THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Fushan International Energy Group Limited (the "Company"), you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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福 山 國 際 能 源 集 團 有 限 公 司

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)

(Stock Code: 639)

VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION
AND
POSSIBLE CONTINUING CONNECTED TRANSACTIONS

Placing Agent

BOC INTERNATIONAL

Financial advisers to the Company

BOCI ASIA LIMITED

Morgan Stanley

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

第一上海

FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED

A letter from the independent board committee of the Company is set out on page 56 of this circular. A letter from First Shanghai Capital Limited containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 57 to 98 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at the Falcon Room Basement Luk Kwok Hotel, No. 72 Gloucester Road, Wanchai, Hong Kong on 18 July 2008 at 10:30 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting should you so wish.

25 June 2008

CONTENTS

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

"2007 Net Assets Value"	the aggregate of the consolidated net asset value of each BVI Companies as at 31 December 2007 as stated in the consolidated audited financial statements of each of the BVI Companies for the three years ended 31 December 2007, issued by Grant Thornton in the form as agreed by Grant Thornton, the Buyer and the Seller
"Acquisition"	the acquisition of the Sale Shares and the Sale Loans pursuant to the Agreement
"Agreement"	the conditional sale and purchase agreement dated 9 May 2008 among the Company, the Buyer, Mr. Wong, the Seller and Mr. Xing, pursuant to which the Buyer agreed to acquire from the Seller the Sale Shares and the Sale Loans
"Announcement"	announcement of the Company dated 21 May 2008 in relation to the Acquisition
"associates"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"BOCI" or "Placing Agent"	BOCI Asia Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purposes of the SFO, and also the financial adviser to the Company
"BOYD"	an independent coal mine expert namely John T. Boyd Company
"Business Day"	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
"Buyer"	Jade Green Investments Limited, a company incorporated in BVI with limited liability and is a wholly owned subsidiary of the Company
"BVI"	the British Virgin Islands
"BVI Companies"	Company A, Company B and Company C, and the "BVI Company" means any one of them

"China Merit"	China Merit Limited, a company incorporated in BVI and wholly owned by Mr. Wong
"Company"	Fushan International Energy Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
"Company A"	Thechoice Finance Limited, a company incorporated in BVI with limited liability
"Company B"	Worldman Industrial Limited, a company incorporated in BVI with limited liability
"Company C"	Gumpert Industries Limited, a company incorporated in BVI with limited liability
"Completion"	completion of the Agreement
"Completion Account"	the audited consolidated balance sheet of each of the BVI Companies at the Completion Date and the audited consolidated profit and loss accounts of each of the BVI Companies for the period from 1 January 2008 and ending on the Completion Date to be prepared in accordance with Hong Kong Financial Reporting Standards
"Completion Date"	the date which is five Business Days after the date (not being later than the Long Stop Date) on which the last of the conditions of the Agreement is satisfied or waived or such other date mutually agreed by the Seller and the Buyer
"Completion Escrow Agent" or "DB Trustee"	DB Trustees (Hong Kong) Limited or other trustee to be appointed by the Seller and the Buyer
"Completion Escrow Letter"	an escrow letter to be signed by the Buyer, the Seller, BOCl, DB Trustees (in the capacity of the trustee of the holders of the DB Note and the DB Warrants) and the Completion Escrow Agent prior to Completion in relation to, among other things, the conduct of the Buyer and the Seller at Completion
"Conditions"	the conditions precedent to the Completion including those set out in the section headed "Conditions" in this circular
"connected person(s)"	has the meaning ascribed to in the Listing Rules
"Consideration"	HK$10,530,000,000 (subject to adjustments), being the consideration for the acquisition of the Sale Shares and the Sale Loans

"Consideration Shares"	new Shares credited as fully paid in the capital of the Company to be issued by the Company under the Agreement
"DB Indebtedness"	the indebtedness (including principal, interest, penalty or otherwise) owed by the Seller under the DB Note and the amount payable by the Seller to all holders of the DB Warrants for cancellation of the DB Warrants together with all costs, fees and expenses payable to DB Trustee in connection therewith as of the Completion Date
"DB Note"	a deed of floating rate note issued by the Seller dated 31 March 2006 in the amount of US$160,000,000 with floating rate entered into between the Seller and DB Trustee, pursuant to which the Seller has charged its interests in the BVI Companies and their respective fixed assets and currents assets to DB Trustee and each of the BVI Companies has pledged the land, property, facilities, mining right, right of insurance and deposits in its respective PRC Subsidiary to 德意志銀行上海分行 (Shanghai Branch of Deutsche Bank AG)
"DB Warrants"	the warrants, which confer rights to subscribe for approximately 10.7374% equity interest of the Seller, issued by the Seller pursuant to the warrant instrument dated 31 March 2006 entered into among Deutsche Bank AG, Firstwealth Holdings Limited, Parkdide AllLiance Limited, Figertips Group Limited, Tradestate Investments Limited, Senwide Limited, Cosmos Glory Investments Limited and Okaynet.com Limited
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at the Falcon Room Basement Luk Kwok Hotel, No. 72 Gloucester Road, Wanchai, Hong Kong on 18 July 2008 at 10:30 a.m. for approving the Agreement and the transactions contemplated therein, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof)
"Enlarged Group"	the Group as enlarged by the Acquisition
"Fine Power"	Fine Power Group Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of Shougang

"First Shanghai"	First Shanghai Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam, being independent non-executive Directors
"Independent Shareholders"	Shareholders other than Mr. Wong and his associates
"Independent Third Parties"	to the best of the Directors' knowledge, information and belief after making reasonable enquiries, third parties independent of the Company and its connected persons
"In-Place Resources"	the in situ coal tonnage before any adjustments for mining recovery, mining dilution, and coal beneficiation are applied
"Issue Price"	an issue price of HK$4.5 per Consideration Share
"Latest Practicable Date"	23 June 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30 September 2008 or such later date as the Buyer and the Seller may determine
"Luensang A"	山西聯盛能源有限公司 (Shanxi Luensheng Energy Limited), a company established under the laws of the PRC
"Luensang B"	山西聯盛能源投資有限公司 (Shanxi Luensheng Energy Investment Limited), a company established under the laws of the PRC
"Luenshan"	柳林縣聯山煤化有限公司 (Liulin Luenshan Coking Co., Ltd), a company established under the laws of the PRC and a non-wholly owned subsidiary of the Company
"Mine A"	an operating mine owned by PRC Subsidiary A

"Mine B"	an operating mine owned by PRC Subsidiary B
"Mine C"	an operating mine owned by PRC Subsidiary C
"Mines"	Mine A, Mine B and Mine C
"Mr. Wong"	Mr. Wong Lik Ping, the controlling Shareholder, executive Director and Chairman of the Company
"Mr. Wong Placing"	a placing by the Placing Agent of 100,000,000 Mr. Wong Placing Shares to Mr. Wong under the Wong Placing Letter
"Mr. Wong Placing Letter"	a conditional placing letter entered into between the Placing Agent and Mr. Wong as a placee pursuant to which the Placing Agent agreed to place to Mr. Wong the Mr. Wong Placing Shares at HK$4.8 per Mr. Wong Placing Share
"Mr. Xing"	Mr. Xing Libin, the controlling shareholder of the Seller
"Mr. Xing's Consideration Shares"	new Shares credited as fully paid in the capital of the Company to be issued to Mr. Xing under the Agreement
"Mr. Xing's Net Indebtedness"	the amount equal to (x) the indebtedness (including principal, accrued but unpaid interests, fees, penalties or otherwise) owed by Mr. Xing to the Target Group minus (y) the indebtedness (including principal, accrued but unpaid interests, fees, penalties or otherwise) owed by The Target Group to Mr. Xing (from time to time)
"Mrs. Xing"	李風曉 (Li Fung Xiao), being the spouse of Mr. Xing
"Mutual Coal Supply Contract"	the mutual coal supply contract entered into among PRC Subsidiaries dated 2 June 2008 in relation to the trading of raw coking coal among PRC Subsidiaries
"Other Owners"	the ultimate owners of the Seller other than Mr. Xing
"Party D"	Mr. Xing and his associates
"Placing"	a placing by the Placing Agent of Placing Shares with placee(s) under the Placing Agreement
"Placing Agreement"	a conditional placing agreement dated 15 June 2008 entered into between the Company and the Placing Agent in relation to the Placing

"Placing Shares"	up to 450,000,000 new Shares to be issued under the Placing
"Post Completion Escrow Agent"	CitiBank or other trustee to be appointed by the Seller and the Buyer
"Post Completion Escrow Letter"	an escrow letter to be signed by the Buyer, the Seller and the Post Completion Escrow Agent in relation to, among other things, the escrow arrangement of the Escrow Cash and the Consideration Shares
"PRC"	the People's Republic of China, for the purpose of this circular only, excludes Hong Kong, Taiwan and Macau Special Administrative Region
"PRC Subsidiaries"	PRC Subsidiary A, PRC Subsidiary B and PRC Subsidiary C
"PRC Subsidiary A"	Shanxi Liulin Xingwu Coalmine Company Limited (山西柳林興無煤礦有限責任公司), a company incorporated in the PRC with limited liability and a subsidiary of Company A
"PRC Subsidiary B"	Shanxi Liulin Jinjiazhuang Coal Company Limited (山西柳林金家莊煤業有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Company B
"PRC Subsidiary C"	Shanxi Liulin Zhaiyadi Coal Company Limited (山西柳林寨崖底煤業有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Company C
"Recoverable Reserves"	the tonnage produced in the mining process prior to any adjustments for coal beneficiation, which reflect mining recovery, and mining dilution adjustments to the in-place coal tonnage
"Sale Loans"	(i) the unsecured shareholder's loan advanced by the Seller to Company A. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US$20,199,501 (approximately HK$157,556,000); (ii) the unsecured shareholder's loan advanced by the Seller to Company B. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US$30,299,252 (approximately HK$236,334,000); and

	(iii) the unsecured shareholder's loan advanced by the Seller to Company C and the amount due from Company C to the Seller in the current account of Company C. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US$14,214,463.80 (approximately HK$110,873,000) and the amount due to the Seller from Company C (non-interest bearing) amounted to US$80,750,000 (approximately HK$629,850,000)
"Sale Shares"	the entire issued shares of each of the BVI Companies comprising: (i) 1 share of US$1 each in the issued capital of Company A, being the entire issued share capital of Company A; (ii) 1 share of US$1 each in the issued capital of Company B, being the entire issued share capital of Company B; and (iii) 1 share of US$1 each in the issued capital of Company C, being the entire issued share capital of Company C
"Second Placing"	a placing by the Placing Agent of Placing Shares with placee (s) under the Second Placing Agreement on a fully underwritten basis
"Second Placing Agreement"	a conditional placing agreement dated 20 June 2008 entered into between the Company and the Placing Agent in relation to the Second Placing
"Second Placing Share(s)"	410,000,000 new Shares to be issued under the Second Placing
"Seller"	Fortune Dragon Group Limited, a company incorporated in BVI with limited liability
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the existing issued share capital of the Company
"Shareholders"	holders of Shares
"Shougang"	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability

"Shougang Placing"	a conditional placing letter entered into between the Placing Agent, Fine Power as a placee and Shougang as a guarantor pursuant to which the Placing Agent agreed to place to Fine Power the Shougang Placing Shares at HK$4.60 per Shougang Placing Share
"Shougang Placing Shares"	450,000,000 new Shares to be issued to Fine Power under the Shougang Placing Letter
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supply Contract"	the supply contract entered into among PRC Subsidiaries and Party D dated 2 June 2008, pursuant to which PRC Subsidiaries will purchase raw coking coal, electricity, accessories and small tools from Party D and Party D will purchase raw coking coal from PRC Subsidiaries
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Target Group"	the BVI Companies and their respective subsidiaries
"Target Group A"	Company A and its subsidiaries
"Target Group B"	Company B and its subsidiaries
"Target Group C"	Company C and its subsidiaries
"Technical Review Report"	the technical review report for the Mines prepared by BOYD
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Mt"	million tonnes
"Mtpa"	million tonnes per annum
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"VAT"	Value added tax
"%"	per cent.

For the purpose of this circular, unless otherwise stated all amounts in RMB are translated into HK$ at an exchange rate of RMB1: HK$1.11346 and all amounts in US$ are translated into HK$ at an exchange rate of US$1: HK$7.8. No representation is made that any amounts in RMB and HK$ and/or US$ and HK$ can be or could have been converted at the relevant dates at the above rates or at any other rates at all.

福　山　國　際　能　源　集　團　有　限　公　司
FUSHAN INTERNATIONAL ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)
(Stock Code: 639)

Executive Directors:
Mr. Wong Lik Ping *(Chairman)*
Mr. So Kwok Hoo
Mr. Xue Kang

Non-Executive Directors:
Mr. Li King Luk

Independent Non-Executive Directors:
Mr. Kee Wah Sze
Mr. Choi Wai Yin
Mr. Chan Pat Lam

Registered Office:
12th Floor
Kwan Charter Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

25 June 2008

To the Shareholders,

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND POSSIBLE CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

On 21 May 2008, the Board announced that on 9 May 2008, the Company, the Buyer (a wholly owned subsidiary of the Company) and Mr. Wong (being the controlling Shareholder, an executive Director and Chairman of the Company) entered into the Agreement with the Seller and Mr. Xing (being the controlling shareholder of the Seller), pursuant to which the Buyer agreed to acquire and the Seller agreed to sell the Sale Shares and the Sale Loans at a consideration of HK$10,530,000,000 (subject to adjustments), of which HK$4,860,000,000 (subject to adjustments) will be satisfied in cash and HK$5,670,000,000 will be satisfied by the issue and allotment of 1,260,000,000 Consideration Shares at the Issue Price, subject to the terms and conditions of the Agreement.

On 4 June 2008, the Board announced that on 2 June 2008, the PRC Subsidiaries entered into, among others, the Supply Contract with Party D and the Mutual Coal Supply Contract.

On 15 June 2008, the Company entered into: (i) the Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to act as agent for the Company on a best efforts basis to procure placee(s) for up to 450,000,000 Placing Shares at the placing price of HK$4.60 per Placing Share. On the same date, Shougang as a guarantor and Fine Power (a wholly owned subsidiary of Shougang) as a placee have entered the Shougang Placing Letter with the Placing Agent pursuant to which the Placing Agent agreed to place to Fine Power 450,000,000 Shougang Placing Shares at a placing price of HK$4.60 per Shougang Placing Share; (ii) a long term strategic cooperation agreement with Shougang and Mr. Wong (as a guarantor of the Company) pursuant to which Shougang (or its nominees) and the Company intend to establish a steady and long term relationship for cooperation. Among other things, the Company (or procure its subsidiaries) agrees to supply and Shougang (or any companies designated by Shougang) agrees to purchase not less than two million tonnes of premier clean coking coal for each calendar year from 2009 onwards; and (iii) a deed of undertakings with Shougang and Fine Power pursuant to which the Company agreed to give certain representations, warranties and undertakings in favour of Shougang and Fine Power. Among other things, the Company will procure a board meeting of the Company to be held in which (i) a person nominated by Shougang shall be appointed as a Director; and (ii) a person nominated by Shougang shall be appointed as a deputy general manager of each of PRC Subsidiary A, PRC Subsidiary B and PRC Subsidiary C. Details of the transactions are set out in the announcement of the Company dated 17 June 2008.

On 20 June 2008, the Company entered into the Second Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to act as agent for the Company on a fully underwritten basis to procure placee(s) for 410,000,000 Second Placing Shares at the placing price of HK$4.80 per Second Placing Share. On the same date, China Merit (a company wholly owned by Mr. Wong) as one of placees has entered the Mr. Wong Placing Letter with the Placing Agent pursuant to which the Placing Agent agreed to place to Mr. Wong 100,000,000 Mr. Wong Placing Shares, representing approximately 4.10% of the issued share capital of the Company and (ii) approximately 2.19% of the issued share capital of the Company as enlarged by the issue and allotment of (a) the 410,000,000 Second Placing Shares; (b) the 450,000,000 Shoughang Placing Shares and (c) the Consideration Shares upon Completion, at a placing price of HK$4.80 per Mr. Wong Placing Share. The Placing Shares will be issued under a special mandate to be approved in the EGM and the Mr. Wong Placing constitutes a connected transaction for the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM with vote to be taken on a poll. A circular containing, among other things, details of the Second Placing, the Mr. Wong Placing, the recommendation from the independent board committee, the advice of the independent financial adviser and a notice to convene the EGM, will be despatched to the Shareholders as soon as practicable. Details of the transactions are set out in the announcement of the Company dated 20 June 2008.

As the applicable percentage ratios for the Acquisition under the Listing Rules are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. The Seller is effectively owned as to approximately 56.92% by Mr. Xing, 7.50% by Mr. Wong and 35.58% by the Other Owners who are Independent Third Parties. Mr. Xing is a substantial shareholder of Luenshan, (a non-wholly owned subsidiary of the Company) and is therefore a connected person of the Company. Based on Mr. Xing's shareholding in the Seller, the Seller is an associate of Mr. Xing and is therefore a connected person of the Company. As such, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM with vote to be taken on a poll.

Upon Completion, the PRC Subsidiaries will become non-wholly owned subsidiaries of the Company. Accordingly, the transactions contemplated under the Supply Contract and the Mutual Coal Supply Contract will also constitute possible continuing connected transactions of the Company under Rule 14A.34 of the Listing Rules. In addition, as the annual cap of each of the Supply Contract and the Mutual Coal Supply Contract exceeds 2.5% of the applicable percentage ratios, the Supply Contract and the Mutual Coal Supply Contract therefore are subject to the approval of the Independent Shareholders at the EGM with vote to be taken on a poll.

Mr. Wong and his associates (the controlling Shareholder interested in 1,239,950,000 Shares, representing approximately 50.83% of the issued share capital of the Company as at the Latest Practicable Date) will be required to abstain from voting at the EGM. The Independent Board Committee has been appointed by the Board to advise the Independent Shareholders on the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof). First Shanghai has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to give the Shareholders with details of the Agreement, the Supply Contract, the Mutual Coal Supply Contract, the recommendation from the Independent Board Committee, the advice of First Shanghai and a notice to convene the SGM to consider and, if thought fit, pass the resolutions to approve the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof).

THE AGREEMENT DATED 9 MAY 2008

Parties

Company:	Fushan International Energy Group Limited, a company incorporated in Hong Kong with limited liability and the Shares are listed on the Stock Exchange
Buyer:	Jade Green Investments Limited, a company incorporated in BVI with limited liability and is a wholly owned subsidiary of the Company
Mr. Wong:	Mr. Wong Lik Ping, being the controlling Shareholder, executive Director and Chairman of the Company
Seller:	Fortune Dragon Group Limited, a company incorporated in BVI with limited liability and is an investment holding company
Guarantor:	Mr. Xing Libin, being the controlling shareholder of the Seller

The Seller is effectively owned as to approximately 56.92% by Mr. Xing, 7.50% by Mr. Wong and 35.58% by the Other Owners who are Independent Third Parties. Mr. Xing is a substantial shareholder of Luenshan, (a non-wholly owned subsidiary of the Company) and is therefore a connected person of the Company. Based on Mr. Xing's shareholding in the Seller, the Seller is an associate of Mr. Xing and is therefore a connected person of the Company.

Assets to be acquired

Sale Shares: the entire issued shares of each of the BVI Companies comprising: (i) 1 share of US$1 each in the issued capital of Company A, being the entire issued share capital of Company A; (ii) 1 share of US$1 each in the issued capital of Company B, being the entire issued share capital of Company B; and (iii) 1 share of US$1 each in the issued capital of Company C, being the entire issued share capital of Company C

Sale Loans:

(i) the unsecured shareholder's loan advanced by the Seller to Company A. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US$20,199,501 (approximately HK$157,556,000);

(ii) the unsecured shareholder's loan advanced by the Seller to Company B. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US$30,299,252 (approximately HK$236,334,000); and

(iii) the unsecured shareholder's loan advanced by the Seller to Company C and the amount due from Company C to the Seller in the current account of Company C. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US$14,214,463.80 (approximately HK$110,873,000) and the amount due to the Seller from Company C (non-interest bearing) amounted to US$80,750,000 (approximately HK$629,850,000).

Consideration

The consideration for the acquisition of the Sale Shares and the Sale Loans of HK$10,530,000,000 (subject to adjustment) was arrived at after arm's length negotiations between the Buyer and the Seller and represents a discount of approximately 10.84% to the sum of (1) the fair value of RMB4,308,525,000 (approximately HK$4,797,370,000) attributable to 87.75% shareholders' equity of PRC Subsidiary A as at 30 April 2008; (2) the fair value of RMB2,964,000,000 (approximately HK$3,300,295,000) attributable to 65% shareholders' equity of PRC Subsidiary B as at 30 April 2008; and (3) the fair value of RMB3,334,500,000 (approximately HK$3,712,832,000) attributable to 95% shareholders' equity of PRC Subsidiary C as at 30 April 2008 of RMB10,607,025,000 (approximately HK$11,810,497,000). The business valuations are valued by Greater China Appraisal Limited based on the market transaction method which determines the fair value of an asset by reference to the transaction prices, or valuation multiples implicit in the transaction prices, of identical or similar assets in the market. Greater China Appraisal Limited and its ultimate beneficial owners are Independent Third Parties. Details of the valuation of the Mines are set out in Appendix VII to this circular.

