It is expected that upon fulfilling the procedural requirements, Mr. Lam will become a full member of the HKICPA by the end of March 2008.

(b) The auditor of the Company is Messrs. Deloitte Touche Tohmatsu.

(c) The registered office of the Company is located at Clarendon House 2 Church Street Hamilton HM 11, Bermuda.

(d) The principal office of the Company is located at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.

(e) The share registrar of the Company in Hong Kong is Tricor Abacus Limited at 26/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong.

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

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the place of business of the Company at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong during office hours from the date of this circular up to the date of the special general meeting of the Company to be held on 15 January 2008 to consider and approve the Acquisition and the Further Acquisition:

(a) the Memorandum and Articles of Association and bye-laws of the Company;

(b) the letter of recommendation from the Independent Board Committee containing its recommendation to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(c) the letter from South China Capital containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from South China Capital" in this circular;

(d) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

(e) the annual reports of the Group for the two years ended 31 December 2006 and the interim report for the six months ended 30 June 2007;

(f) the accountants' report on the PRC Mining Company from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;

(g) the reports from Deloitte Touche Tohmatsu and Wallbanck Brothers Securities (Hong Kong) Limited in connection with the valuation of the mining right of the Mining Site, the texts of which are set out in Appendix III to this circular;

(h) the letter from Deloitte Touche Tohmatsu regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular.

(i) the valuation report from LCH, the text of which is set out in Appendix V to this circular;

(j) the written consents referred to in paragraph headed "Experts and Consents" to this Appendix; and

(k) the Technical Report from LCH, the text of which is set out in Appendix VI to this circular.

China Fortune Holdings Limited
中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 110)

(Formerly known as Fortune Telecom Holdings Limited)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the "**meeting**") of China Fortune Holdings Limited (the "**Company**") will be held at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong at 11:00 a.m. on Tuesday, 15 January 2008 for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

"THAT

(a) the sale and purchase agreement dated 24 July 2007 and as amended by two supplemental agreements dated 27 July 2007 and 1 November 2007 and a confirmation letter dated 21 December 2007 (the "**Acquisition Agreement**"), a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification, entered into between, inter alia, Messrs. Lau Siu Ying, Lau Hung Bing and Lau Kin Ying (the "**First Vendor**"), Express Fortune Holdings Limited (the "**Purchaser**"), whereby the Purchaser agreed to acquire from the First Vendor the entire issued share capital in the Richly Giant International Limited (富鼎國際有限公司) (the "**BVI Company**"), which will indirectly hold an approximately 40.8% equity interest in 黃石市鍶發礦業有限責任公司 (the "**PRC Mining Company**") through China Yellow Stone Investment Company Limited (the "**H.K. Company**") at a total consideration of HK$367.2 million, of which HK$40 million will be paid by the Purchaser in cash and the balance of HK$327.2 million will be satisfied by the allotment and issue of 240 million new shares of the Company (the "**Consideration Shares**") to the First Vendor, upon the terms and subject to the conditions therein contained, be and is hereby approved, confirmed and ratified and the transactions contemplated under the Acquisition Agreement be and are hereby approved;

(b) the creation and issue of Consideration Shares (as defined in this circular (the "**Circular**")) as set out in the Circular, on and subject to the terms of the Acquisition Agreement, be and it is hereby approved;

* *For identification purpose only*

(c) the directors of the Company ("**Directors**") be and are hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Acquisition Agreement; and

(d) the Directors be and are hereby authorised, for and on behalf of the Company, to execute all such other documents, instruments and agreements and to do all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated under the Acquisition Agreement and to make such variation, amendment and waiver of any matters relating thereto or in connection therewith which in the opinion of the Directors is not of a material nature and is in the interests of the Company."

"**THAT**

(a) the sale and purchase agreement dated 12 November 2007 and as amended by a confirmation letter date 21 December 2007 (the "**Further Acquisition Agreement**"), a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification, entered into between, inter alia, Foshan Goldsonic Telecom Development Company Limited (佛山市高訊通信發展有限公司) (the "**Second Vendor**"), the Purchaser and Mr. Zhang Zhulin (張竹林先生) (the "**Covenanter**"), whereby the Purchaser agreed to acquire from the Second Vendor a further 10% direct interest in the PRC Mining Company at a consideration of HK$90 million (the "**Further Consideration**"), which will be satisfied by the allotment and issue of 66,016,300 new shares of the Company (the "**Further Consideration Shares**") to the Second Vendor, upon the terms and subject to the conditions therein contained, be and is hereby approved, confirmed and ratified and the transactions contemplated under the Further Acquisition Agreement be and are hereby approved;

(b) the creation and issue of Further Consideration Shares as set out in the Circular, on and subject to the terms of the Further Acquisition Agreement, be and it is hereby approved;

(c) the Directors be and are hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Further Acquisition Agreement; and

(d) the Directors be and are hereby authorised, for and on behalf of the Company, to execute all such other documents, instruments and agreements and to do all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters

contemplated under the Further Acquisition Agreement and to make such variation, amendment and waiver of any matters relating thereto or in connection therewith which in the opinion of the Directors is not of a material nature and is in the interests of the Company."

By order of the Board
China Fortune Holdings Limited
Lau Siu Ying
Chairman and Chief Executive Officer

Hong Kong, 31 December 2007

Notes:

(1) Any member entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

(2) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof.

(3) A form of proxy for use at the meeting is enclosed.

(4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Abacus Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or the adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.

(5) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

(6) As at the date of this notice, the Board comprises two executive directors, namely Mr. Lau Siu Ying and Mr. Luo Xi Zhi, two non-executive directors, namely Mr. Fung Oi Ip, Alfonso and Mr. Lo Wing Yat and three independent non-executive directors, namely Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Mr. Chen Yi Gang.