Subject to the fulfillment (or waiver, if applicable) of the conditions precedent to Completion:

(a) on the Completion Date, the Buyer shall pay HK$3,860,000,000 (the "Initial Cash Consideration"), being 36.657% of the Consideration, in cash,

  (i) of which an amount equal to the DB Indebtedness shall be applied to discharge the DB Indebtedness and release of all encumbrances created pursuant to the DB Note; and

  (ii) the remaining Initial Cash Consideration, if any, shall be paid to the Seller;

(b) on the Completion Date, the Buyer shall pay HK$500,000,000 (the "Escrow Cash"), being 4.748% of the Consideration, in cash in escrow subject to the terms and conditions of the Completion Escrow Letter and the Post Completion Escrow Letter;

(c) on the Completion Date, the Buyer shall pay HK$5,670,000,000, being 53.846% of the Consideration, to the Seller to be satisfied by procuring the Company allotting and issuing 1,260,000,000 Consideration Shares credited as fully paid in the share capital of the Company at the Issue Price to the respective nominees of Mr. Xing, Mr. Wong and the Other Owners in proportion to the effective interests of Mr. Xing, Mr. Wong and the Other Owners in the Seller (or the other allottees in such proportion to be notified by the Seller to the Buyer no later than 18 days from the date of the Announcement). The Seller has undertaken to the Buyer that, from the date of the Agreement up to the Completion Date, all the allottees of the Consideration Shares (other than Mr. Xing, Mr. Wong and/or their associates) should not be connected persons of the Company and that Mr. Xing and/or his associates should be allotted no less than 50.7809% of the Consideration Shares. The Consideration Shares shall be placed in escrow pursuant to the terms and conditions of the Post Completion Escrow Letter and shall be subject to the lockup restrictions as more particularly described in the section headed "Lock-up Arrangements" below. Please also refer to the section headed "Arrangements of Mr. Xing's Consideration Shares" for details; and

(d) within five Business Days from the expiry of the six month period from the Completion Date, the Buyer shall pay HK$500,000,000 (the "Guarantee Cash"), being 4.748% of the Consideration, in cash to the Seller, subject to adjustment, if any, as more particularly described in the section headed "Settlement of the Escrow Cash and the Guarantee Cash" below.

The aggregate amount of the net proceeds of HK$3,937,000,000, being the sum of net proceed of HK$2,015,000,000 from the Shougang Placing and the net proceed of HK$1,922,000,000 from the Second Placing, will be used to settle a portion of the cash Consideration of HK$4,860,000,000. The balance of HK$923,000,000 of the cash Consideration will be financed by a bank loan to be offered by a fellow subsidiary of BOCI to the Company.

Settlement of the Escrow Cash and the Guarantee Cash

Subject to the Completion, within five Business Days from the issuance of the Completion Account, the Escrow Cash shall be deducted (if required) according to the following terms and conditions and the remaining amount of the Escrow Cash (if any) shall be released to the Seller or the Buyer (as the case may be):

1. The amount to be deducted from the Escrow Cash (the "Deductible Amount") shall be the sum of (i) Mr. Xing's Net Indebtedness as at the Completion Date based on the Completion Account; (ii) if the aggregate of the net assets value of the Target Group as at the Completion Date based on the Completion Account is lower than the 2007 Net Assets Value (disregarding the effect, if any, arising from the dividends payment as more particularly described in the section headed "Special Dividends" below), such difference; (iii) if Completion takes place after 31 July 2008 and the amount of dividends paid by the BVI Companies and the PRC Companies for the six months ended 30 June 2008 based on the management accounts exceeds the distributable profits of the BVI Companies and the PRC Companies based on the Completion Accounts, such difference; and (iv) the outstanding determined claim amounts owed to the Buyer (after deducting the outstanding determined claim amounts owed to the Seller (if any)).

2. In the event that the Deductible Amount is less than HK$500,000,000, the Buyer and the Seller shall procure the release of the Escrow Cash (together with the accrued interest) to the Seller. The Deductible Amount shall be deducted from the Guarantee Cash (such deducted Guarantee Cash, the "New Guarantee Cash"). Mr. Xing's Net Indebtedness as at the Completion Date (if any) shall be deemed to be fully settled accordingly. Within five Business Days from the expiry of the six month period from the Completion Date, the Buyer shall deduct from the New Guarantee Cash the outstanding determined claim amounts owed to the Buyer (if any) as at the expiry of six months from the Completion Date and pay the remaining balance of the New Guarantee Cash (if any) to the Seller.

3. In the event that the Deductible Amount is equal to or more than HK$500,000,000 but less than HK$1,000,000,000, the Buyer shall not be required to pay the Guarantee Cash to the Seller but the Buyer shall release from the Escrow Cash an amount equal to the difference between HK$1,000,000,000 and the Deductible Amount, together with the accrued interest of such amount, to the Seller. The balance of the Escrow Cash together with the interest accrued thereon shall be returned to the Buyer. Mr. Xing's Net Indebtedness as at the Completion Date, if any, shall be deemed to be fully settled accordingly.

4. In the event that the Deductible Amount is more than HK$1,000,000,000, the Buyer shall not be required to pay the Guarantee Cash to the Seller and the Escrow Cash together with the interest accrued thereon shall be returned to the Buyer. Mr. Xing shall pay to the Buyer an amount equal to the remaining balance of the Deductible Amount minus HK$1,000,000,000 within one month from the issuance of the Completion Account. Mr. Xing's Net Indebtedness shall be deemed to be fully settled accordingly.

Arrangements of Mr. Xing's Consideration Shares

1. In the event that there are no outstanding claims from the Buyer as of the expiry of the first anniversary of the Completion Date, Mr. Xing's Consideration Shares shall be released to Mr. Xing within five Business Days from the first anniversary of the Completion Date.

2. In the event that there are any outstanding determined claim amounts owed to the Buyer (after deducting the outstanding determined claim amounts owed to the Seller (if any)) during the period from the finalization of the Completion Account up to the first anniversary of the Completion Date and the Guarantee Cash is not sufficient to set off against such determined claim amounts, the Seller and Mr. Xing shall pay the outstanding determined claim amounts to the Buyer in cash. In the event that the Seller and Mr. Xing cannot pay such outstanding determined claim amounts in cash, at the request of Mr. Xing or the Buyer, Mr. Xing's Consideration Shares shall be released from escrow (the "Mr. Xing's Returned Consideration Shares") on the condition that Mr. Xing shall do anything appropriate to cooperate with the Buyer to dispose of all or part of the Mr. Xing's Returned Consideration Shares at a reasonable market price and apply the proceeds from such disposal to settle such determined claim amounts. The remaining Mr. Xing's Consideration Shares (if any) shall continue to be held in escrow.

3. In the event that there are claims from the Buyer as of the expiry of the first anniversary of the Completion Date but such claim amounts (after deducting therefrom the outstanding determined claim amounts owed to the Seller (if any)) has not been determined, certain Mr. Xing's Consideration Shares with a value calculated based on the higher of the weighted average of the closing price of the Shares on the 30 consecutive trading days prior to the expiry of the first anniversary of the Completion Date or the Issue Price (subject to adjustments in relation to any share split or share consolidation) equal to such relevant claim amount (the "Mr. Xing's Deducted Consideration Shares") shall continue to be held in escrow and the remaining balance of Mr. Xing's Consideration Shares shall be released to Mr. Xing:

    (a) in the event that the Buyer and the Seller cannot determine such claim amount or the Buyer does not proceed to arbitration in relation thereto within three months from the expiry of the first anniversary of the Completion Date, Mr. Xing's Deducted Consideration Shares shall be released to Mr. Xing on the expiry of the three months period as mentioned above;

    (b) in the event that the Buyer and the Seller proceed to arbitration within three months from the expiry of the first anniversary of the Completion Date, Mr. Xing's Deducted Consideration Shares shall continue to be held in escrow until the ruling of the arbitration having been finalized. In the event that the ruling concludes that no amount shall be paid by the Seller, Mr. Xing's Deducted Consideration Shares shall be released to Mr. Xing within five Business Days from the date of the ruling;

(c) in the event that the ruling concludes that the Seller shall pay the claim amounts to the Buyer and the Seller does not pay such claim amounts to the Buyer within one months from the date of the ruling, Mr. Xing shall take all appropriate actions to cooperate with the Buyer to dispose of all or part of the Mr. Xing's Deducted Consideration Shares at a reasonable market price and apply the proceeds from such disposal to settle such claim amounts. In the event that the proceeds from such disposal is not sufficient to set off against such claim amounts, Mr. Xing shall settle the outstanding claim amounts within one month from the date of the ruling; and

(d) in the event that the Seller and Mr. Xing can settle the arbitration claim amounts without disposal of all the Mr. Xing's Deducted Consideration Shares, the remaining Mr. Xing's Deducted Consideration Shares shall be released to Mr. Xing.

Consideration Shares

The issue price for the Consideration Shares of HK$4.5 per Consideration Share has been determined with reference to the closing price of the Share as quoted on the Stock Exchange on 31 January 2008, being the date of the memorandum of understanding dated 31 January 2008 entered into between the Company and the Seller in relation to the Acquisition and represents:–

(a) a discount of approximately 0.66% to the closing price of HK$4.53 per Share as quoted on the Stock Exchange on 9 May 2008 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Announcement);

(b) a discount of approximately 3.27% to the closing price of HK$4.652 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including 9 May 2008;

(c) a premium of approximately 3.97% over the closing price of HK$4.328 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including 9 May 2008;

(d) approximately 13.76 times over the audited consolidated net asset value per Share of approximately HK$0.327 as at 31 December 2007; and

(e) a discount of approximately 11.07% to the closing price of HK$5.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on 2,439,555,352 Shares in issue as at the Latest Practicable Date, the 1,260,000,000 Consideration Shares represent approximately 51.65% of the existing issued share capital of the Company and approximately 34.06% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. Please refer to the section headed "Lockup Arrangements" for the lock-up restrictions on the Consideration Shares. The Acquisition will not result in a change of control of the Company.

The Consideration Shares will be issued under a special mandate to be approved in the EGM. Application will be made by the Company to the Listing Committee of the Stock Exchange for the granting of the listing of and permission to deal in the Consideration Shares.

Lock-up Arrangements

So long as the Buyer, the Company and Mr. Wong are not in breach of certain obligations under the Agreement, the Consideration Shares shall be subject to the lock-up restrictions as follows:

In respect of Mr. Xing

(A) From the Completion Date up to and including the first anniversary of the Completion Date (the "One Year Lock-up Period"), without the prior written consent of the Seller and the Company, Mr. Xing shall not, directly or indirectly, and shall procure that none of his associates or companies controlled by him shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of any of Mr. Xing's Consideration Shares or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Mr. Xing's Consideration Shares. However, certain number of Mr. Xing's Deducted Consideration Shares shall be returned to Mr. Xing according to section headed "Arrangement of Mr. Xing's Consideration Shares" above.

(B) In the event that there are relevant claims from the Buyer as of the first anniversary of the Completion Date, the One Year Lock-up Period shall be extended and applicable to Mr. Xing's Deduct Consideration Shares as mentioned in the section headed "Arrangements of Mr. Xing's Consideration Shares" above and certain number of the Mr. Xing's Deducted Consideration Shares shall be returned to Mr. Xing to handle (including disposal of) and use the proceeds of such disposal to settle the outstanding determined claim amounts.

In respect of each of the allottees of the Consideration Shares (other than Mr. Xing)

From the Completion Date up to and including the date falling six months from the Completion Date, without the prior written consent of the Seller and the Company, each of the the allottees and its ultimate owners shall not, directly or indirectly, and shall procure that none of his associates or companies controlled by him shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of any of the Consideration Shares to be allotted to him under the Agreement or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Consideration Shares.

Special Dividends

Dividends for the year ended 31 December 2007

The parties to the Agreement agreed that the Seller shall be solely entitled to share, declare and distribute the shareholder's attributable profits of the BVI Companies for the year ended 31 December 2007 (if any). The Seller and Mr. Xing jointly and severally guarantee to the Buyer that the shareholder's attributable profits of the BVI Companies for the year ended 31 December 2007 shall be used to set off against Mr. Xing's Net Indebtedness.

Dividends for the first half year of 2008

In the event that the Completion takes place prior to 31 July 2008, the Buyer shall be entitled to or shall bear the shareholder's attributable profits/losses (as the case may be) of the BVI Companies and the PRC Subsidiaries and shall be entitled to the dividends declared and distributed by the BVI Companies and the PRC Subsidiaries since 1 January 2008.

In the event that the Completion takes place after 31 July 2008, the Seller shall be entitled to or shall bear the shareholder's attributable profits profits/losses (as the case may be) of the BVI Companies and the PRC Subsidiaries for period from 1 January 2008 to 30 June 2008 but the dividends for the first half year of 2008 of the BVI Companies and the PRC Subsidiaries shall only be declared and distributed after 31 July 2008. The Seller and Mr. Xing jointly and severally guarantee to the Buyer that the dividends for the first half year of 2008 of the BVI Companies and the PRC Subsidiaries for Mr. Xing and his associates shall be used to set off against Mr. Xing's Net Indebtedness.

Special dividends of not more than HK$20,000,000

Irrespective of whether the Completion takes place before or after 31 July 2008, the BVI Companies shall distribute special dividends in aggregate of not more than HK$20,000,000 to the Seller for its working capital purpose.

Guarantee from the Company and Mr. Wong

1. The Company and Mr. Wong, collectively, individually, irrevocably and unconditionally, guarantee to the Seller that the Buyer will perform its obligations under the Agreement and the transactions contemplated thereunder on a timely basis.

2. The Company and Mr. Wong, unconditionally and irrevocably, guarantee the Seller that the Consideration Shares to be issued to the Seller (other than Mr. Wong) by the Company on the Completion Date shall not be less than 25% of the fully diluted issued share capital of the Company (from time to time) as enlarged by the Consideration Shares on the date of allotment (the "Minimum Shareholding").

3. If the Consideration Shares are diluted to less than the Minimum Shareholding as a result of equity capital fund raising of the Company for the settlement of the loans, funding requirements and/or the cash consideration under the Agreement, Mr. Wong undertakes to indemnify the Seller for the shortfall of the Minimum Shareholding in accordance with the formula below.

4. The Seller has the right to request Mr. Wong to use cash or Shares as compensation, in accordance with the following formulae:

   X = (A x 25%) – B

   A = the total fully diluted issued share capital of the Company (from time to time)

   B = the number of Consideration Shares

   X = compensation payable equal to the number of Shares to be compensated in order to restore the Minimum Shareholding (the "Compensation Shares")

   If the Seller elects cash as compensation, (a) Mr. Wong shall base on the weighted average of the closing price of the Shares for the last 30 consecutive trading days prior to the date (the "Compensation Date") on which the shareholding of the Consideration Shares drops below the Minimum Shareholding, or the Issue Price (subject to adjustments in relation to any share split or share consolidation), whichever is higher; (b) and multiply it by the number of the Compensation Shares.

   Subject to the compliance with the applicable laws, if the Seller elects Shares as compensation, Mr. Wong shall compensate the number of the Compensation Shares on the Compensation Date by way of Shares.

   Mr. Wong shall settle the compensation within three months from the Compensation Date.

5. If the Seller requests Mr. Wong to use Shares as compensation resulting in the Seller and the parties acting in concert with it, including Mr. Wong and his associates, an obligation to make an offer for all the Shares (in accordance with the Takeovers Code), the Seller and Mr. Xing shall be responsible for all the expenses incurred by the Buyer, the Company and/or Mr. Wong in relation to such offer.

Pursuant to the undertaking dated 19 May 2008 from Mr. Xing and the Seller, Mr. Xing and the Seller undertake to Mr. Wong and the Company that the Seller will not elect Shares as compensation if such compensation arrangement will result in any change in control (as defined in the Takeovers Code) implications and/or any obligations on the Seller, Mr. Xing and their respective parties acting in concert with them and/or Mr. Wong and any parties acting in concert with him to make a general offer under the Takeovers Code. Accordingly, Mr. Wong will continue to be the single largest Shareholder after the compensation arrangement.

Undertakings

The Seller and Mr. Xing undertake to the Buyer, inter alia, the following:

1. The total capital expenditures and the total liabilities (including, but not limited to, the guarantees, the claims or other contingent liabilities but not including the trading liabilities resulting from the ordinary course of business) of the Target Group up to the Completion Date shall not be more than RMB330,000,000 (approximately HK$367,442,000) and RMB650,000,000 (approximately HK$723,749,000) respectively;

2. Mr. Xing's Net Indebtedness shall not be more than RMB800,000,000 (approximately HK$890,768,000) (including Mr. Xing and/or his associates owed to the Target Group amounted to RMB480,000,000 (approximately HK$534,461,000) and the current account balance of Mr. Xing and/or his associates and the Target Group resulting from the normal business transactions amounted to RMB320,000,000 (approximately HK$356,307,000)); and

3. The Seller shall provide the name list of the allottees in proportion for the allotment of the Consideration Shares no later than 18 days from the date of the Announcement. The Seller also undertakes to the Buyer that (i) Mr. Xing and/or his associates should be allotted no less than 50.7809% of the Consideration Shares; (ii) from the date of the Agreement up to the Completion Date, all the allottees of the Consideration Shares (other than Mr. Xing, Mr. Wong and/or their associates) should not be connected persons of the Company and (iii) all allottees and their ultimate owners shall sign the lock up agreement.

The Buyer undertakes to the Seller and Mr. Xing that the total capital expenditures and the total liabilities (including, but not limited to, the guarantees, the claims or other contingent liabilities but not including (a) the trading liabilities resulting from the ordinary course of business and (b) capital expenditures and liabilities arising from the Agreement and the transactions contemplated thereunder) of the Group up to the Completion Date shall not be more than HK$500,000,000 and HK$750,000,000, respectively.

Conditions

Completion is subject to, inter alia, fulfillment or, if applicable, waiver of the following conditions on or before the Long Stop Date:

(i) all consents and approvals of, notices to and filings or registrations with any government authority or any other person required in connection with the entering into and performance of the terms of the Agreement, the other transaction documents and the transactions contemplated hereby and thereby pursuant to any applicable laws effective as of the Completion Date, or pursuant to any contract binding on the Seller and Mr. Xing (or any of its direct and indirect owners including the allottees) or any member of the Target Group shall have been obtained or made;

(ii) all consents and approvals of, notices to and filings or registrations with any government authority or any other person required in connection with the entering into and performance of the terms of the Agreement, the other transaction documents and the transactions contemplated hereby and thereby pursuant to any applicable laws effective as of the Completion Date, or pursuant to any contract binding on the Buyer, Mr. Wong and the Company or its subsidiaries shall have been obtained or made;

(iii) there having been since the date of the Agreement, (i) no material adverse change; and (ii) no change in any applicable laws in any of the jurisdictions in which any member of the Target Group conducts business that would result in a material adverse change;

(iv) there having been since the date of the Agreement, (i) no material adverse change; and (ii) no change in any applicable laws in any of the jurisdictions in which a member of the Group does business that would result in a material adverse change;

(v) the entering into of the Completion Escrow Letter;

(vi) the entering into of the Post Completion Escrow Letter;

(vii) the Acquisition and the settlement of part of the Consideration by issuing of the Consideration Shares will not trigger any obligations on Mr. Wong and parties acting in concert with him to make a general offer under Takeovers Code;

(viii) the Acquisition and the settlement of part of the Consideration by issuing of the Consideration Shares will not trigger any obligations on the Seller, Mr. Xing and their respective parties acting in concert with them to make a general offer under the Takeovers Code;

(ix) the Stock Exchange will not indicate that the Acquisition and the transactions contemplated hereunder will be deemed as reverse takeover under Rule 14.06(b) of the Listing Rules;

(x) the Company having obtained a debt financing from the financial institution(s) and/or raised funds in the form of issuing new Shares for an aggregate sum of not less than HK$4,360,000,000 for payment of the Initial Cash Consideration and the Escrow Cash;

(xi) the obtaining by the Buyer and the Company of all necessary consents, authorizations and approvals (or, as the case may be, the relevant waiver) and the completion of all necessary filings or registration of any kind by the Buyer and the Company in connection with the entering into and performance of the terms of the Agreement, the other transaction documents and the transactions contemplated hereby and thereby which may be required under the Listing Rules, the Securities and Futures Ordinance and any other applicable laws (including but not limited to the approval of the Independent Shareholders, as required under the Listing Rules); and

(xii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares (and such listing and permission not subsequently revoked prior to the delivery of the definitive share certificates representing the Consideration Shares).

Conditions (i) and (iii) can be waived by the Buyer and Conditions (ii) and (iv) can be waived by the Seller on or before the Long Stop Date.

Completion

Completion shall take place on the fifth Business Day or other mutually agreeable date from the date on which (not being later than the Long Stop Date) the last outstanding condition (other than, among other things, Condition (x)) of the Agreement is satisfied or, if applicable, waived.

If Completion does not take place on or before the Long Stop Date, the Agreement shall terminate and each party's further rights and obligations cease immediately without affecting a party's then accrued rights and obligations.

GUARANTEE LETTER BETWEEN MR. XING AND THE BUYER

Mr. Xing also executed a personal guarantee on 9 May 2008 in favour of the Buyer pursuant to which, Mr. Xing unconditionally and irrevocably guarantees to the Buyer, inter alia, that the Seller shall fulfill its obligations on the Agreement and the transactions contemplated thereunder and Mr. Xing shall settle any demanded outstanding amount owed by the Seller to the Buyer under the Agreement and the transactions contemplated thereunder.

THE SUPPLY CONTRACT DATED 2 JUNE 2008

Parties

Party A	:	PRC Subsidiary A
Party B	:	PRC Subsidiary B
Party C	:	PRC Subsidiary C
Party D	:	Mr. Xing and his associates

The PRC Subsidiaries are currently controlled by Mr. Xing and will become non-wholly owned subsidiaries of the Company upon Completion. Upon Completion, as PRC Subsidiary B will become a substantial shareholder of PRC Subsidiary A and an associate of Mr. Xing, PRC Subsidiary B is a connected person of the Company. PRC Subsidiary A is an associate of PRC Subsidiary B and is also a connected person of the Company.

Backgrounds

Each of the PRC Subsidiaries is a sino-foreign joint venture company established in the PRC and operates coal mine which is located at Liulin in Shanxi Province in the PRC. PRC Subsidiary A also operates a coal preparation plant with a designed input and output capacity of 1.2Mtpa and 0.9Mtpa respectively and an electricity plant. Currently, PRC Subsidiary A blends 60% of low sulphur raw coking coal and 40% of high sulphur raw coking coal to produce the cleaned coking coal for sale. As PRC Subsidiary A and PRC Subsidiary B are only producing low sulphur raw coking coal and PRC Subsidiary C is only producing high sulphur raw coking coal, PRC Subsidiary B and PRC Subsidiary C currently sell raw coking coal to PRC Subsidiary A as only PRC Subsidiary A has the coal preparation plant. Since Party D has its own coal preparation plants and coal mines, the PRC Subsidiaries have entered into the supply contracts with Party D in relation to the sale of raw coking coal to Party D. Since only PRC Subsidiary A has its own coal preparation plant and electricity plant, Party D also entered into the supply contracts with PRC Subsidiary A in relation to the sales of high sulphur raw coking coal to PRC Subsidiary A and the purchase of electricity from PRC Subsidiary A. The PRC Subsidiaries purchase accessories and small tools in a centralized order from Party D.

As the PRC Subsidiaries will become non-wholly owned subsidiaries of the Company upon Completion, the Supply Contract has been entered into in order to comply with the Listing Rules, pursuant to which the PRC Subsidiaries will continue to purchase raw coking coal, accessories and small tools from Party D and Party D will continue to purchase raw coking coal and electricity from the PRC Subsidiaries.

Terms

The term of the Supply Contract will commence from the effective date of the Supply Contract (which is expected to be the Completion Date) and terminate on 31 December 2010.

The annual caps on the quantity of the raw coking coal that may be purchased under the Supply Contract are as follows:

Supplier	**Purchaser**	**For the financial year ending 31 December**		
		2008	**2009**	**2010**
		(tones)	*(tones)*	*(tones)*
Party D	PRC Subsidiary A	335,000	157,000	480,000
Party D	PRC Subsidiary B	–	–	215,000
Party D	PRC Subsidiary C	–	–	611,000
PRC Subsidiary A	Party D	15,000	–	–
PRC Subsidiary B	Party D	86,165	–	–
PRC Subsidiary C	Party D	104,625	–	–

The annual caps on the quantity of the electricity that PRC Subsidiary A may sell to Party D under the Supply Contract are as follows:

Supplier	**Purchaser**	**For the financial year ending 31 December**		
		2008	**2009**	**2010**
		(meter)	*(meter)*	*(meter)*
PRC Subsidiary A	Party D	6,256,500	6,256,500	6,256,500

The actual amount and the annual caps on the amounts of raw coking coal that may be purchased under the Supply Contract in monetary terms are as follows:

Supplier	**Purchaser**	**Actual amount for the financial year ended 31 December 2007**	**For the financial year ending 31 December**		
			2008*(Note)*	**2009**	**2010**
		RMB(exclusive of VAT)	*RMB(exclusive of VAT)*	*RMB(exclusive of VAT)*	*RMB(exclusive of VAT)*
Party D	PRC Subsidiary A	89,502,000	220,863,000	111,790,000	369,119,000
Party D	PRC Subsidiary B		–	–	165,335,000
Party D	PRC Subsidiary C		–	–	469,858,000
PRC Subsidiary A	Party D	5,884,000	13,009,000	–	–
PRC Subsidiary B	Party D	37,105,000	74,727,000	–	–
PRC Subsidiary C	Party D	50,251,000	68,978,000	–	–
Total		182,742,000	377,577,000	111,790,000	1,004,312,000

Currently, Party D's coal mines (including the mines owned by PRC Subsidiaries) supply raw coking coal with the coal preparation plants of each other due to different timing and quality requirements. As each of PRC Subsidiary B and PRC Subsidiary C is currently constructing coal preparation plant with a designed input and output capacity of 3.0Mtpa and 2.1Mtpa and such plants are scheduled for completion in 1st quarter of 2009 and June of 2009 respectively, it is expected that the PRC Subsidiaries will (1) continue to supply raw coking coal to Party D in 2008; (2) supply raw coking coal to their own coal preparation plants in 2009; and (3) purchase raw coking coal from Party D in 2010 when their coal preparation plants are in full operation. In 2008, PRC Subsidiary A has purchased high sulphur raw coking coal from Party D and PRC Subsidiary C. It is planned that PRC Subsidiary A will basically purchase the majority of the high sulphur raw coking coal from PRC Subsidiary C and the purchase of high sulphur raw coking coal from Party D will decrease substantially in 2009. In 2010, each of the coal preparation plants of the PRC Subsidiaries will be in full operation. It is expected that the PRC Subsidiaries will purchase more raw coking coal from Party D in 2010 when the coal preparation plants of the PRC Subsidiaries fully utilize the raw coking coal of their own mines.

As the current unit prices (exclusive of VAT) of the low sulphur and high sulphur coking coal of RMB867 per tone and RMB659 per tone respectively has increased substantially as compared to the average unit price of the raw coking coal of RMB514 per tone and RMB268 per tone respectively for the financial year ended 31 December 2007, the 2008 annual caps of raw coking coal to be purchased under the Supply Contract increased significantly as compared with that purchased in 2007.

The actual amount and the annual caps on the amounts of the electricity in monetary terms that PRC Subsidiary A may sell to Party D under the Supply Contract are as follows:

Supplier	Purchaser	Actual amount for the financial year ended 31 December 2007	For the financial year ending 31 December		
			2008*(Note)*	**2009**	**2010**
		(RMB)	*(RMB)*	*(RMB)*	*(RMB)*
PRC Subsidiary A	Party D	2,454,000	2,651,000	2,863,000	3,092,000

The actual amount and the annual caps on the amounts of accessories and small tools in monetary terms that the PRC Subsidiaries may purchase from Party D under the Supply Contract are as follows:

Supplier	Purchaser	Actual amount for the financial year ended 31 December 2007	For the financial year ending 31 December		
			2008*(Note)*	**2009**	**2010**
		(RMB)	*(RMB)*	*(RMB)*	*(RMB)*
Party D	PRC Subsidiary A	3,157,000	1,000,000	1,000,000	1,000,000
Party D	PRC Subsidiary B	10,152,000	1,000,000	1,000,000	1,000,000
Party D	PRC Subsidiary C	2,737,000	1,000,000	1,000,000	1,000,000
Total		16,046,000	3,000,000	3,000,000	3,000,000

Note: The caps for the financial year ending 31 December 2008 will be set based on the period from the effective date of the Supply Contract to 31 December 2008 on a pro rata basis.

As it is expected that the PRC Subsidiaries will purchase most of the accessories and small tools from other suppliers directly other than through Party D upon Completion and the annual caps of accessories and small tools under the Supply Contract is obtained to provide more flexibility for the PRC Subsidiaries, the annual caps of accessories and small tools under the Supply Contract will decrease substantially as compared with that of the financial year ended 31 December 2007.

The quantity and specification of each of the raw coking coal, accessories and small tools to be supplied by the supplier to the purchaser will be subject to individual orders placed by the purchaser from time to time. The unit price of the raw coking coal, accessories and small tools payable by the purchaser to supplier will be no less favourable than the unit price offered to the purchaser by independent suppliers for the same type of raw coking coal, accessories and small tools. Such unit price benchmarks shall be determined with consideration to the existing unit price of raw coking coal, accessories and small tools offered to the Group by independent suppliers, the expected year-on-year increase in the unit price of raw coking coal, accessories and small tools and the quantity of raw coking coal, accessories and small tools to be supplied under the Supply Contract. Amounts payable by the purchaser to the supplier shall be settled in cash within 30 days upon receipt of the purchase.

Conditions of the Supply Contract

The Supply Contract is conditional on the Company's compliance with relevant Listing Rules requirements (including, but not limited to, obtaining approval by the Independent Shareholders at the EGM).

THE MUTUAL COAL SUPPLY CONTRACT DATED 2 JUNE 2008

Parties

Party A	:	PRC Subsidiary A
Party B	:	PRC Subsidiary B
Party C	:	PRC Subsidiary C

The PRC Subsidiaries will become non-wholly owned subsidiary of the Company upon Completion. Upon Completion, as PRC Subsidiary B will become a substantial shareholder of PRC Subsidiary A and an associate of Mr. Xing, PRC Subsidiary B is a connected person of the Company. PRC Subsidiary A is an associate of PRC Subsidiary B and is also a connected person of the Company.

Backgrounds

As mentioned in the paragraph headed "Background" under the Supply Contract, as the coal preparation plants of PRC Subsidiary B and PRC Subsidiary C will commence operation in 1st quarter of 2009 and June 2009 respectively, it is expected that PRC Subsidiary C will continue to supply raw coking coal to PRC Subsidiary A for 2008 and the supplies among the PRC Subsidiaries will be increased substantially in 2009 when the coal preparation plants of PRC Subsidiary B and PRC Subsidiary C commence operations. The shortage of raw coking coal for making cleaned coking coal by the coal preparation plants of the PRC Subsidiaries will be supplied by Party D pursuant to the Supply Contract.

The actual production and future production plan of each of the PRC Subsidiaries are as follows:

	Actual amount of raw coal output for the financial year ended 31 December	Expected amount of raw coal output for the financial year ending 31 December			Actual amount of cleaned coal for the financial year ended 31 December	Expected amount of cleaned coal output for the financial year ending 31 December		
	2007	**2008**	**2009**	**2010**	**2007**	**2008**	**2009**	**2010**
	(Million tones)	*(Million tones)*	*(Million tones)*	*(Million tones)*	*(Million tones)*	*(Million tones)*	*(Million tones)*	*(Million tones)*
PRC Subsidiary A	1.639	1.560	1.551	1.553	0.83	0.84	0.84	0.84
PRC Subsidiary B	1.508	1.479	2.246	2.156	–	–	2.10	2.10
PRC Subsidiary C	1.936	1.706	2.123	2.185	–	–	1.05	2.10
Total	5.083	4.745	5.920	5.894	0.83	0.84	3.99	5.04

Terms

The term of the Mutual Coal Supply Contract will commence from the effective date of the Mutual Coal Supply Contract (which is expected to be the Completion Date) and terminate on 31 December 2010.

The annual caps on the quantity of the raw coking coal that may be purchased under the Mutual Coal Supply Contract are as follows:

Supplier	**Purchaser**	**For the financial year ending 31 December**		
		2008	**2009**	**2010**
		(tones)	*(tones)*	*(tones)*
PRC Subsidiary A	PRC Subsidiary C	–	600,000	833,000
PRC Subsidiary B	PRC Subsidiary C	–	300,000	356,000
PRC Subsidiary C	PRC Subsidiary A	145,000	323,000	–
PRC Subsidiary C	PRC Subsidiary B	–	1,200,000	985,000

The actual amount and annual cap amounts of raw coking coal in monetary terms that may be purchased under the Mutual Coal Supply Contract are as follows:

Supplier	Purchaser	Actual amount for the financial year ended 31 December 2007	For the financial year ending 31 December		
			2008*(Note)*	2009	2010
			RMB(exclusive of VAT)	*RMB(exclusive of VAT)*	*RMB(exclusive of VAT)*
PRC Subsidiary A	PRC Subsidiary C	–	–	561,982,000	842,636,000
PRC Subsidiary B	PRC Subsidiary C	–	–	280,991,000	360,118,000
PRC Subsidiary B	PRC Subsidiary A	2,117,000	–	–	–
PRC Subsidiary C	PRC Subsidiary A	35,964,000	95,592,000	229,987,000	–
PRC Subsidiary C	PRC Subsidiary B	–	–	854,442,000	757,463,000
Total		38,081,000	95,592,000	1,927,402,000	1,960,217,000

Note: The caps for the financial year ending 31 December 2008 will be set based on the period from the effective date of the Mutual Coal Supply Contract to 31 December 2008 on a pro rata basis.

The quantity and specification of raw coking coal to be supplied by the supplier to the purchaser will be subject to individual orders placed by the purchaser from time to time. The unit price of raw coking coal payable by the purchaser to supplier will be no less favourable than the unit price offered to the purchaser by independent suppliers for the same type of raw coking coal. Such unit price benchmarks will be determined with consideration to the existing unit price of raw coking coal offered to the Group by independent suppliers, the expected year-on-year increase in the unit price of raw coking coal and the quantity of raw coking coal to be supplied under the Mutual Coal Supply Contract. Amounts payable by the purchaser to the supplier shall be settled in cash within 30 days upon receipt of the raw coking coal purchased.

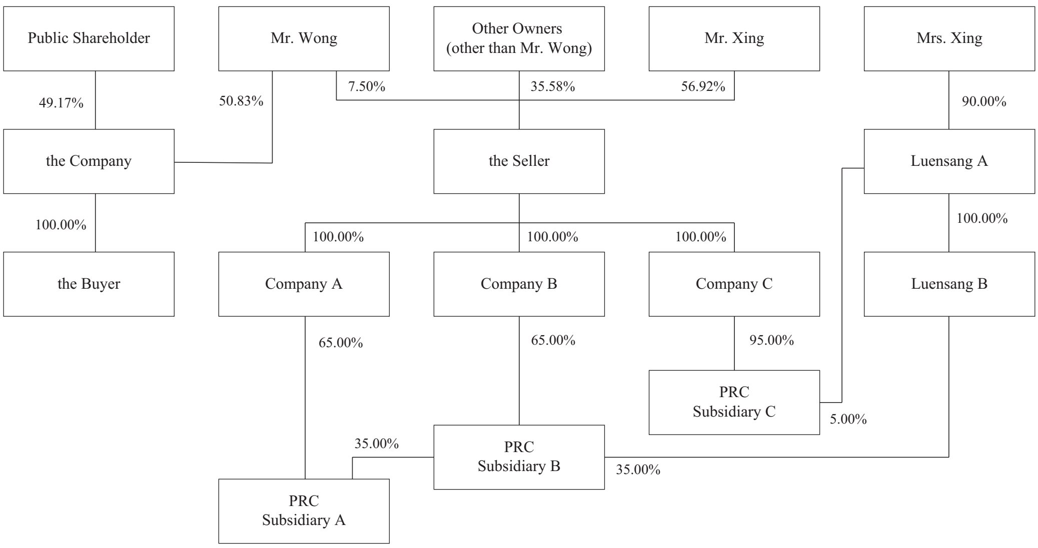
Conditions of the Mutual Coal Supply Contract

The Mutual Coal Supply Contract is conditional on the Company's compliance with relevant Listing Rules requirements (including, but not limited to, obtaining approval by the Independent Shareholders at the EGM).

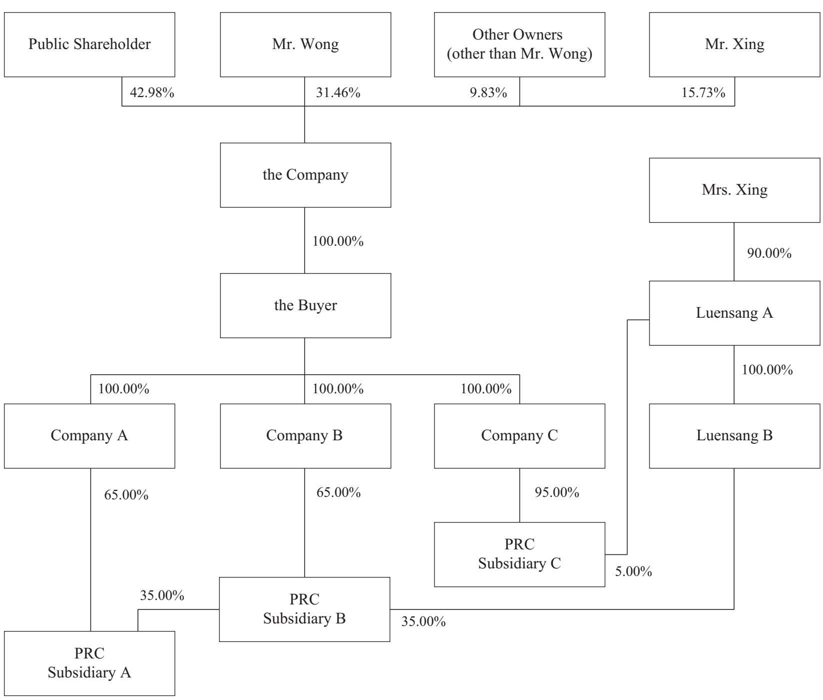
SHAREHOLDING STRUCTURE

The diagram below shows the current corporate and shareholding structure of the Group and the Target Group:

Before the Acquisition (showing the indirect effective interests of Mr. Wong, Mr. Xing and Other Owners in the Seller)



After the Acquisition (assuming that Mr. Xing will take up 56.9195% of the Consideration Shares which is in proportion to his effective interest in the Seller) and completion of the Shougang Placing and the Second Placing



SHAREHOLDING STRUCTURES BEFORE AND AFTER THE ACQUISITION

The respective shareholding structures of the Company immediately before and after the Acquisition and completion of the Shougang Placing and the Second Placing are set out below:

Name of Shareholders	Existing Shareholding		Shareholding after the Acquisition (assuming that Mr. Xing will take up 56.9195% of the Consideration Shares which is in proportion to his effective interest in the Seller) and completion of the Shougang Placing and the Second Placing *(Note 2)*	
	Number of Shares	*%*	*Number of Shares*	*%*
Mr. Wong *(Note 1)*	1,239,950,000	50.83	1,434,450,000	31.46
Mr. Xing *(Note 2)*	–	–	717,185,700	15.73
Other Owners (other than Mr. Wong) *(Note 2)*	–	–	448,314,300	9.83
Public Shareholders:				
– Fine Power *(Note 2)*	–	–	450,000,000	9.87
– Placees (other than Mr. Wong) *(Note 2)*	–	–	310,000,000	6.80
– Other Public Shareholders	1,199,605,352	49.17	1,199,605,352	26.31
Total	2,439,555,352	100.00	4,559,555,352	100.00

Notes:

1. Mr. Wong holds 90,750,000 Shares and China Merit Limited owns 1,149,200,000 Shares. Mr. Wong would receive 94,500,000 Consideration Shares representing 7.5% of the total Consideration Shares. The Placing Agent agreed to place 100,000,000 Mr. Wong Placing Share to China Merit.

2. As the Agreement, the Shongang Placing Letter and the Second Placing Letter will be completed simultaneously, the Consideration Shares, the Shougang Placing Shares and the Second Placing Shares will be issued and allotted simultaneously.

INFORMATION OF THE TARGET GROUP

The Seller is the sole shareholder of the Sale Shares which comprise the entire issued share capital of each of the BVI Companies. The original purchase cost of the Target Group amounted to approximately RMB1,222,475,000 (approximately HK$1,361,177,000), being the sum of the attributable shareholders' equity interest of each of the PRC Subsidiaries.

According to the property valuation report contained in Appendix VI to this circular, both the Target Group A, the Target Group B and the Target Group C have overdue land premium which would expose the Target Group A, the Target Group B and the Target Group C to late payment penalty. However, as set out in the PRC legal opinion prepared by King & Wood PRC Lawyers, a written confirmation has received from the Land Resource Bureau of Liulin County confirming that both the Target Group A, the Target Group B and the Target Group C shall have unfettered rights to occupy the property throughout the unexpired land use right terms even though the land premium is not settled in full. Accordingly, the overdue land premium would not affect the respective rights of the Target Group to use the property.

Upon Completion, the BVI Companies will become wholly owned subsidiaries of the Company and the investment of the Group in the Target Group will be consolidated in the financial statements of the Group.

Mr. Xing

Mr. Xing is the controlling shareholder of the Seller.

Company A and PRC Subsidiary A

Company A is a company incorporated in BVI with limited liability on 6 December 2004. As at the Latest Practicable Date, Company A has an aurthorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which 1 share of Company A was issued and allotted and was fully paid. The principal asset of Company A is its holding of 65% equity interest in PRC Subsidiary A which is engaged in coking coal mining and production and sales of raw and clean coking coal in the PRC.

PRC Subsidiary A was a state-owned company established in the PRC on 8 July 1980 and transformed into a sino-foreign joint venture company established in the PRC with limited liability on 12 September 2005. The operating period of PRC Subsidiary A is 30 years for the period from 15 September 2005 to 12 September 2035. The registered capital of PRC Subsidiary A was RMB250,000,000 (approximately HK$278,365,000) (which has been fully paid up). As at the Latest Practicable Date, PRC Subsidiary A is beneficially owned as to 65% by Company A and 35% by PRC Subsidiary B. The fair value of 100% shareholders' equities of PRC Subsidiary A was valued by Greater China Appraisal Limited at the amount of RMB4,910,000,000 (approximately HK$5,467,089,000) as at 30 April 2008.

PRC Subsidiary A operates Mine A which is located at Liulin in Shanxi Province in the PRC and commenced production in 1968. Coking coal exploited from Mine A is hard coking coal. The mining right area extends over 11.6 sq. km. and is located 6 km to the south of Liulin City. Vehicular access to Mine A is provided by an unpaved traffic road. The current approved output capacity and designed output capacity are 1.2 Mtpa and 2.1 Mtpa respectively.

Construction of the coal preparation plant of Mine A began in June 2001 and the facility was put into operation in October 2002. The plant (215 tonnes per hour) is computer controlled with the ability to automatically adjust for product ash requirements. Plant circuitry includes dense media cyclones and froth flotation and has a processing capacity of 0.9 Mt per annum to 1.2 Mt per annum with processing yield of 71% depending on operating schedule.

Management discussion and analysis of the Target Group A

Set out below is certain financial information extracted from the accountants' report of the Target Group A for the three years ended 31 December 2007 prepared under Hong Kong Financial Reporting Standards using the merger method of accounting, details of which are included in Appendix I to this circular.

	For the year ended 31 December		
(RMB'000)	**2005**	**2006**	**2007**
Income statement summary			
Revenue	556,280	567,305	705,531
Gross profit	343,146	337,738	445,930
Operating profit	272,114	360,344	361,397
Profit before taxation	203,194	275,248	322,446
Profit after taxation	128,321	241,492	322,446
Profit attributable to equity holders of Company A	83,409	151,836	203,041
Balance sheet summary			
Inventories	17,137	29,779	23,966
Trade and bill receivables	82,312	117,079	195,574
Total assets	1,519,590	1,387,218	1,534,161
Borrowings (include short-term and long-term but exclude loans from its ultimate holding company)	591,260	334,886	112,455
Total liabilities	1,232,035	869,778	852,031
Net current assets/(liabilities)	(200,578)	274,045	377,563
Net assets	287,555	517,440	682,130
Equity attributable to equity holders of Company A	165,460	292,284	504,702

Business Review

The Target Group A recorded revenue of RMB556.3 million, RMB567.3 million and RMB705.5 million for the year ended 31 December 2005, 31 December 2006 and 31 December 2007 respectively. The Target Group A derived its revenue from sales of coking coal products through its 65% owned PRC Subsidiary A. Its coking coal products include raw coking coal produced from Mine A and clean coking coal produced from its coal preparation plant. Revenue increased by 2.0% from RMB556.3 million in 2005 to RMB567.3 million in 2006, and by a further 24.4% to RMB705.5 million in 2007. The principal contributing factor to increased revenue from

2005 to 2007 was the increase in its sales volume of coking coal. Its expanding production capacities and increasing market demand for its products in recent years have resulted in increased coking coal sales. The Target Group A's raw coking coal output increased by 17.9% from 1.284 Mt in 2005 to 1.514 Mt in 2006, and by a further 8.26% to 1.639 Mt in 2007; its cleaned coking coal output grew by 46.6% from 0.38 Mt in 2005 to 0.557 Mt in 2006, and by a further 49% to 0.83 Mt in 2007.

Revenue

Increase in revenue of the Target Group A was primarily resulted from the expansion of production capacities at Mine A and higher recovery rates in its mining operations over the past years, which allowed it to produce larger volumes in response to increasing market demand for coking coal products to meet the increased demand of the coking coal products. Revenue generated from sales of raw coking coal totaled RMB370.6 million in 2005, RMB304.5 million in 2006 and RMB258.7 million in 2007. Revenue generated from sales of cleaned coking coal increased from RMB185.7 million in 2005 to RMB262.8 million in 2006 and further to RMB446.8 million in 2007, representing 33.4%, 46.3% and 63.3% of the total revenue in the corresponding period. This was primarily due to an increase in production volume and an increase in the average selling prices of cleaned coking coal in period. The Target Group A intends to increase the overall proportion of cleaned coking coal product in its product portfolio which generate additional marginal yield.

Gross profit

Gross profit of the Target Group A decreased slightly from RMB343.1 million in 2005 to RMB337.7 million in 2006 and then rebounded significantly to RMB445.9 million in 2007. Gross profit margin also decreased from 61.7% in 2005 to 59.5% in 2006 and bounced back to 63.2% in 2007. Decrease in gross profit margin in 2006 was a result of decrease in average selling price in 2006 but it subsequently improved in 2007 as a result of rebound of selling price and increase in the proportion of cleaned coking coal in product portfolio.

Profit after taxation

Profit after taxation was RMB128.3 million, RMB241.5 million and RMB322.4 million in 2005, 2006 and 2007 respectively. Company A was registered in BVI and is not subject to income tax. Its subsidiary PRC Subsidiary A was registered as sino-foreign joint venture since May 2006 and was entitled to income tax exemption from 1 May 2006 to 31 December 2007, and preferential income tax rate of 12.5% for three years thereafter.

Profit attributable to shareholders

Profit attributable to equity holders of Company A increased from RMB83.4 million in 2005 to RMB151.8 million in 2006 and further to RMB203.0 million in 2007, representing 82.0% and 33.7% annual growth.

Material acquisitions and disposals

During the year ended 31 December 2005, the Target Group A acquired the mining rights from the Bureau of Land and Resources at a cost of RMB168,780,000 with reference to the independent valuation report.

Save for disclosed above, during the years ended 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group A had no other material acquisitions or disposals.

Charges on Assets

The summarize of carrying amounts of assets of the Target Group A pledged to the banks as securities of the bank borrowing of PRC Subsidiary A and the bank borrowing of its ultimate holding company for the three years ended 31 December 2007 is as below:

Assets	**Year ended 31 December 2005**	**Year ended 31 December 2006**	**Year ended 31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	–	71,030	65,489
Prepaid lease payments for the land	–	25,529	24,920
Mining rights	–	159,453	153,900
Total	–	256,012	244,309

Save for disclosed above, none of the Target Group A' s assets was charged or subject to any encumbrance as at 31 December 2005, 31 December 2006 and 31 December 2007.

Liquidity and Financial Resources

As at 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group A' s current ratios (current assets divided by current liabilities) were 0.82, 1.44 and 1.59 respectively. As at 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group A was financed by its borrowings and loans from ultimate holding company in aggregate amounting to RMB591,260,000, RMB492,795,000 and RMB260,044,000 respectively.

Capital structure

The Target Group A regards total equity, bank loans and other borrowings as capital. As at 31 December 2005, 31 December 2006 and 31 December 2007, the amount of capital was RMB878,815,000, RMB1,010,235,000 and RMB942,174,000 respectively. The total borrowings are disclosed in above under "Liquidity and Financial Resources".

Gearing

The gearing ratio of the Target Group A, which is computed from the interest bearing borrowings divided by total equity, was approximately 205.6%, 64.7% and 16.5% as at 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Foreign Exchange Risk

Substantially all of the Target Group A's revenues and expenses are denominated in Renminbi. Its exposure to foreign exchange rate fluctuations results primarily from its USD-denominated loans from its ultimate holding company during the year ended 31 December 2006 and 31 December 2007. As at 31 December 2005, 31 December 2006 and 31 December 2007, other than assets and liabilities denominated in Renminbi, the Target Group A had no other material exposure to foreign exchange fluctuations.

Contingent liabilities

Save for disclosed in Note 37 to the accountants' report of the Target Group A as set out in Appendix I, there were no guarantees given to any banks or financial institutions by the Target Group A for the year ended 31 December 2005, 2006 and 2007 respectively.

Staff

The Target Group A had 1,368, 1,499 and 1,438 PRC employees for the year ended 31 December 2005, 2006 and 2007 respectively. Their remuneration packages are reviewed annually. The Target Group A provides retirement benefits to employees through defined contribution plans by participating in a central pension scheme operated by the local municipal government.

Company B and PRC Subsidiary B

Company B is a company incorporated in BVI with limited liability on 5 January 2005. As at the Latest Practicable Date, Company B has an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which 1 share of Company B was issued and allotted and was fully paid. The principal asset of Company B is its holding of 65% equity interest in PRC Subsidiary B which is engaged in coking coal mining and production and sales of raw coking coal in the PRC.

PRC Subsidiary B was a PRC company established in the PRC on 10 May 2001. It was subsequent transformed into a sino-foreign joint venture company with limited liability on 5 September 2005. The operating period of PRC Subsidiary B is 30 years for the period from 16 September 2005 to 16 September 2035. The registered capital of PRC Subsidiary B was RMB374,000,000 (approximately HK$416,434,000) (which has been fully paid up). As at the Latest Practicable Date, PRC Subsidiary B is beneficially owned as to 65% by Company B and as to 35% owned by Luensang B. The fair value of 100% shareholders' equities of PRC Subsidiary B was valued by Greater China Appraisal Limited at the amount of RMB4,560,000,000 (approximately HK$5,077,378,000) as at 30 April 2008.

PRC Subsidiary B operates Mine B which is located at Liulin in Shanxi Province in the PRC and commenced production in 1996. Coking coal exploited from Mine B is hard coking coal. The mining right area is located 14 km south of Liulin city core and encompasses about 6.35 sq. km. Access is via unpaved country road. The Xiaoliu Railway station in Liulin City serves the mine for rail shipments on the Liulin – Shilou line. The current approved output capacity and designed output capacity are 1.2 Mtpa and 2.1 Mtpa respectively. A new coking coal preparation plant adjacent to the mining site with a designed processed cleaned coking coal output capacity of 2.1 Mtpa is currently under construction and is scheduled for completion in the 1st quarter of 2009.

Management discussion and analysis of the Target Group B

Set out below is certain financial information extracted from the accountants' report of the Target Group B for the three years ended 31 December 2007 prepared under Hong Kong Financial Reporting Standards using the merger method of accounting, details of which are included in Appendix II to this circular:

	For the year ended 31 December		
(RMB'000)	**2005**	**2006**	**2007**
Income statement summary			
Revenue	539,211	367,456	534,088
Gross profit	344,330	267,485	371,729
Operating profit	226,515	217,009	323,332
Profit before taxation	196,909	274,015	406,442
Profit after taxation	135,716	243,037	406,442
Profit attributable to equity holders of Company B	88,566	150,271	254,357
Balance sheet summary			
Inventories	13,172	12,886	20,519
Trade and bill receivables	1,520	156,972	334,311
Total assets	758,836	1,378,562	1,754,786
Borrowings (include short-term and long-term but exclude loans from its ultimate holding company)	31,000	60,003	46,003
Total liabilities	389,789	759,889	1,144,235
Net current assets/(liabilities)	30,041	(132,134)	(170,473)
Net assets	369,047	618,673	610,551
Equity attributable to equity holders of Company B	149,028	305,888	576,088

Business Review

The Target Group B recorded revenue of RMB539.2 million, RMB367.5 million and RMB534.1 million for the year ended 31 December 2005, 31 December 2006 and 31 December 2007 respectively. The Target Group B derived its revenue from sales of raw coking coal through its 65% owned PRC Subsidiary B, which in turn owned 35% interest in an associate, PRC Subsidiary A. In 2005, the Target Group B consolidated the operating results of PRC Subsidiary A for the eight-months ended 31 August, as during the period PRC Subsidiary A was a 76.8% owned subsidiary of PRC subsidiary B. Excluding PRC Subsidiary A's contribution, the adjusted revenue of the Target Group B was RMB281.6 million in 2005. Revenue increased by 30.5% from RMB281.6 million in 2005 (adjusted) to RMB367.5 million in 2006, and by a further 45.3% to RMB534.1 million in 2007. The principal contributing factor to its increased revenue from 2005 to 2007 was the increase in sales volume of coking coal. Its expanding production capacities and increasing market demand for its products in recent years have resulted in increased coking coal sales. The Target Group B's raw coking coal output grew by 49.2% from 0.805 Mt in 2005 to 1.201 Mt in 2006, and by a further 25.6% to 1.508 Mt in 2007. The Target Group B is constructing a coal preparation plant, which is expected to be completed by the first quarter of 2009 with a clean coking coal output capacity of 2.1 Mt, to add clean coking coal product in its product portfolio.

Revenue

Increase in revenue of the Target Group B was primarily due to its increased production and sales of coking coal products, as a result of its capital investment and technology improvement in capacity expansion. Revenue increased by 30.5% from RMB281.6 million in 2005 (adjusted) to RMB367.5 million in 2006, and by a further 45.3% to RMB534.1 million in 2007. The increased revenue from raw coking coal primarily resulted from expanded production capacities at Mine B and higher recovery rates in its mining operations, which allowed it to produce larger volumes in response to increasing market demand for coking coal products.

Gross profit

Gross profit of the Target Group B increased from RMB208.6 million in 2005 (adjusted to exclude revenue from Mine A) to RMB267.5 million in 2006 and further to RMB371.7 million in 2007, with gross profit margin of 74.9% (adjusted excluding Mine A), 72.8% and 69.6% respectively. The fluctuation was due to changes in coal prices and production costs.

Profit after taxation

Profit after taxation was RMB135.7 million, RMB243.0 million and RMB406.4 million in 2005, 2006 and 2007 respectively. During the periods, share of net profits from PRC Subsidiary A were RMB45.4 million, RMB89.7 million and RMB119.4 million respectively. Company B was registered in BVI and is not subject to income tax. Its subsidiary, PRC Subsidiary B, and its associate, PRC Subsidiary A, both became sino-foreign joint venture since May 2006, were entitled to income tax exemption from 1 May 2006 to 31 December 2007, and preferential income tax rate of 12.5% for three years thereafter.

Profit attributable to shareholders

Profit attributable to shareholders of Company B increased from RMB88.6 million in 2005 to RMB150.2 million in 2006 and further to RMB254.3 million in 2007, representing 69.7% and 69.3% growth annually.

Material acquisitions or disposals

During the year ended 31 December 2005, the Target Group B acquired the mining rights from the Bureau of Land and Resources at a cost of RMB55,547,000 with reference to the independent valuation report. During the year ended 31 December 2006, the Target Group B acquired two mining rights from the minority investor of its subsidiary, the PRC Subsidiary B, for RMB225,000,000 and RMB255,789,000 with reference to the independent valuation reports respectively.

Save for disclosed above, during the years ended 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group B had no other material acquisitions or disposals.

Charges on Assets

The summarize of carrying amounts of assets of the Target Group B pledged to the banks as securities of the bank borrowings of the PRC Subsidiary B and the bank borrowings of its ultimate holding company for the three years ended 31 December 2007 is as below:

Assets	**Year ended 31 December 2005** *RMB'000*	**Year ended 31 December 2006** *RMB'000*	**Year ended 31 December 2007** *RMB'000*
Property, plant and equipment	–	23,953	22,704
Prepaid lease payments for the land	–	10,273	10,300
Mining rights	–	529,824	524,930
Total	–	564,050	557,934

Save for disclosed above, none of the Target Group B' s assets was charged or subject to any encumbrance as at 31 December 2005, 31 December 2006 and 31 December 2007.

Liquidity and Financial Resources

As at 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group B's current ratios (current assets divided by current liabilities) were 1.08, 0.75 and 0.82 respectively. As at 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group B was financed by its borrowings and loans from and amounts due to ultimate holding company in aggregate amounting to RMB31,000,000, RMB318,417,000 and RMB272,993,000 respectively.

Capital structure

The Target Group B regards total equity, bank loans and other borrowings as capital. As at 31 December 2005, 31 December 2006 and 31 December 2007, the amount of capital was RMB400,047,000, RMB937,090,000 and RMB883,544,000 respectively. The total borrowings are disclosed in above under "Liquidity and Financial Resources".

Gearing

The gearing ratio of the Target Group B , which is computed from the interest bearing borrowings divided by total equity, was approximately 8.4%, 9.7% and 7.5% as at 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Foreign Exchange Risk

Substantially all of the Target Group B's revenues and expenses are denominated in Renminbi. Its exposure to foreign exchange rate fluctuations results primarily from its USD-denominated loans from its ultimate holding company. As at 31 December 2005, 31 December 2006 and 31 December 2007, other than assets and liabilities denominated in Renminbi, the Target Group B had no other material exposure to foreign exchange fluctuations.

Contingent liabilities

Save for disclosed in Note 36 to the accountants' report of the Target Group B as set out in Appendix II, there were no guarantees given to any banks or financial institutions by the Target Group B for the year ended 31 December 2005, 2006 and 2007 respectively.

Staff

The Target Group B had 1,402, 1,203 and 1,310 PRC employees for the year ended 31 December 2005, 2006 and 2007 respectively. Their remuneration packages are reviewed annually. The Target Group B provides retirement benefits to employees through defined contribution plans by participating in a central pension scheme operated by the local municipal government.

Company C and PRC Subsidiary C

Company C is a company incorporated in BVI with limited liability on 6 January 2005. As at the Latest Practicable Date, Company C has an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which 1 share of Company C was issued and allotted and was fully paid. The principal asset of Company C is its holding of 95% equity interest in PRC Subsidiary C which is engaged in coking coal mining and production and sales of raw coking coal in the PRC.

PRC Subsidiary C was a PRC company established in the PRC on 11 March 2000 and transformed into a sino-foreign joint venture company established in the PRC with limited liability on 5 September 2005. The operating period of PRC Subsidiary C is 30 years for the period from 16 September 2005 to 16 September 2035. The registered capital of PRC Subsidiary C was RMB800,000,000 (approximately HK$890,768,000) (which has been fully paid up). As at the Latest Practicable Date, PRC Subsidiary C is beneficially owned as to 95% by Company C and as to 5% owned by Luensang A. The fair value of 100% shareholders' equities of PRC Subsidiary C was valued by Greater China Appraisal Limited at the amount of RMB3,510,000,000 (approximately HK$3,908,245,000) as at 30 April 2008

PRC Subsidiary C is engaged in exploitation of coking coal by operating Mine C which is located at Liulin in Shanxi Province in the PRC and commenced production in 1988. Coking coal exploited from Mine C is semi hard coke coal. The mining right area covers over 13.9 sq.km. and is located 16 km southwest of Liulin City. Vehicular access to the mine is via unpaved country road. The current approved output capacity and designed output capacity are 1.2 Mtpa and 2.1 Mtpa respectively. As confirmed by PRC Subsidiary C, it is planning to establish a coal preparation plant adjacent to Mine C and the plant is expected to be completed by June 2009 with annual output clean coal capacity of 2.1 Mtpa.

Management discussion and analysis of the Target Group C

Set out below is certain financial information extracted from the accountants' report of the Target Group C for the three years ended 31 December 2007 prepared under Hong Kong Financial Reporting Standards using the merger method of accounting, details of which are included in Appendix III to this circular:

	For the year ended 31 December		
(RMB'000)	**2005**	**2006**	**2007**
Income statement summary			
Revenue	92,840	309,527	520,869
Gross profit	38,473	234,726	388,670
Operating profit	14,599	208,728	348,098
Profit before taxation	14,380	197,219	331,800
Profit after taxation	9,303	174,030	331,800
Profit attributable to equity holders of Company C	8,838	164,812	314,552
Balance sheet summary			
Inventories	7,078	12,382	19,512
Trade and bill receivables	13,261	106,850	75,450
Total assets	176,762	1,225,290	1,519,598
Borrowings (include short-term and long-term but loans from its ultimate holding company)	14,210	12,291	11,131
Total liabilities	122,650	979,105	911,215
Net current assets/(liabilities)	(78,195)	(471,823)	(171,387)
Net assets	54,112	246,185	608,383
Equity attributable to equity holders of Company C	13,404	196,259	558,026

Business Review

The Target Group C recorded revenue of RMB92.8 million, RMB309.5 million and RMB520.9 million for the year ended 31 December 2005, 31 December 2006 and 31 December 2007 respectively. The Target Group C derived its revenue from sales of raw coking coal through its 95% owned PRC Subsidiary C. Revenue of the Target Group C increased by 233.5% from

RMB92.8 million in 2005 to RMB309.5 million in 2006, and by a further 68.3% to RMB520.9 million in 2007. The principal contributing factor to its increased revenue from 2005 to 2007 is the increase in its sales volume of coking coal. Its expanding production capacities and increasing market demand for its products in recent years have resulted in increased coking coal sales. The production of Target Group C's raw coking coal grew by 329% from 0.433 Mt in 2005 to 1.425 Mt in 2006, and by a further 35.9% to 1.936 Mt in 2007. The Target Group C is constructing a coal preparation plant, which is expected to be completed by June 2009 with a clean coking coal output capacity of 2.1 million tonnes, to add clean coking coal product in its product portfolio.

Revenue

Increase in revenue of the Target Group C was primarily due to its increased production and sales of coking coal products, as a result of its capital investment and technology improvement in capacity expansion. Revenue increased by 233.5% from RMB92.8 million in 2005 to RMB309.5 million in 2006, and by a further 68.3% to RMB520.9 million in 2007. The increased revenue from raw coking coal primarily resulted from the expansion of production capacities at Mine C and higher recovery rates in its mining operations, which allowed it to produce larger volumes to meet the increasing market demand for coking coal products.

Gross profit

Gross profit of the Target Group C increased from RMB38.5 million in 2005 to RMB234.7 million in 2006 and further to RMB388.7 million in 2007, with gross profit margin of 41.4%, 75.8% and 74.6% respectively. Significant improvement of gross profit margin was primary due to increase in market price of coking coal.

Profit after taxation

Profit after taxation was RMB9.3 million, RMB174.0 million and RMB331.8 million respectively in 2005, 2006 and 2007. Company C was registered in BVI and is not subject to income tax. Its subsidiary, PRC Subsidiary C, as a foreign-invested enterprise, was entitled to income tax exemption from 1 May 2006 to 31 December 2007, and preferential income tax rate of 12.5% for three years thereafter.

Profit attributable to shareholders

Profit attributable to equity holders of Company C increased from RMB8.8 million in 2005 to RMB164.8 million in 2006 and further to RMB314.6 million in 2007, representing an annual growth of 1865% and 90.9% for the respective year.

Material acquisitions or disposals

During the year ended 31 December 2005, the Target Group C acquired the mining rights from the Bureau of Land and Resources at a cost of RMB27,203,000 with reference to the independent valuation report. During the year ended 31 December 2006, the Target Group C acquired two mining rights from the minority investor of its subsidiary, the PRC Subsidiary C, for RMB395,913,000 and RMB263,244,000 with reference to the independent valuation reports respectively.

Save for disclosed above, during the years ended 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group C had no other material acquisitions or disposals.

Charges on Assets

The summarize of carrying amounts of assets pledged of the Target Group C to the banks as securities of the bank borrowings of the PRC Subsidiary C and the bank borrowings of is ultimate holding company for the three years ended 31 December 2007 is as below:

Assets	**Year ended 31 December 2005**	**Year ended 31 December 2006**	**Year ended 31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	–	35,336	26,337
Prepaid lease payments for the land	–	4,191	4,204
Mining rights	–	682,329	678,899
Total	–	721,856	709,440

Save for disclosed above, none of the Target Group C' s assets was charged or subject to any encumbrance as at 31 December 2005, 31 December 2006 and 31 December 2007.

Liquidity and Financial Resources

As at 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group C' s current ratios (current assets divided by current liabilities) were 0.30, 0.47 and 0.77 respectively. As at 31 December 2005, 31 December 2006 and 31 December 2007, the Target Group B was financed by its borrowings and loans from and amounts due to ultimate holding company in aggregate amounting to RMB14,210,000, RMB764,787,000 and RMB667,951,000 respectively.

Capital structure

The Target Group C regards total equity, bank loans and other borrowings as capital. As at 31 December 2005, 31 December 2006 and 31 December 2007, the amount of capital was RMB68,322,000, RMB1,010,972,000 and RMB1,276,334,000 respectively. The total borrowings are disclosed in above under "Liquidity and Financial Resources".

Gearing

The gearing ratio of the Target Group C, which is computed from the interest bearing borrowings divided by total equity, was approximately 26.3%, 5.0% and 1.8% as at 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Foreign Exchange Risk

Substantially all of the Target Group C's revenues and expenses are denominated in Renminbi. Its exposure to foreign exchange rate fluctuations results primarily from its USD-denominated loans from shareholder. As at 31 December 2005, 31 December 2006 and 31 December 2007, other than assets and liabilities denominated in Renminbi, the Target Group C had no other material exposure to foreign exchange fluctuations.

Contingent liabilities

Save for disclosed in Note 34 to the accountants' report of the Target Group C as set out in Appendix III, there were no guarantees given to any banks or financial institutions by the Target Group C for the year ended 31 December 2005, 2006 and 2007 respectively.

Staff

The Target Group C had 1,031, 1,259 and 1,033 PRC employees for the year ended 31 December 2005, 2006 and 2007 respectively. Their remuneration packages are reviewed annually. The Target Group C provides retirement benefits to employees through defined contribution plans by participating in a central pension scheme operated by the local municipal government.

INFORMATION OF THE MINES

Exploration method and facilities

As mentioned in the Technical Review Report, as set out in Appendix VIII to the circular, the Mines use steep angle inclines and vertical shafts to access the seams for mining activities. Secondary air shafts (intake or return) are utilized in mines where workings have extended a sufficient distance from the initial access openings to warrant their construction. Generally, workers enter the under ground mine workings at the main surface complexes.

Long wall mining is the primary coal production method in the Mines. Long wall technology is the preferred Chinese method of coal production deriving from a long central government emphasis on maximizing reserve recovery. Long wall methods are generally higher in recovery than any other method found in the underground coal industry.

Surface facilities at the Mines are well-established complexes, providing accommodations for all aspects of the mining operation including administration and mine manager offices, materials and parts storage, repair shops, change rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. The Mines are remote form major population centers, and off-site workers commute to work by a variety of means including buses, personal vehicles, etc.

Coal preparation facility

It is planned to construct a 500 tonnes per hour coal preparation facility adjacent to Mine C employing heavy media circuitry depending on market conditions. Nominal plant processing capacity will be 3.0 Mt per annum based on 6,000 processing hours annually. Annual clean coal output is projected at 2.1 Mt per annum assuming 70% yield from the plant. It is expected that 40% of raw coking coal will be supplied by Mine C.

Safety

In the Chinese coal industry, fatality rate (the number of fatalities per 1.0 Mt of raw coal production) is the standard parameter used to measure and compare safety condition. From the data provided by the Mines, the Mines did not experience any fatalities in the period 2004-2007. Similarly, the Mines report a low number of occurrences of major injuries over the same period.

The Mines follow appropriate standards for the type of hazards expected in the geological settings. The uppermost safety concern is methane gas generation in the coal mines. The Hedong Coal Field is well known for its high methane gas content. With the exception of Mine C (which is classified as a low methane generation mine), the Mines use advanced methane drainage techniques both in development and Long wall mining. These techniques consist of drilling horizontal in-seam bore holes on pattern from the mine openings to drain methane in advance of mining. Methane from these sources is gathered and pumped to storage tanks located on the surface, where the gas is stored for use by the mine complex and/or the local villages. In addition, Mine A and Mine B use a portion of the methane drained from the underground workings for power generation.

Reserves and Outputs

	Mine A	**Mine B**	**Mine C**	**Total**
In-Place Resources as at 31 December 2007 (Mt)	63.23	64.18	78.34	205.75
Recoverable Reserves as at 31 December 2007 (Mt) – Proven reserves	11.11	20.78	13.32	45.21
Recoverable Reserves as at 31 December 2007 (Mt) – Probable reserves	35.23	23.02	38.89	97.14
Raw coal output in 2005 (Mt)	1.284	0.805	0.433	2.522
Raw coal output in 2006 (Mt)	1.514	1.201	1.425	4.140
Raw coal output in 2007 (Mt)	1.639	1.508	1.936	5.083
Raw coal approved output (Mt)***	1.2	1.2	1.2	3.6
Raw coal producing capacity (Mtpa)	2.1	2.1	2.1	6.300
Production Cost in 2005 (RMB/raw tonne)	89.3	98.9	114.0	N/A
Production Cost in 2006 (RMB/raw tonne)	95.1	91.8	67.2	N/A
Production Cost in 2007** (RMB/raw tonne)	101.6	104.9	75.6	N/A
Mine Cash Cost* in 2005 (RMB/raw tonne)	60.2	67.0	83.8	N/A
Mine Cash Cost* in 2006 (RMB/raw tonne)	61.9	62.5	37.4	N/A
Mine Cash Cost* in 2007 (RMB/raw tonne)	67.9	74.4	45.1	N/A

Source: Technical Review Report

* *Mine Cash Cost means product cost less (1) production maintenance fee, (2) safety fund and (3) depreciation.*

** *For the year ended 31 December 2007, the production costs of the Mines are composed of: materials: 18.7%, salary: 20.6%, welfare: 2.9%, power and fuel: 4.9%, safety fund: 16.7%, production maintenance fee: 10.8%, sustainable development fund: 16.7%, depreciation: 7.0%, and others: 1.7%.*

*** *The current raw coal output from each of the Mines exceeds their respective raw coal approved output. Pursuant to the notice issued by the Coal Administrative Bureau of Liulin County, each of the PRC Subsidiaries is subject to a penalty at an annual lump sum of RMB100,000 for exceeding the permitted output for each of the year 2004, 2005, 2006 and 2007. As advised by the Seller, the penalty for each of the PRC Subsidiaries has not been settled. Saved as disclosed, there is no other contingent liabilities for the PRC Subsidiaries.*

Mining rights

	Mine A	Mine B	Mine C
Mining method	Underground	Underground	Underground
Area (km^2)	11.6325	6.3491	13.9068
Mining right grant date (month/year)	2/2007	2/2007	2/2007
Mining right expiration date (month/year)	2/2012	2/2012	2/2012

Source: Technical Review Report

The Mines are subject to renewal of an existing mining right area upon expiry by the Shanxi Province Land and Resource Bureau. It is typical practice in the PRC or other major coal producing nations for government to extend the term of the mining rights for the economic life of the reserves.

Products and Quality

The Mines produce high quality, medium volatile coking coals for local, regional and national coking coal markets. Coal qualities in the Hedong Coal Field vary by seam and mine. Mines with seams in the Permian Age Shanxi Formation (Nos. 4 and 5 Seams) are recognized as JM class coking coal mines. Mines operation in the Carboniferous Age Taiyuan Formation (No. 9 Seam), produce lean coking coals recognized as SM class. The No. 4 Seam is recognized throughout the PRC for its superior coking characteristics. Recent testing of the Mines' coals indicate that the test samples from Mine A and Mine B meet the international definition for hard coking coals. Mine C sample test results indicate that its coals meet international definition for semi-hard coking coals. The followings are typical coal quality characteristics for its highest commercial coal grades:

	Mine A		Mine B		Mine C
Coal Quality Characteristics	**Seam No. 4**	**Seam No. 5**	**Seam No. 3**	**Seam No. 4**	**Seam No. 9**
Moisture (%)	0.9	0.3	0.6	0.7	0.7
Ash (%)	11.3	10.1	6.3	11.0	10.4
Sulfur (total) (%)	0.36	0.85	0.32	0.47	1.65
Volatile Matter (%)	21.6	23.4	21.3	22.4	18.7
Fixed Carbon (%)	68.6	67.0	73.1	68.4	72.1
Calorific Value (Kcal.kg)	7,500	7,200	7,920	7,520	7,540
FSI	7	7	7	7	7
Y (mm)	17	13	9	11	8
Caking Index (G)	86	75	49	77	72

Source: Technical Review Report

The market selling prices of coals of Nos. 3,4,5 Seams (with VAT) and No. 9 Seam (with VAT) in April 2008 were RMB980 per tonne and RMB745 per tonne and in May 2008 were RMB1,085 (with VAT) and RMB845 (with VAT) respectively.

REASONS FOR THE ACQUISITION AND THE CONTINUING CONNECTED TRANSACTIONS

The Company is an investment holding company and the Group is principally engaged in the production and sales of coking coal products and side products.

Based on the data of China Coal Resource National Bureau of Statistic of China, coking coal is rare resource both in China and the world. China's steel industry maintains robust rate in recent years. The production of steel has experienced an increasing compounded annual growth rate of over 23.9% in 2003 to 2007. China's coke industry also represents high-speed growth with compounded annual growth rate of 23.57% from 2003 to 2007. The rapid growth of steel and coke industry causes the strong demand of coking coal. Coking coal resource accounts for less than 10% of total hard coal resource in the world. China's coking coal reserve is 59.8 billion tonnes, being about 27.65% of China's total coal reserve. Shanxi province has the richest coal reserves which account for 59.69% of China's total proven reserves, and it is the main coking coal production base in China. Liulin County is the main coking coal producing area in Shanxi Province and it has the highest grade coking coal available in China and the world.

As disclosed in the annul report of the Company for the year ended 31 December 2007, the Company has been reviewing and continues to review possibilities to acquire in-operation coal mines to strengthen our coal industry investment and has determined to focus its business in Shanxi Province in areas with coal mine and its downward integrations. The Target Group's operations are located in the Liulin Area of Shanxi Province, a geological belt rich in premium hard coking coal. Mine A, Mine B and Mine C have been in active production for 40, 12 and 10 years, respectively, and are profitable and generating stable cash flows. The Acquisition represents a consolidation of the coal mining assets of common shareholders of the Company and the Seller. Upon Completion, the Company expects to benefit from the Target Group's operational expertise and know-how and established sales channels and supporting infrastructure, as well as the enlarged Group's enhanced economies of scale, to accelerate the future development of the Company and further improve the operational efficiency and competitiveness of the Company and the Target Group's existing businesses. In relation to the Target Group B's and the Target Group C's net current liabilities position and going concern issue as mentioned in the accountants' reports of the Target Group, after taking into account of the profitability track records, the significant net assets values and the positive future coal industry prospectus of the Target Group, the Directors consider that the Acquisition are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The purpose of entering into the Supply Contract and the Mutual Coal Supply Contract is to ensure a smooth transition of ownership from the seller to the buyer in relation to the Agreement and to minimize any disruptions to the operations of the PRC Subsidiaries resulting from such transfer of ownership. By entering into the Supply Contract and the Mutual Coal Supply Contract, the PRC Subsidiaries can continue to benefit from a lower transaction cost for the supply of raw coking coal as each of the PRC Subsidiaries and Mr. Xing' coal mines are within Liulin Area of Shanxi Province and to secure the supply of raw coking coal to the PRC Subsidiaries.

EFFECT OF THE ACQUISITION

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the total assets of the Group as at 31 December 2007 were approximately HK$1,295,084,000 and the unaudited pro forma total assets of the Enlarged Group would amount to approximately HK$15,832,599,000. The total liabilities of the Group as at 31 December 2007 were approximately HK$503,074,000 and the unaudited pro forma total liabilities of the Enlarged Group would amount to approximately HK$3,622,371,000. The net assets of the Group and the equity attributable to equity holders of the Company as at 31 December 2007 were approximately HK$792,010,000 and approximately HK$733,731,000 respectively. The unaudited pro forma net assets of the Enlarged Group and the unaudited pro forma equity attributable to equity holders of the Company would increase to approximately HK$12,210,228,000 and approximately HK$10,340,731,000 respectively. It is expected that the Acquisition will not have any adverse effect on the financial position and earnings of the Group.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

For the year ended 31 December 2007, the total sales revenue increased by 43% to approximately HK$15.00 million whereas coal trades amounted to approximately HK$14.26 million which rose by 50% in comparison with the year of 2006. Gross profits was HK$1.85 million and together with interest income, the overall income for the year reached approximately HK$16.99 million. Due to the issue of 5-year zero-coupon convertible notes in last April together with the granting of the share option in the previous year, additional finance cost of HK$15.19 million, fair value loss on derivative liability of convertible notes of HK$21.04 million and share-based compensation expense of HK$19.43 million were incurred according to the applicable accounting standards. As the Group was in the progress of potential coal mine acquisition, professional expenses incurred were HK$14.36 million. Eventually, the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK$77.95 million for 2007.

As highlighted in our interim report that global economic system would be undergoing extraordinary strain as market turbulence occurred in the second half of 2007. With decision made, the Company raised approximately HK$730 million from the capital market in the first half of 2007. With a healthy liquidity position and in line with our defined profit growing strategy, the Company increased our equity interest from 51% to 66% in the PRC joint-venture "山西曜鑫煤焦有限責任公司 Shanxi Yao Zin Coal and Coking Company Ltd ("Yao Zin")" in July 2007. The Company also raised our shareholding from 65% to 91.25% in another PRC joint-venture "山西金山能源有限公司 Shanxi Jinshan Energy Limited ("Jinshan")" in November 2007. Indeed, one of our coke plants would start trial operation in the second quarter of 2008, both revenue and profit growth will then take place and bring the principle business of the Company into a new chapter.

On 19 April 2008, 山西金山能源有限責任公司 (Jinshan Energy Group Limited) ("Party A"), a subsidiary owned as to 91.25% by the Company, and 山西焦煤集團有限責任公司 (Xishan Coal and Electricity (Group) Co., Ltd) ("Party B") as the vendors entered into a sale and purchase agreement with 山西西山煤電股份有限公司 (Shanxi Xishan Coal and Electricity Power Co., Limited) (" Xishan") as the purchaser, pursuant to which Xishan agreed to acquire 70% equity interest of 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Co., Ltd.) ("Risheng") from Party A and 30% equity interest of Risheng from Party B. Pursuant to this agreement, Party A will have to assume the principal amount of all loans advanced by Party A and other creditors to Risheng amounted to RMB119,277,882 as at 31 March 2008. The aggregate consideration payable by Xishan to Party A for the 70% equity interest of Risheng and the assumption of the Risheng Loans is RMB110,000,000 (subject to the valuation on the net assets of Risheng. The coal mine and the business operation of the Target Group are located at 柳林市 (Liulin City) which is situated at the south side of Shanxi Province in the PRC. Other than the coke plant of Risheng which is located at the north side of Shanxi Province, all the other coke plant and coal washing plant of the Group and the mine operation of the Target Group proposed to be acquired are clustered at the south-west side of Shanxi Province with close proximity to each other. Accordingly, the coke plant of Risheng is not expected to bring about much synergy to the business operation of the Group. The disposal will enable the Group to realize its investment in Risheng and better utilize its resources to focus on the business operations of the new coke plant and coal washing plant and the mine productions which are all located at the south-west side of Shanxi Province in the PRC with close proximity to each other.

In 2008, it is believed that the recession of the US property market leads credit deterioration will carry on, rising of commodities price especially on oil are the consequence of the prolonged weak US dollar policy, and these financial situation will remain as the issues for the whole year round. Because of the fast growing inflation, China keeps on intensifying the macro economic measures to maintain a stable and progressive economic development. The Company has determined to focus our business in Shanxi province with areas in coal mine and its downward integrations. In 2008, the Company will gradually increase the productivity of our coke plants to meet market demand. The Company has started to build a preparation plant with output capacity of 3 million tons per annum and planned to have production be commenced by the end of 2008 or in the early of 2009. This approach will enable the Company to expand the customer base, increase both revenue and profitability together. The Company will definitely strengthen its position in the coal business through the Acquisition.

Management Discussion and Analysis of the Results of the Group

For the year ended 31 December 2007

Business Review

For the year ended 31 December 2007, the total sales revenue increased by 43% to approximately HK$15.00 million whereas coal trades amounted to approximately HK$14.26 million which rose by 50% in comparison with the year of 2006. Gross profit was HK$1.85 million together with interest income, the overall income for the year reached approximately HK$16.99 million. Due to the issue of 5-year zero-coupon convertible notes in last April together with the granting of the share option in the previous year, additional finance cost of HK$15.19 million, fair value loss on derivative liability of convertible notes of HK$21.04 million and share-based compensation expense of HK$19.43 million were incurred according to the accounting standards. As the Group was in the progress of potential coal mine acquisition, professional expenses incurred were HK$14.36 million. Eventually, the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK$77.95 million for 2007.

Material acquisitions and disposals

On 24 July 2007, the Group and two minority equity holders of Yao Zin entered into a supplemental sinoforeign equity joint venture agreement and a supplemental articles of association to increase the registered capital of Yao Zin from RMB80,000,000 to RMB320,000,000. The registered capital of Yao Zin was increased by RMB240,000,000, of which RMB170,400,000 shall be contributed by the Group and the remaining of RMB69,600,000 shall be contributed by one of minority equity holders of Yao Zin. The proportionate capital contribution of RMB170,400,000 to be made by the Group would be financed by the proceeds of the share placement and issue of convertible notes in April 2007. As at 31 December 2007, the Group has injected cash of RMB140,000,000 to Yao Zin. The remaining balance of RMB30,400,000 will be injected into Yao Zin later. Upon completion during the year ended 31 December 2007, the Group increased its equity interest in Yao Zin from 51% to 66%. In addition, on 26 November 2007, the Group and minority equity holders of Jinshan entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase the registered capital of Jinshan from RMB100,000,000 to RMB400,000,000. The increase in the registered capital of RMB300,000,000 shall be contributed by the Group only and would be financed by the proceeds of the share placement and issue of convertible notes in April 2007. As at 31 December 2007, the Group has injected cash of RMB93,966,000 to Jinshan. The remaining balance of RMB206,034,000 will be injected into Jinshan later. Upon completion during the year ended 31 December 2007, the Group increased its equity interest in Jinshan from 65% to 91.25%.

During the year ended 31 December 2007, save as disclosed above, neither the Company nor any of its subsidiaries had any material acquisitions or disposals.

Charges on Assets

As at 31 December 2007, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

As at 31 December 2007, there were no guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

As at 31 December 2007, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by the total equity, was approximately 37%. The borrowings were mainly for financing certain construction and installation of plant and machinery of two subsidiaries for the production of coking coal products in the PRC and payment for deposits for a potential mining project. On 20 April 2007, the Group issued 5-year zero coupon convertible notes (the "Notes") for the aggregate principal amount of HK$300,000,000 to finance existing and future coal related projects. As at 31 December 2007, the Notes with the aggregate principal amount of HK$260,000,000 have been converted into shares of the Company. The remaining balance of HK$40,000,000 was converted into shares of the Company in the early of January 2008.

Exposure To Fluctuations In Exchange Rates

As at 31 December 2007, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

As at 31 December 2007, the Group's current ratio (current assets divided by current liabilities) was approximately 1.12 and the Group's cash and bank deposits amounted to approximately HK$460,538,000, of which approximately HK$294,921,000 was deposited at the escrow account. On 24 January 2008, the amount deposited at the escrow account was released. In April 2007, the Company raised net proceeds of HK$730,000,000 from the issue of new shares and the Notes resulting in strengthen working capitals of the Group.

Capital structure

The Group regards total equity, convertible notes, bank loans and other borrowings as capital. As at 31 December 2007, the amount of capital was HK$1,166,793,000.

As at 31 December 2007, the issued capital of the Company was HK$242,239,000. During the year ended 31 December 2007, the Company issued new shares of 230,000,000 shares of the Company with par value of HK$0.1 each at a cash consideration of HK$2.0 per share with net proceeds of approximately HK$443,530,000 to strengthen equity base of the Company. In addition, the Group issued the convertible notes (the "Notes") with total principal amount of HK$300,000,000 during the year ended 31 December 2007, of which HK$260,000,000 of the Notes has been converted into 111,588,000 shares of the Company with par value of HK$0.1 each at HK$2.33 per share to further strengthen the equity base of the Company.

As at 31 December 2007, the total borrowings (excluded the Notes) denominated in RMB which are repayable within 5 years from the balance sheet date amounted to HK$329,853,000. All the borrowings were either interest-free or subject to fixed interest rates.

Staff

The Group had 7 Hong Kong employees and 375 PRC employees at 31 December 2007 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees.

For the year ended 31 December 2006

Business Review

For the year ended 31 December 2006, turnover recorded approximately HK$10.5 million, which was attributable to coal trades of approximately HK$9.5 million and jewellery sales of approximately HK$1 million. The two coke plants were still in construction works but with significant progress and they are expected to start production within this year. However, as the plants were in the construction phase, together with the granting of the share option during the year resulting in additional expense of approximately HK$13 million incurred according to the accounting standard; the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK$31 million for year 2006.

In April 2007, the Company issued 230 million new shares through private placement and 5-year convertible notes with the principal amount of HK$300 million for cash. The placing price was HK$2.00 per share and initial conversion price was HK$2.33 per share; the net proceed would be amounted to approximately HK$720 million. The Company planned to use approximately HK$150 million for investing into two existing coke plants, HK$200 million retained within the group as working capital (including repayment of short term loans) and the rest of approximately HK$370 million will be used for future coalmine investments to enhance our long term competitiveness in the energy sector.

As the Group has been focusing most of our effort in coal investments for years and gaining progress, the management has made the decision to cease the jewellery sales business after year 2006 in order to maximize the best interests for the Company and sales clearance of jewellery was completed on 28 February 2007. With the successfulness of fund raising from the market, the financial position of the Group has returned to a health position as it strengthened the capital base of the Company.

Material acquisitions and disposals

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries had any material acquisitions or disposals.

Charges on Assets

At 31 December 2006, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 31 December 2006, the Group had borrowed an amount of RMB50,000,000 (equivalent to approximately HK$49,963,000) from a third party (the "Lender"). The Lender in turn had borrowed the same amount from a financial institution. As part of this funding arrangement, the Group and two subsidiaries of a minority equity holder of the Group have given joint and several guarantees for the amount borrowed by the Lender to the financial institution. Save as disclosed above, there was no other guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

At 31 December 2006, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by shareholders' funds, was approximately 620%. The borrowings were mainly for financing certain construction and installation of plant and machinery of two subsidiaries for the production of coking coal products in the PRC and payment for deposits for a potential mining project. Subsequent to the balance sheet date on 2 April 2007, the Company issued new shares of 230,000,000 at HK$2.00 to independent investors resulting in the gearing ratio of the Group substantially decreased to 72%.

Exposure To Fluctuations In Exchange Rates

At 31 December 2006, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

At 31 December 2006, the Group's current ratio (current assets divided by current liabilities) was approximately 0.1 and the Group's cash and bank deposits amounted to HK$10,573,000. Upon the completion of the Placing Agreement and Subscription Agreement in April 2007, the aggregate net proceed of approximately HK$720,000,000 substantially increased the balance of the Group's cash and bank deposits.

Capital structure

The Group regards total equity, bank loans and other borrowings as capital. As at 31 December 2006, the amount of capital was HK$487,292,000.

As at 31 December 2006, the issued capital of the Company was HK$208,080,000 and the total borrowings which are repayable within 5 years from the balance sheet date amounted to HK$387,712,000. The borrowings were denominated in RMB except for the amount of HK$10,000,000 denominated in Hong Kong dollars as at 31 December 2006. All the borrowings were either interest-free or subject to fixed interest rates.

Staff

The Group had 7 Hong Kong employees and 275 PRC employees at 31 December 2006 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees.

For the year ended 31 December 2005

Business Review

The Company has continued to invest and make significant progress in the field of energy sector in 2005. Our results in coal trades recorded approximately HK$10 million, increased by 39% as compared with the previous year. In August 2005, the Company successfully increased our equity interests in a joint-venture company, namely Shanxi Yao Zin Coal and Coking Limited ("Shanxi Yao Zin"), which is also engaged in the businesses of sales and production of coal products from 38% to 51%. Since Shanxi Yao Zin became the subsidiary of the Group, we have undoubtedly increased both of our presence and strengthening our competitiveness in the energy sector in the long run. As the Group was in the peak level of expenditure on the developments of the two plants, it was inevitable that, a net consolidated loss attributable to equity holders of the Company of approximately HK$14 million was recorded in year 2005.

In 2005, demand of energy and resources remained as a main issue as they have a significant impact on the global economic growth especially the energy price hikes. China's fast growing share of world manufacturing further activated the imbalance of commodities supply. We are glad to see that our developments are in good progress and in line with the robust market situation. In addition to the performance of our core business, we have changed the Company name to "Fushan International Energy Group Limited 福山國際能源集團有限公司" in June to reflect our principal activities in, and future commitment to the energy sector.

Material Acquisitions and Disposals

On 29 June 2005, the Group entered into the Acquisition Agreement to acquire a further 13% equity interests in an associated company namely 山西謹鑫煤焦有限公司 Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin") , which owned 38% equity interests by the Group before the acquisition, at a consideration of approximately HK$4,995,000. Upon completion of the Acquisition Agreement on 11 August 2005, Shanxi Yao Zin became a subsidiary of the Company as the Group held a 51% equity interest. Shanxi Yao Zin is engaged in the production and sales of coking coal products in the PRC. Details of the transaction were disclosed in the circular of the Company dated 23 August 2005.

Charges on Assets

At 31 December 2005, other than certain construction in progress with a carrying value of approximately HK$47,764,000 pledged for a bank loan of HK$22,898,000, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 31 December 2005, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions.

Gearing Ratio

At 31 December 2005, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by shareholders' funds, was approximately 282%. The borrowings were mainly for financing certain construction and installation of plant and machinery of two subsidiaries for the production of coking coal products in the PRC.

Exposure To Fluctuations In Exchange Rates

At 31 December 2005, other than assets and liabilities denominated in Renminbi, the Group had no other material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

At 31 December 2005, the Group's current ratio (current assets divided by current liabilities) was approximately 0.40 and the Group's cash and bank deposits amounted to HK$10,587,000.

Capital structure

The Group regards total equity, bank loans and other borrowings as capital. As at 31 December 2005, the amount of capital was HK$353,103,000.

As at 31 December 2005, the issued capital of the Company was HK$208,080,000 and the total borrowings which are repayable within 5 years from the balance sheet date amounted to HK$225,642,000. The borrowings were denominated in RMB except for the amount of HK$10,000,000 denominated in Hong Kong dollars as at 31 December 2005. All the borrowings were either interest-free or subject to fixed interest rates.

Staff

The Group had 7 Hong Kong employees and 212 PRC employees at 31 December 2005 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees.

EGM

A notice convening the EGM at which resolutions will be proposed to consider, and if thought fit, to approve the Agreement and the transactions contemplated thereunder, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof) to be held at the Falcon Room Basement Luk Kwok Hotel, No. 72 Gloucester Road, Wanchai, Hong Kong on 18 July 2008 at 10:30 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying from of proxy will not preclude you from attending and voting at the meeting should you so wish.

Mr. Wong and his associates (the controlling Shareholder interested in 1,239,950,000 Shares, representing approximately 50.83% of the issued share capital of the Company as at the Latest Practicable Date) will be required to abstain from voting at the SGM.

PROCEDURES TO DEMAND A POLL

Pursuant to Article 68 of the Articles of Association 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) demanded by:

(i) the chairman of the meeting; or

(ii) at least three members present in person or by proxy or representative for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or by proxy or representative and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or by proxy or representative 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.

RECOMMENDATIONS

The Board considers that the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof) are normal commercial terms and fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to the letters from the Independent Board Committee and First Shanghai which set out their recommendations in respect of the Agreement and the principal factors considered by them in arriving at their recommendations.

ADDITIONAL INFORMATION

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

By Order of the Board
SO KWOK HO
Executive Director

福 山 國 際 能 源 集 團 有 限 公 司
FUSHAN INTERNATIONAL ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)
(Stock Code: 639)

25 June 2008

To the Independent Shareholders,

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION
AND
POSSIBLE CONTINUING CONNECTED TRANSACTIONS

We refer to this circular dated 25 June 2008 issued by the Company of which this letter forms part. Terms defined in this circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof) and to advise you as to whether, in our opinion, the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof) are fair and reasonable so far as the Independent Shareholders are concerned. First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof).

We also wish to draw your attention to (i) the letter from the Board; (ii) the letter from First Shanghai; and (iii) the additional information set out in the appendices to this circular.

Having considered the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof), and having taken into account the opinion of First Shanghai and, in particular, the factors, reasons and recommendations as set out in the letter from First Shanghai on pages 57 to 98 of this circular, we consider that the terms of the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof) are fair and reasonable so far as the Independent Shareholders are concerned, and the Agreement is in the interests of the Independent Shareholders. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the SGM to approve the Agreement, the Supply Contract and the Mutual Coal Supply Contract (and the respective annual caps thereof).

Yours faithfully,

For and on behalf of
the Independent Board Committee
Kee Wah Sze **Choi Wai Yin** **Chan Pat Lam**
Independent non-executive Directors

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of Acquisition and the Possible Continuing Connected Transactions for inclusion in this circular.

FIRST SHANGHAI CAPITAL LIMITED
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

25 June 2008

To the Independent Board Committee and Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND POSSIBLE CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Acquisition and the Possible Continuing Connected Transactions (as defined below), for which the Independent Shareholders' approval is being sought. Details of which are set out in the circular of the Company dated 25 June 2008 (the "**Circular**") to the Shareholders, of which this letter forms a part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules. As the Seller is effectively owned as to approximately 56.92% by Mr. Xing, a substantial shareholder of a non-wholly owned subsidiary of the Company, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules which is subject to approval by the Independent Shareholders by way of poll at the EGM.

The existing mutual supply of coal among the Mining Companies (as defined below) and; purchase of accessories and small tools; and supply of electricity with the other mining companies owned by Mr. Xing ("Mr. Xing's Mining Companies") will continue and constitute continuing connected transactions (the "Possible Continuing Connected Transactions") of the Company under the Listing Rules following Completion. In this regards, on 2 June 2008, the Mining Companies (as defined below) entered into (i) the Supply Contract with Mr. Xing's Mining Companies; and (ii) the Mutual Coal Supply Contract among themselves which set out the terms of the Possible Continuing Connected Transactions to be conducted for the period commencing on the Completion

Date and ending on 31 December 2010. Since the annual caps (the "Annual Caps") for each of the Possible Continuing Connected Transactions exceeds 2.5% of the applicable percentage ratios, the Supply Contract and Mutual Coal Supply Contract therefore are subject to the approval of the Independent Shareholders by way of poll at the EGM.

The Independent Board Committee comprising Mr. Kee Wah Sze, Mr. Choi Wai Yin, and Mr. Chan Pat Lam, the three independent non-executive Directors, has been formed to advise the Independent Shareholders on the Acquisition and the Possible Continuing Connected Transactions. We, First Shanghai Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in this regard.

In putting forth our opinion and recommendations, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Directors and the management of the Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Directors and the management of the Group were true at the time they were made and continued to be true at the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors or the management of the Group and have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We have sought confirmation from the Directors that no material facts or information have been omitted from the information supplied and/or opinions expressed.

We have reviewed, among other things, (i) the accountants' reports on the Target Group prepared by Grant Thornton as contained in the Appendices I, II and III to the Circular respectively; (ii) the unaudited pro forma financial information of the Enlarged Group as contained in Appendix V to the Circular; (iii) the property valuation report on the Enlarged Group as appraised by Asset Appraisal Limited contained in Appendix VI to the Circular; (iv) the report on the valuation of Shanxi Liulin Xingwu Coalmine Company Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Company Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Company Limited ("Zhaiyadi") (collectively, the "Mining Companies"), the coal mining companies of the Target Group, as at 30 April 2008 (the "Valuation") and its underlying calculation prepared by Greater China Appraisal Limited ("Greater China") as contained in Appendix VII to the Circular; (v) the Technical Review Report in the respect of the Mines as contained in Appendix VIII to the Circular prepared by BOYD, an independent technical consulting firm; and (vi) the PRC legal opinion issued by King & Wood (the "PRC Legal Opinion"). We consider that we have reviewed sufficient available information and documents to enable us to reach an informed view with a reasonable basis for our opinions. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules in formulating our opinion and recommendation. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors or the management of the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group or the Target Group.

1. ACQUISITION

I. SUMMARY OF THE TERMS OF THE ACQUISITION

1. Assets to be acquired

On 9 May 2008, the Company, the Buyer and Mr. Wong, the controlling Shareholder as guarantor of the Company, entered into the Agreement with the Seller and Mr. Xing, being the controlling shareholder of the Seller, as guarantor of the Seller, pursuant to which the Buyer agreed to acquire and the Seller agreed to sell the Sale Shares (which represent the entire issued shares of Company A, Company B and Company C) and the Sale Loans (which represent the outstanding shareholder's loans advanced by the Seller to each of Company A, Company B and Company C and the amount due from Company C to the Seller as at Completion) at the Consideration of HK$10,530 million (subject to adjustments). The Target Group comprises Company A, Company B and Company C and their respective group companies.

Sale Shares

The principal asset of Company A is its holding of 65% equity interest in Xingwu which is engaged in coking coal mining and production and sales of raw and clean coking coal in the PRC. Xingwu operates Mine A which is located at Liulin City in Shanxi Province in the PRC.

The principal asset of Company B is its holding of 65% equity interest in Jinjiazhuang which is engaged in exploitation of coking coal by operating Mine B which is located at Liulin City in Shanxi Province in the PRC; and the indirect approximately 23% effective interest in Xingwu.

The principal asset of Company C is its holding of 95% equity interest in Zhaiyadi which is engaged in exploitation of coking coal by operating Mine C which is located at Liulin City in Shanxi Province in the PRC.

Sale Loans

As at the date of the Agreement, there were outstanding shareholder's loans advanced by the Seller to each of Company A, Company B and Company C and, for reference purpose, their respective principal amounts were approximately US$20.2 million (approximately HK$157.6 million), approximately US$30.3 million (approximately HK$236.3 million) and approximately US$14.2 million (approximately HK$110.9 million) respectively. In addition, Company C also have amount due to the Seller which amounted to approximately US$80.8 million (approximately HK$629.9 million) as at the date of the Agreement.

2. Consideration

Pursuant to the terms of the Agreement, the Consideration of HK$10,530 million (subject to adjustment) will be satisfied by the Group as to:

(i) HK$4,860 million, being 46.15% of the Consideration, in cash;

(ii) HK$5,670 million, being 53.85% of the Consideration, by allotting and issuing 1,260 million Consideration Shares at the Issue Price of HK$4.5 to the respective nominees of Mr. Xing, Mr. Wong and the Other Owners in proportion to their respective effective interests in the Seller.

Details of the payment terms of the Consideration is set out in the paragraphs headed "Payment terms of the Consideration" below.

3. Conditions precedent

Completion of the Acquisition is conditional upon certain conditions being fulfilled or waived on or before the Long Stop Date. The more significant conditions from the Shareholders' perspective are highlighted as follows:

(i) there having been since the date of the Agreement, (a) no material adverse change; and (b) no change in any applicable laws in any of the jurisdictions in which any member of the Target Group conducts business that would result in a material adverse change;

(ii) the Acquisition and the settlement of part of the Consideration by issuing of the Consideration Shares will not trigger any obligations on Mr. Wong and parties acting in concert with him to make a general offer under Takeovers Code;

(iii) the Acquisition and the settlement of part of the Consideration by issuing of the Consideration Shares will not trigger any obligations on the Seller, Mr. Xing and their respective parties acting in concert with them to make a general offer under the Takeovers Code;

(iv) the Stock Exchange will not indicate that the Acquisition and the transactions contemplated hereunder will be deemed as reverse takeover under Rule 14.06 (b) of the Listing Rules;

(v) the Company having obtained a debt financing from the financial institution(s) and/or raised funds in the form of issuing new Shares for an aggregate sum of not less than HK$4,360 million for payment of the Initial Cash Consideration and the Escrow Cash; and

(vi) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares (and such listing and permission not subsequently revoked prior to the delivery of the definitive share certificates representing the Consideration Shares).

II. PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Acquisition are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Acquisition

The Company is an investment holding company and the Group is principally engaged in the production and sales of coking coal products and side products.

As disclosed in the interim report of the Company for the six months ended 30 June 2007 (the "2007 Interim Report"), from a strategic perspective, the Company has been reviewing and continues to review possibilities to acquire in-operation coal mines to strengthen its coal industry investment. During the year ended 31 December 2007, the Company has increased its equity interest in the joint ventures in Shanxi Province from 51% to 66%; and 65% to 91.25% respectively. As discussed in the annual report of the Company for the year ended 31 December 2007 (the "2007 Annual Report"), the Group has determined to focus the business in Shanxi Province in areas with coal mine and its downward integrations.

On 31 January 2008, the Company entered into a memorandum of understanding (the "MOU") with the Seller in relation to the proposed acquisition of the Target Group. The Mines are located in Liulin City of Shanxi Province, a geological belt rich in premium hard coking coal and also within the same province of the existing coal business of the Group. The three mines of the Target Group have commenced production for about 40, 12 and 10 years respectively, and are profitable and generating stable cash flows. The Acquisition provides an opportunity for the Group to consolidate the coal mining assets of common shareholders of the Company and the Seller. Upon Completion, the Company expects to benefit from the Target Group's operational expertise and know-how and established sales channels and supporting infrastructure, as well as the enhanced economies of scale, to accelerate the future development of the Company's coal business and further improve the operational efficiency and competitiveness of the Group. The Board considers that the terms of the Agreement are of normal commercial terms and fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. Having considered the Acquisition represents a further significant investment made by the Group in the coal industry; allow the Group to further enriches its coal assets within the Shanxi Province and to integrate with its existing coal operation directly, we concur with the Board's view in this regard.

2. Business and financial information of the Group

(i) Business

The principal activities of the Group are the production and sales of coking coal products and side products. As the Group has been focusing on the robust energy sector in order to serve the best interests for the Company, the Group had ceased the jewellery sales business after 2006 and disposed of all jewellery inventories in February 2007.

(ii) Financial results of the Group

Income statements

Set out below is a summary of the audited consolidated income statements of the Group for the three years ended 31 December 2005, 2006 and 2007:

	Year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	10,232	10,535	15,056
Gross profit	986	1,934	1,850
Operating loss	(18,110)	(36,086)	(42,571)
Loss attributable to Shareholders	(14,020)	(30,988)	(77,948)

The Group's turnover had been stable, achieving over HK$10.0 million for each of the two years ended 31 December 2006; and further increased by approximately 43.8% to approximately HK$15.1 million for the year ended 31 December 2007 which was mainly due to the increase in coal trades. The Group had made net losses of approximately HK$14.0 million, approximately HK$31.0 million and approximately HK$77.9 million during the three years ended 31 December 2007 respectively. According to the annual reports of the Company for the year ended 31 December 2006, the operating loss of approximately HK$36.1 million was mainly resulted from the additional expense of approximately HK$13.0 million incurred for granting of the share options according to the accounting policies of the Company during the year ended 31 December 2006. In addition, according to the 2007 Annual Report, the net loss of approximately HK$77.9 million for the year ended 31 December 2007 was mainly resulted from the issue of 5-year zero-coupon convertible notes in April 2007 together with the granting of the share options in 2006, which resulted in (i) additional finance cost of approximately HK$15.2 million; (ii) fair value loss on derivative liability of the convertible notes of approximately HK$21.0 million; and (iii) share-based compensation expense of approximately HK$19.4 million were incurred according to the accounting policies of the Group. As the Group was in the progress of acquiring potential coal mines, professional expenses incurred were approximately HK$14.4 million for the year ended 31 December 2007.

Balance sheets

The followings are the summaries of the Group's audited assets and liabilities as at 31 December 2007:

	As at 31 December 2007 *HK$'000*
Non-current assets	806,885
Current assets	488,199
Current liabilities	435,291
Non-current liabilities	67,783
Net assets	**792,010**

As at 31 December 2007, the Group had total assets of approximately HK$1,295.1 million, of which (i) cash and cash equivalents amounted to approximately HK$460.5 million (about 35.6%); (ii) prepayments and deposits amounted to approximately HK$389.4 million (about 30.1%) which principally comprised deposits for potential mining project and prepayments for construction and installation of certain property, plant and machinery; and (iii) property, plant and equipment amounted to approximately HK$376.3 million (about 29.1%).

Total liabilities of the Group as at 31 December 2007 amounted to approximately HK$503.1 million which principally included (i) bank and other loans of approximately HK$184.6 million (about 36.7%); (ii) other payables of approximately HK$126.0 million (about 25.0%); and (iii) convertible notes of approximately HK$34.0 million (about 6.8%). Bank and other loans of the Group as at 31 December 2007 were unsecured interest bearing loans which will be due within one year. The Directors advise us that these loans will be either, repay by internal resources or renew to extend one more year.

3. Information of the Target Group

Overview

The Target Group comprises Company A, Company B and Company C and their respective subsidiaries.

Company A

The principal asset of Company A is its holding of 65% equity interest in Xingwu. Xingwu is principally engaged in the operations of coke coal mining, coke processing and sales of raw and clean coking coal and operates Mine A which is located at Liulin City in Shanxi Province in the PRC and commenced production in 1968. The operating period of Xingwu is 30 years for the period from 15 September 2005 to 12 September 2035. Xingwu also owns and operates a coke coal preparation plant, which is located adjacent to Mine A and commenced operations in October 2002. This coke coal preparation plant has an input and output processing capacity of 1.2Mtpa and 0.9Mtpa. Besides obtaining coking coal from Mine A, the coke coal preparation plant also processes coke coal from other mines.

Company B

The principal asset of Company B is its holding of 65% equity interest in Jinjiazhuang which is engaged in exploitation of coking coal by operating Mine B which is located at Liulin City in Shanxi Province in the PRC; and the indirect approximately 23% effective interest in Xingwu. The operating period of Jinjiazhuang is 30 years for the period from 16 September 2005 to 16 September 2035 and owns Mine B. A coke coal preparation plant adjacent to Mine B with a designed cleaned coking coal output capacity of 2.1 Mtpa is currently under construction and is expected to complete in first quarter of 2009.

Company C

The principal asset of Company C is its holding of 95% equity interest in Zhaiyadi which is engaged in exploitation of coking coal by operating Mine C which is located at Liulin City in Shanxi Province in the PRC. A coal preparation plant adjacent to Mine C with a designated cleaned coking coal output capacity of 2.1 Mtpa is planned to be built and is expected to be completed and commence operation in June 2009. The operating period of Zhaiyadi is 30 years for the period from 16 September 2005 to 16 September 2035.

Mines of the Target Group

Each of Xingwu, Jinjiazhuang and Zhaiyadi has been granted the exploitation rights in Mine A, Mine B and Mine C respectively. Mine A, Mine B and Mine C began operation in 1968, 1996 and 1988 respectively. Coking coal exploited from Mine A and Mine B is good quality, low to medium ash, very low sulfur hard coking coal, whereas coking coal exploited from Mine C is medium ash, medium to high sulfur semi-hard coking coal. As set out in the "Historical financial performance of the Target Group" below, the licence period of the mining rights held by Xingwu, Jinjiazhuang and Zhaiyadi are five years which are shorter than the estimated useful lives of Mine A, Mine B and Mine C estimated by Xingwu, Jinjiazhuang and Zhaiyadi respectively. As set out in the Technical Review Report, it is typical practice for other major coal producing nations for governments to extend the term of the mining rights for the economic life of the reserves. Set out below is a summary of the estimated proved and probable recoverable reserves of Mine A, Mine B and Mine C as extracted from the Technical Review Report:

	Recoverable Reserves (Mt)		
	Proved	**Probable**	**Total**
Mine A	11.11	35.23	46.34
Mine B	20.78	23.02	43.80
Mine C	13.32	38.89	52.21
Total	45.21	97.14	142.35

Historical financial performance of the Target Group

Target Group A

Set out below is a summary of the results of Target Group A for the three years ended 31 December 2005, 2006 and 2007 as extracted from the accountants' report set out in Appendix I to the Circular.

Combined income statements

	For the year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	556,280	567,305	705,531
Cost of sales	(213,134)	(229,567)	(259,601)
Gross profit	**343,146**	**337,738**	**445,930**
Other income	11,215	84,088	20,085
Less:			
Selling expenses	(8,608)	(14,108)	(56,597)
Administrative expenses	(55,058)	(43,769)	(46,740)
Other operating expenses	(18,581)	(3,605)	(1,281)
Operating profit	**272,114**	**360,344**	**361,397**
Finance costs	(68,920)	(85,045)	(39,268)
Share of (loss)/profit of associate	–	(51)	317
Profit before income tax	**203,194**	**275,248**	**322,446**
Income tax expense	(74,873)	(33,756)	–
Profit for the year	**128,321**	**241,492**	**322,446**
Raw coking coal output (Mt)	1.28	1.51	1.64

(i) Year ended 31 December 2006 compared to year ended 31 December 2005

Revenue generated in 2006 amounted to approximately RMB567.3 million, representing an increase of approximately 2.0% from that of 2005. Gross profit decreased slightly from approximately RMB343.1 million in 2005 to approximately RMB337.7 million in 2006, while gross profit margin decreased slightly from approximately 61.7% to approximately 59.5%. The management of the Group advised that it was principally due to the additional depreciation expenses charged for the expansion of production capacities at Mine A and the decrease in the average selling price of Target Group A's coal in 2006. However, Target Group A has recorded a substantial increase in other income in 2006 which was principally attributable to the gain on the disposals of unlisted shares in China Everbright Bank Co. Ltd. of approximately RMB74.4 million during the year ended 31 December 2006. The management of the Group advised that the substantial other operating expenses incurred by Target Group A in 2005 were principally attributable to business tax incurred for disposal of fixed assets to related company which had not occurred in the following year. Xingwu became a sino-foreign equity joint venture company since September 2005 and was entitled to full exemption on the income tax in the PRC for the period from 1 May 2006 to 31 December 2007. Therefore, income tax expense of Target Group A decreased from approximately RMB74.9 million in 2005 to approximately RMB33.8 million in 2006. As a result of the above principal factors, Target Group A achieved net profit of approximately RMB241.5 million, representing a growth of approximately 88.2% from that of 2005.

(ii) Year ended 31 December 2007 compared to year ended 31 December 2006

As a result of the increases in coal output and average selling price of Target Group A in 2007, revenue generated in 2007 amounted to approximately RMB705.5 million, representing an increase of approximately 24.4% from that of 2006, and gross profit also increased from approximately RMB337.7 million in 2006 to approximately RMB445.9 million in 2007, representing a gross profit margin of approximately 63.2%. However, selling expenses has increased by about 4.0 times from approximately RMB14.1 million in 2006 to approximately RMB56.6 million in 2007. We understand from the management of the Group that it was mainly due to the increased transportation cost of Target Group A as a result of the introduction of a large distant customer in 2007. As Xingwu is entitled to full exemption on the income tax in the PRC until 31 December 2007, Target Group A do not have any income tax expense incurred for the year ended 31 December 2007. As a result of the above principal factors, the profit of Target Group A for the year ended 31 December 2007 is RMB322.4 million, representing an increase of approximately 33.5%.

Target Group B

Set out below is a summary of the results of Target Group B for the three years ended 31 December 2005, 2006 and 2007 as extracted from the accountants' report set out in Appendix II to the Circular.

Combined income statements

	For the year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	539,211	367,456	534,088
Cost of sales	(194,881)	(99,971)	(162,359)
Gross profit	**344,330**	**267,485**	**371,729**
Other income	6,103	1,559	1,281
Less:			
Selling expenses	(13,484)	(7,540)	(7,749)
Administrative expenses	(75,678)	(40,948)	(36,621)
Other operating expenses	(34,756)	(3,547)	(5,308)
Operating profit	**226,515**	**217,009**	**323,332**
Finance costs	(63,018)	(32,650)	(36,296)
Share of profit of associate	45,442	89,656	119,406
Discount on acquisition of minority shares	22,997	–	–
Loss on deemed disposal of diluting interests in subsidiary	(35,027)	–	–
Profit before income tax	**196,909**	**274,015**	**406,442**
Income tax expense	(61,193)	(30,978)	–
Profit for the year	**135,716**	**243,037**	**406,442**
Raw coal output of Jinjiazhuang (Mt)	0.81	1.20	1.51

Prior to September 2005, Xingwu was an indirect non-wholly owned subsidiary of Company B. Accordingly, the results of Xingwu for the eight months ended 31 August 2005 had been consolidated into the results of Target Group B for the year ended 31 December 2005; while the results of Target Group B for the period from 1 September 2005 to 31 December 2005 and for the two years ended 31 December 2007 had only equity accounted for the results of Xingwu, as an associated company, for the two years ended 31 December 2007.

(i) Year ended 31 December 2006 compared to year ended 31 December 2005

As set out in the letter from the Board to the Circular, the adjusted revenue of Target Group B after excluding the contribution from Xingwu for the year ended 31 December 2005 (the "Adjusted 2005 Target Group B") was approximately RMB281.6 million. Revenue of Adjusted 2005 Target Group B for the year ended 31 December 2006 increased by approximately 30.5% to approximately RMB367.5 million from approximately RMB281.6 million. Gross profit of Adjusted 2005 Target Group B increased from approximately RMB208.6 million to approximately RMB267.5 million for the year ended 31 December 2006. Other income of Adjusted 2005 Target Group B had decreased from approximately RMB9.8 million in 2005 to approximately RMB1.6 million in 2006 as Target Group B had recognized income from sales of tools of approximately RMB5.5 million in 2005. However, finance costs of Adjusted 2005 Target Group B was approximately RMB3.7 million for the year ended 31 December 2005. As a result of the increase in borrowings of the Target Group B for the year ended 31 December 2006, the finance costs increased significantly to approximately RMB32.7 million for the year ended 31 December 2006.

From September 2005, as Jinjiazhuang became a sino-foreign equity joint venture company and is entitled to full exemption on the income tax in the PRC for the period from 1 May 2006 to 31 December 2007. Therefore, income tax expense of Adjusted 2005 Target Group B decreased from approximately RMB64.9 million in 2005 to approximately RMB31.0 million in 2006.

As a result of the above factors, Target Group B achieved net profit of approximately RMB243.0 million in 2006.

(ii) Year ended 31 December 2007 compared to year ended 31 December 2006

With the increases in raw coking coal output and average selling price of Target Group B in 2007, revenue generated in 2007 amounted to approximately RMB534.1 million, representing an increase of approximately 45.3% from that of 2006. Gross profit also increased significantly from approximately RMB267.5 million in 2006 to approximately RMB371.7 million in 2007. Administrative expenses has been decreased by approximately 10.5% from approximately RMB40.9 million in 2006 to approximately RMB36.6 million in 2007. We understand from the management of the Group that the higher administrative expenses of the Target Group B for the year ended 31 December 2006 was mainly attributable to consultancy fee paid for training and other services provided to Target Group B. The profit contributed from Xingwu, as an associated company, to Company B also increased by approximately 33.1% to approximately RMB119.4 million in 2007. As

Jinjiazhuang is entitled to full exemption on the income tax in the PRC until 31 December 2007, Target Group B do not have any income tax expense incurred for the year ended 31 December 2007. As a result of the above factors, Target Group B achieved a net profit of approximately RMB406.4 million in 2007, representing a growth of approximately 67.2% over that of 2006.

Target Group C

Set out below is a summary of the results of Target Group C for the three years ended 31 December 2005, 2006 and 2007 as extracted from the accountants' report set out in Appendix III to the Circular.

Combined income statements

	For the year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	92,840	309,527	520,869
Cost of sales	(54,367)	(74,801)	(132,199)
Gross profit	**38,473**	**234,726**	**388,670**
Other income	260	5,669	2,594
Less:			
Selling expenses	(2,966)	(8,961)	(11,450)
Administrative expenses	(13,916)	(19,959)	(27,891)
Other operating expenses	(7,252)	(2,747)	(3,825)
Operating profit	**14,599**	**208,728**	**348,098**
Finance costs	(219)	(11,509)	(16,298)
Profit before income tax	**14,380**	**197,219**	**331,800**
Income tax expense	(5,077)	(23,189)	–
Profit for the year	**9,303**	**174,030**	**331,800**
Raw coal output (Mt)	0.433	1.425	1.936

(i) Year ended 31 December 2006 compared to year ended 31 December 2005

We understand from the management of the Group that the management of Target Group C advised that with the change in the mining technology of Mine C during the year ended 31 December 2006, it increased the annual mining capacity of Mine C which resulted in the substantial increases in revenue and gross profit margin of Target Group C during the year ended 31 December 2006. Revenue generated in 2006 amounted to approximately RMB309.5 million, representing a substantial increase of approximately 233.5% from that of 2005; while gross profit margin also increased substantially from 41.4% in 2005 to 75.8% in 2006 and resulted in a gross profit of approximately RMB234.7 million in 2006. With the increase in the sale volume of Target Group C in 2006, its selling and administrative expenses also increased during the year ended 31 December 2006. The increase in finance costs was principally attributable to interest charged on loans from ultimate holding company. Zhaiyadi became a sino-foreign equity joint venture company since September 2005 and is entitled to full exemption on the income tax in the PRC for the period from 1 May 2006 to 31 December 2007. However, as the profit before income tax has increased from approximately RMB14.4 million in 2005 to approximately RMB197.2 million in 2006. The income tax expense still increased from approximately RMB5.1 million in 2005 to approximately RMB23.2 million in 2006. As a result of the above factors, Target Group C achieved net profit of approximately RMB174.0 million in 2006, representing a substantial growth of approximately 18.7 times from that of 2005.

(ii) Year ended 31 December 2007 compared to year ended 31 December 2006

With the continue increase in the coal output and increase in average selling price of Target Group C, the revenue generated in 2007 increase by approximately 68.3% to approximately RMB520.9 million. Gross profit increased from approximately RMB234.7 million in 2006 to approximately RMB388.7 million in 2007. Selling and administrative expenses and other operating expenses also increased with the increase in sales of Target Group C in 2007. Finance costs increased from approximately RMB11.5 million in 2006 to approximately RMB16.3 million in 2007 which was mainly due to the increased interest expenses for early redemption of bill receivables and interest charged on loans from ultimate holding company in 2007. As Zhaiyadi is entitled to full exemption on the income tax in the PRC until 31 December 2007, Target Group C did not have any income tax expense incurred for the year ended 31 December 2007. As a result of the above factors, Target Group C achieved net profit of approximately RMB331.8 million in 2007, representing a growth of approximately 90.7% from that of 2006.

Financial position of the Target Group

Target Group A

Set out below is a summary of the financial position of Target Group A as at 31 December 2005, 2006 and 2007 as extracted from the accountants' report set out in Appendix I to the Circular:

Combined balance sheets

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	253,911	293,748	320,913
Prepaid lease payments	26,138	25,529	24,920
Mining rights	164,500	159,453	153,990
Interests in associate	–	16,749	17,066
Available-for-sale financial assets	161,020	–	–
Pledged bank deposits	–	1,003	–
	605,569	496,482	516,889
Current assets			
Inventories	17,137	29,779	23,966
Available-for-sale financial assets	200	400	400
Trade and bill receivables	82,312	117,079	195,574
Deposits, prepayments and other receivables	14,953	259,512	60,152
Amounts due from ultimate holding company	525	–	18,581
Amounts due from a related party/ related companies	731,184	418,863	222,267
Amounts due from minority investor	–	–	449,273
Pledged bank deposits	54,534	11,808	30,545
Cash and cash equivalents	13,176	53,295	16,514
	914,021	890,736	1,017,272
Current liabilities			
Trade and bill payables	111,195	85,645	85,262
Other payables and accruals	355,782	130,528	329,293
Amounts due to related companies	62,632	38,687	70,652
Amounts due to a fellow subsidiary	2,739	–	4,432
Amounts due to minority investor	4,136	–	–
Amounts due to ultimate holding company	–	14,216	–
Borrowings	495,000	261,688	64,325
Provision for tax	83,115	85,927	85,745
	1,114,599	616,691	639,709
Net current (liabilities)/assets	**(200,578)**	**274,045**	**377,563**
Total assets less current liabilities	**404,991**	**770,527**	**894,452**
Non-current liabilities			
Long term payables	21,176	21,980	16,603
Borrowings	96,260	73,198	48,130
Loans from ultimate holding company	–	157,909	147,589
	117,436	253,087	212,322
Net assets	**287,555**	**517,440**	**682,130**

Target Group B

Set out below is a summary of the financial position of Target Group B as at 31 December 2005, 2006 and 2007 as extracted from the accountants' report set out in Appendix II to the Circular:

Combined balance sheets

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	148,936	205,782	273,110
Prepaid lease payments	–	10,273	10,300
Mining rights	52,934	529,824	524,930
Interests in associate	168,136	241,792	194,065
Pledged bank deposits	–	1,003	–
	370,006	988,674	1,002,405
Current assets			
Inventories	13,172	12,886	20,519
Trade and bill receivables	1,520	156,972	334,311
Deposits, prepayments and other receivables	22,495	32,542	26,769
Amounts due from a related party/ related companies	11,071	156,633	310,988
Amounts due from a director	16,576	16,000	16,000
Amounts due from associate	4,136	–	–
Amounts due from minority investor	319,737	–	28,553
Pledged bank deposits	–	13,500	14,503
Cash and cash equivalents	123	1,355	738
	388,830	389,888	752,381
Current liabilities			
Trade and bill payables	28,362	87,263	100,895
Other payables and accruals	208,939	185,656	138,408
Amounts due to related companies	53,062	116	2,363
Amounts due to associate	–	–	449,273
Amounts due to a fellow subsidiary	–	–	101,941
Amounts due to minority investor	–	89,645	–
Amounts due to ultimate holding company	–	21,550	5,609
Borrowings	–	59,000	46,003
Provision for tax	68,426	78,792	78,362
	358,789	522,022	922,854
Net current assets/(liabilities)	**30,041**	**(132,134)**	**(170,473)**
Total assets less current liabilities	**400,047**	**856,540**	**831,932**
Non-current liabilities			
Borrowings	31,000	1,003	–
Loans from ultimate holding company	–	236,864	221,381
	31,000	**237,867**	**221,381**
Net assets	**369,047**	**618,673**	**610,551**

Target Group C

Set out below is a summary of the financial position of Target Group C as at 31 December 2005, 2006 and 2007 as extracted from the accountants' report set out in Appendix III to the Circular:

Combined balance sheets

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	116,102	150,759	206,880
Prepaid lease payments	–	4,191	4,204
Mining rights	26,593	682,329	678,899
Pledged bank deposits	–	1,003	–
	142,695	838,282	889,983
Current assets			
Inventories	7,078	12,382	19,512
Trade and bill receivables	13,261	106,850	75,450
Deposits, prepayments and other receivables	10,342	29,153	20,872
Amounts due from a related party/ related companies	–	27,471	42,804
Amounts due from fellow subsidiaries	2,739	–	106,373
Amounts due from minority investor	–	–	350,503
Pledged bank deposits	–	–	1,003
Cash and cash equivalents	647	211,152	13,098
	34,067	387,008	629,615
Current liabilities			
Trade payables	15,454	28,202	33,162
Other payables and accruals	52,355	92,692	191,059
Amounts due to related companies	24,326	2,576	486
Amounts due to minority investor	8,242	66,891	–
Amounts due to ultimate holding company	–	641,373	552,962
Borrowings	3,822	3,140	4,776
Provision for tax	8,063	23,957	18,557
	112,262	858,831	801,002
Net current liabilities	**(78,195)**	**(471,823)**	**(171,387)**
Total assets less current liabilities	**64,500**	**366,459**	**718,596**
Non-current liabilities			
Borrowings	10,388	9,151	6,355
Loans from ultimate holding company	–	111,123	103,858
	10,388	120,274	110,213
Net assets	**54,112**	**246,185**	**608,383**

(a) Assets of the Target Group

Property, plant and equipment and mining rights are the two largest asset items for each of Target Group A, Target Group B and Target Group C. The book value of the property, plant and equipment of Target Group A as at 31 December 2007 amounted to approximately RMB320.9 million (20.9% of total assets) which mainly represents the coal preparation plant of Target Group A, whereas the book value of the property, plant and equipment of Target Group B and Target Group C as at 31 December 2007 amounted to approximately RMB273.1 million (15.6% of total assets) and RMB206.9 million (13.6% of total assets) respectively which were their coal screening and crushing facilities. According to the property valuation report contained in Appendix VI to the Circular, both Target Group A, Target Group B and Target Group C have overdue land premium which would expose Target Group A, Target Group B and Target Group C to late payment penalty. However, as set out in the PRC Legal Opinion, a written confirmation has received from the Land Resource Bureau of Liulin County confirming that both Target Group A, Target Group B and Target Group C shall have unfettered rights to occupy the property throughout the unexpired land use right terms even though the land premium is not settled in full. Accordingly, the overdue land premium would not affect the respective rights of the Target Group to use the property.

As at 31 December 2007, Target Group A, Target Group B and Target Group C recorded mining rights of approximately RMB154.0 million (10.0% of total assets), RMB524.9 million (29.9% of total assets) and RMB678.9 million (44.7% of total assets) respectively. According to the accounting policies of the Target Group A, Target Group B and Target Group C as set out in their respective accountants' reports contained in Appendix I, II, III to the Circular respectively, mining rights are stated at cost less accumulated amortisation and are amortised on a straight line basis over the shorter of their useful lives estimated based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

Apart from amounts due from related parties which will be settled and deducted from the Consideration pursuant to the terms of the Agreement, the major current asset items for each of Target Group A, Target Group B and Target Group C as at 31 December 2007 was trade and bill receivables which amounted to approximately RMB195.6 million, RMB334.3 million and RMB75.5 million respectively.

Target Group A

As at 31 December 2007, trade and bill receivables amounted to approximately RMB195.6 million and was approximately 67.0% higher than that as at 31 December 2006. We understand from the management of the Group that it was principally attributable to the increase in revenue of Target Group A and the longer credit period granted to its major customers for the year ended 31 December 2007.

Target Group B

As at 31 December 2007, trade and bill receivables amounted to approximately RMB334.3 million and was approximately 113.0% higher than that as at 31 December 2006. We understand from the management of the Group that it was principally attributable to the increase in revenue of Target Group B and the longer credit period granted to the major customers for the year ended 31 December 2007.

Target Group C

As at 31 December 2007, trade and bill receivables amounted to approximately RMB75.5 million and was approximately 29.4% lower than that as at 31 December 2006. We understand form the management of the Group that such decrease was mainly attributable to the repayment of trade receivable by a major customer of Target Group C for the year ended 31 December 2007.

(b) Liabilities of the Target Group

Target Group A

Other payables and accruals are the major liabilities of Target Group A. They mainly comprised of advances from customers, other payables and accruals. As at 31 December 2007, the amount of other payables has been increased from approximately RMB130.5 million in 2006 to approximately RMB329.3 million in 2007. We understand from the management of the Group that as a result of the stronger demands of its products, Target Group A had expanded its customer base during the year ended 31 December 2007. To strengthen controls over its customers, customers are required to place deposits before deliveries and, accordingly, result in a substantial increase in advances from customers as at 31 December 2007.

Target Group B

Apart from amounts due to related parties which will be settled pursuant to the terms of the Agreement, other payables and accruals are the major liabilities of Target Group B. They mainly comprised of advances from customers, other payables and accruals. As at 31 December 2007, the amount of other payables and accruals had been decreased from approximately RMB185.7 million in 2006 to approximately RMB138.4 million in 2007 which is mainly related to the decrease in advances from customer.

Target Group C

Apart from amounts due to related parties which will be settled pursuant to the terms of the Agreement, other payables and accruals are the major liabilities of Target Group C which mainly comprised of advances from customers, other payables and accruals. Similar to Target Group A, the advances from customers of Target Group C also increased substantially with its expanded customer base and resulted in the increase in other payables and accruals from approximately RMB92.7 million as at 31 December 2006 to approximately RMB191.1 million as at 31 December 2007.

As to the net current liabilities position of Target Group B and Target Group C, having considered (i) the profitable track record; (ii) significant net asset position; and (iii) the future prospects for each of Target Group B and Target Group C, we did not identify any significant factors which would affect the Target Group B and Target Group C on going concern.

Distribution of dividends of the Target Group

Pursuant to the terms of the Agreement, the Seller shall be solely entitled to the shareholder's attributable profits of the BVI Companies for the year ended 31 December 2007 (if any); and if the Completion takes place after 31 July 2008, the Seller shall also be entitled to or shall bear the shareholder's attributable profits/ losses (as the case may be) of the BVI Companies and the Mining Companies for period from 1 January 2008 to 30 June 2008 but the dividends for the first half year of 2008 of the BVI Companies and the Mining Companies shall only be declared and distributed after 31 July 2008. The Seller and Mr. Xing jointly and severally guarantee to the Buyer that the shareholder's attributable profits of the BVI Companies for the year ended 31 December 2007 and the dividends for the first half year of 2008 shall be used to set off against Mr. Xing's Net Indebtedness.

In the event that the Completion takes place prior to 31 July 2008, the Buyer shall be entitled to or shall bear the shareholder's attributable profits/losses (as the case may be) of the BVI Companies and the Mining Companies and shall be entitled to the dividends declared and distributed by the BVI Companies and the Mining Companies since 1 January 2008.

Pursuant to the terms of the Agreement, irrespective of whether the Completion takes place before or after 31 July 2008, the BVI Companies shall distribute a special dividends in aggregate of not more than HK$20 million to the Seller but the payment time shall be determined by the Seller and the Buyer.

4. Evaluation of the Consideration

As set out in the letter from the Board in this Circular, the Consideration of HK$10,530 million (subject to adjustment), was determined between the parties after arm's length negotiations which represents a discount of approximately 10.8% to the valuation of the sum of the attributable interest of the Mining Companies to the Seller as at 30 April 2008 as appraised by Greater China.

Since each of Company A, Company B and Company C is investment holding company of the Mining Companies and has no other assets or liabilities, for the purpose of our evaluation of the Consideration, we have focused on the analysis of the valuation of the Mining Companies.

(i) Valuation by Greater China

In assessing the fairness of the Consideration, we have considered the valuation of the Mining Companies prepared by Greater China. According to the valuation report prepared by Greater China contained in Appendix VII to the Circular, the fair value of (i) 87.75% effective interest of Xingwu; (ii) 65% equity interest of Jinjiazhuang; and (ii) 95% equity interest of Zhaiyadi to the Seller as at 30 April 2008 were approximately RMB4,308.5 million (approximately HK$4,797.4 million); RMB2,964.0 million (approximately HK$3,300.3 million); and RMB3,334.5 million (approximately HK$3,712.8 million) respectively and in aggregate amounted to approximately RMB10,607.0 million (approximately HK$11,810.5 million) (the "Valuation"). The Consideration represents a discount of approximately 10.8% to the Valuation. We have reviewed the underlying calculation of the Valuation and have discussed with Greater China the assumptions used in the Valuation.

(a) Valuation approach

We have reviewed and discussed with Greater China regarding, among other things, the assumptions, bases and methodologies adopted for the Valuation, particular of which are contained in Appendix VII to the Circular. We noted that Greater China has adopted the market transaction approach to evaluate the fair value of the Mining Companies which, in our opinion, is a reasonable approach in establishing the fair value of the Mining Companies. In assessing the fair value of the Mining Companies, Greater China has adopted the EV-to-output multiples implicit in listed companies engaged in coal mining selling similar types of coal and close to Shanxi Province and made adjustment for cash and liabilities positions of the Mining Companies.

(b) Key assumptions

We are advised by Greater China that in valuing the valuation of the Mining Companies, it has adopted the following principal assumptions, amongst others, that

(1) the reserves of the Mines are reasonably estimated and confirmed by BOYD;

(2) the Mining Companies have been valued on the basis that they shall have no legal impediment and extra costs to renew their permits/licences/ certificate/approval in associate with their coal mining and processing activities and businesses from the Government authority from time to time until the coal reserves of the coal mine are fully exploited. As represented by the Seller, they are not aware of any circumstance which may result in such permits/licenses/certificate not being renewed upon their expiries; and

(3) the current output of the coking coal from the each of the mining sites exceeds their respective permitted output. Pursuant to the notice issued by the Coal Administrative Bureau of Liulin Country the Mining Companies are subject to penalty at an annual lump sum of RMB100,000 for exceeding the permit output amount for each of the year 2005, 2006 and 2007. Greater China assumed that the Mining Companies shall apply for extending their permitted annual coking coal output volume in due course.

Details of the bases and assumptions of the valuation of the Mining Companies are set out in the valuation report prepared by Greater China contained in Appendix VII to the Circular.

During our discussions with Greater China, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at the valuation of the Mining Companies.

Having considered that (i) the Consideration represents a discount of approximately 10.8% to the Valuation, and (ii) the settlement terms of the Agreement provide that the Consideration will be adjusted for any deficit of the net asset value of the Target Group as at the Completion Date as compared to the 2007 Net Assets Value and any outstanding determined claim amounts owed to the Group, we consider the Consideration is fair and reasonable.

(ii) Payment terms of the Consideration

As mentioned above, HK$4,860 million of the Consideration will be satisfied by the Group in cash, while the remaining portion of the Consideration will be satisfied by issuing and allotting the Consideration Shares.

(a) Cash portion

Pursuant to the terms of the Agreement,

(1) the Initial Cash Consideration amounted to HK$3,860 million will only be paid to the Seller after applied to discharge in full the DB Indebtedness and release of all encumbrances charged on the Sale Shares and the respective assets; and

(2) the Escrow Cash and the Guarantee Cash, in aggregate, amounted to HK$1,000 million shall be released to the Seller or the Buyer (as the case may be) only after if the Deductible Amount (if any) have been deducted.

(b) Share portion

Pursuant to the terms of the Agreement, the remaining balance of the Consideration amounted to HK$5,670 million shall be satisfied by allotting and issuing 1,260 million Consideration Shares to the respective nominees of Mr. Xing, Mr. Wong and the Other Owners in proportion to their respective effective interests in the Seller on the Completion Date. The Consideration Shares are subject to lock up restrictions as more particularly described in the section headed "Lock-up Arrangements" in the letter from the Board in the Circular.

As to Mr. Xing's Consideration Shares, it shall be placed in escrow until the expiry of first anniversary of the Completion Date and would release to Mr. Xing depending on any outstanding claims from the Buyer.

Details of the payment terms of the Escrow Cash, the Guarantee Cash and the Mr. Xing's Consideration Shares have described in the sections headed "Settlement of the Escrow Cash and the Guarantee Cash" and "Arrangements of Mr. Xing's Consideration Shares" in the letter from the Board in the Circular.

We noted that the payment terms and adjustments to the Consideration ensure that:

(1) the Sale Shares are free from encumbrance at Completion;

(2) the Escrow Cash and the Guarantee Cash (in aggregate, being HK$1,000 million) will only be paid to the Seller after pay off (i) Mr. Xing's Net Indebtedness; (ii) any deficit of the net assets value of the Target Group at Completion as compared to the 2007 Net Asset Value; (iii) any excess of the amount of dividends paid by the Target Group over the distributable profits of the Target Group for the six months ending 30 June 2008, if Completion takes place after 31 July 2008; and (iv) any outstanding determined claim amounts owed to the Buyer; and the balance will be paid to the Seller; and

(3) any claim amounts owed to the Group is settled before the release of the Consideration Shares to Mr. Xing; and

(4) the Target Group will not have any outstanding liabilities due from/due to the Seller after Completion

which in our opinion are in the interest of the Company and the Shareholders as a whole.

(iii) Analysis of the Issue Price and share price performance

(a) Comparison of the Issue Price with market price

As mentioned in the letter from the Board in the Circular, the Issue Price of HK$4.5 per Consideration Share has been determined with reference to the closing price of the Share as quoted on the Stock Exchange on 31 January 2008, being the date of the MOU and represents:

(1) a discount of approximately 11.07% to the closing price of HK$5.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(2) a discount of approximately 0.66% to the closing price of HK$4.53 per Share as quoted on the Stock Exchange on 9 May 2008 (being the last trading day(the "Last Trading Day") prior to the suspension of trading in the Shares pending the issue of the Announcement);

(3) a discount of approximately 11.24% to the closing price of HK$5.07 per Share as quoted on the Stock Exchange on 31 January 2008, the date of the MOU;

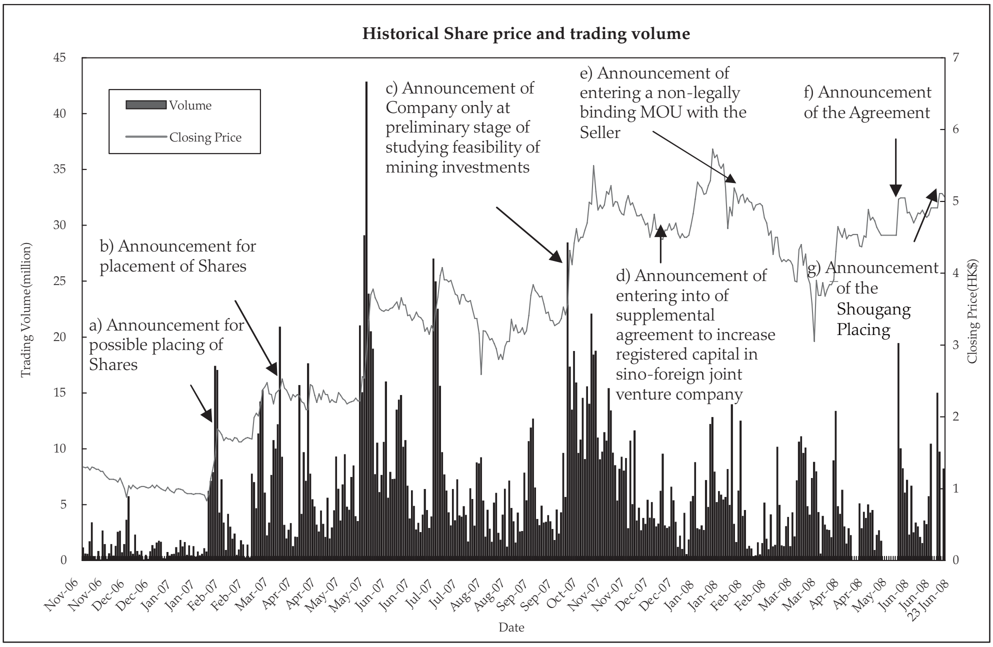
(4) a premium of approximately 2.46% to the average of the closing prices of HK$4.392 per Share during the period from 31 January 2008 (date of the MOU) to the Last Trading Day as quoted on the Stock Exchange; and

(5) approximately 13.76 times over the audited consolidated net asset value per Share of approximately HK$0.327 as at 31 December 2007.

(b) Analysis of past performance of the Shares

Chart 1 below shows the closing price and volume of the Shares traded on the Stock Exchange since November 2006 (approximately 18 months prior to the entering into of the Agreement) up to and including the Latest Practicable Date (the "Period"):

Chart 1:



Source: Bloomberg

(1) Share price performance

As shown in Chart 1 above, the Shares traded within a relatively narrow range between HK$0.83 to HK$1.45 during November 2006 to January 2007 and soared to HK$1.83 when the Company announced the possible placing of Shares on 30 January 2007. The Shares rose continually and reached HK$2.53 after the announcement of the placement of 230 million new Shares at HK$2.00 per Share and the issuance of convertible notes to raise in aggregate approximately HK$720 million on 15 March 2007.

Since then and up to August 2007, the Share price fluctuated between HK$2.1 to HK$4.08. On 10 September 2007, the Company announced its interim results for the six months ended 30 June 2007, it continued to report an operating loss of approximately HK$15.5 million for the six months ended 30 June 2007 which was remained at the same level compared to the respective period in 2006. Afterward, the Share price was traded between HK$3.27 to HK$3.84 from 11 September 2007 to 4 October 2007.

On 5 October 2007, the Company announced that it was at a preliminary stage of studying the feasibility of making investments in certain projects involving the operation of coal mines. The Share price rose and traded within the range of HK$4.12 and HK$5.50 during 8 October 2007 to 26 November 2007. The Company announced on 27 November 2007 that the Company entered into, among others, a supplement sino-foreign equity joint venture agreement to increase registered capital of and the total investment amount of the join venture company. Following the release of this announcement and up to January 2008, the price of the Share fluctuated between HK$4.47 to HK$5.73.

On 31 January 2008, the Company made the announcement (the "MOU Announcement") in relation to the entering into of the MOU. After the release of the MOU Announcement and before the release of the Announcement, the price of the Shares fluctuated between HK$3.05 and HK$5.10.

On the Last Trading Day, Shares closed at HK$4.53. Following the release of the Announcement, the Shares rose by 11.25% to close at HK$5.04 on its resumption on 22 May 2008. After the release of the announcement in relation to the Shougang Placing, the Shares closed at HK$4.91 on 18 June 2008 which is the same closing price prior to the release of the announcement in relation to the Shougang Placing.

(2) Analysis of trading volume of the Shares

Set out below is the monthly trading volume of the Shares on the Stock Exchange during the Period:

	Total monthly trading volume of Shares *(Note 1)*	Average trading volume of the Shares per trading day during the month	% of average daily trading volume of the Shares to the total issued Shares *(Note 2)*	% of average daily trading volume of the Shares to public float *(Note 3)*
2006				
November	32,962,000	1,498,273	0.07%	0.18%
December	15,746,000	828,737	0.04%	0.10%
2007				
January	70,346,000	3,197,545	0.15%	0.38%
February	52,788,000	2,778,316	0.13%	0.33%
March	137,239,084	7,624,394	0.37%	0.71%
April	104,304,000	5,794,667	0.25%	0.54%
May	263,332,000	12,539,619	0.54%	1.17%
June	159,665,201	7,983,260	0.35%	0.75%
July	173,975,000	8,284,524	0.36%	0.77%
August	105,868,000	4,602,957	0.20%	0.42%
September	97,213,000	5,116,474	0.22%	0.46%
October	286,986,000	13,666,000	0.57%	1.20%
November	159,732,000	7,260,545	0.30%	0.62%
December	71,870,000	3,782,632	0.16%	0.32%
2008				
January	143,687,704	6,531,259	0.27%	0.54%
February	47,097,766	2,478,830	0.10%	0.21%
March	109,250,787	5,750,041	0.24%	0.48%
April	78,563,763	5,237,584	0.21%	0.44%
May	75,974,300	5,844,177	0.24%	0.49%
June (up to the Latest Practicable Date)	68,186,804	5,682,234	0.23%	0.47%

Notes:

(1) Source: Bloomberg

(2) Calculated based on the number of issued Shares as at each month end during the Period.

(3) Public float is calculated as the number of issued Shares less the number of Shares held by China Merit (being the controlling Shareholder of the Company) and its associates at the end of each month during the period.

Trading volumes of the Shares during most of the months of the Period as shown above was in general thin, representing less than 1% of the total issued Shares per month and less than 1% of the Shares in public float for most of the month except for May 2007 and October 2007. The Directors advised that they were not aware of the reasons for the increase in trading volume and Share price in May 2007 and the increase in trading volume and Share price in October 2007 was believed to be caused by speculation about the possible further investment in mining project as announced in 5 October 2007.

In our opinion, trading in Share has been relatively inactive during the Period, we believe the fluctuation of the Share price during the Period was likely to be speculative, as save for the announcement in relation to placing of Shares and the Acquisition, the sudden surge and fall in Share price was incongruent with the unsatisfactory financial performance reported by the Company and not supported by signs of any positive development in the business of the Company. However, the increase in market price of the Shares after the release of the Announcement, in our opinion reflected the market support to the Acquisition.

Our view on the payment terms of the Consideration

In light of the above analysis, in particular,

- the coal mines have been in operation for many years and the Target Group had been profitable;
- the Consideration is approximately 10.8% discount to the Valuation of the Mining Companies appraised by Greater China;
- the protection provided on the payment terms of the Consideration;
- a substantial portion of the Consideration is to be satisfied by the issue of the Consideration Shares; and
- the Issue Price represents a discount of approximately 11.24% to closing price of HK$5.07 per Share as quoted on the Stock Exchange on the date of the MOU and a substantial premium over the consolidated net asset value per Share;

we are of the view that the Consideration (including the terms of the Consideration Shares and the Issue Price) is fair and reasonable.

(iv) Other material terms for the Acquisition

Under the terms of the Agreement, the Company and Mr. Wong have given certain warranties and undertaking to the Seller. The more significant warranties and undertakings from the Shareholders' perspective is that the Company and Mr. Wong, unconditionally and irrevocably, guarantees the Seller that the Consideration Shares to be issued to the Seller by the Company on the Completion Date shall not be less than 25% of the fully diluted issued share capital of the Company as enlarged by the Consideration Shares (the Minimum Shareholding). If the Consideration Shares are diluted to less than the Minimum Shareholding, Mr. Wong undertakes to indemnify the Seller for the shortfall of the Minimum Shareholding which the Seller has the right to determine the form of the compensation (i.e. Cash or Shares). Details of the compensation to the Seller are set out under the section headed "Guarantee from the Company and Mr. Wong" in the letter from the Board in the Circular.

If the Seller elects Shares as compensation, the shareholding interest of Mr. Wong in the Company will decrease by the increase in shareholding interest of the Seller in the Company. However, Shareholders should note that no matter the Seller elects cash or Shares as compensation, there will not be any effect on the financial position of the Group and the public float of the Company.

(v) Funding for the Acquisition

As mentioned in the letter from the Board in the Circular, cash portion of the Consideration, HK$4,860 million, will be financed by placing of new Shares, bank financing and the Company's internal financial resources. On 15 June 2008, the Company had entered into the a placing agreement for the Shougang Placing with the Placing Agent for placing of up to 450,000,000 new Shares and on the same date, the Placing Agent had entered into the placing letter with Shougang and Fine Power to place the above 450,000,000 new Shares at the placing price of HK$4.60 per Share. On 20 June 2008, the Company entered into the Second Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to place on a fully underwritten basis 410,000,000 new Shares at the placing price of HK$4.80 per Second Placing Share. On the same date, Mr. Wong (being the controlling Shareholder, executive Director and Chairman of the Company) as one of the placees has entered the Mr. Wong Placing Letter with the Placing Agent pursuant to which the Placing Agent agreed to place to Mr. Wong 100,000,000 Second Placing Shares. The aggregate net proceed from the Shougang Placing and the Second Placing amounted to approximately HK$3,937.0 million is expected to settle part of the cash portion of the Consideration at Completion. In addition, the Directors advised that the Company is also in discussion with a fellow subsidiary of BOCI to obtain a term loan of approximately US$153.8 million (equivalent to approximately HK$1,200 million) to finance the remaining cash portion of the Consideration.

Shareholders should note that the Acquisition is conditional on the successful completion of the placing and/or obtaining of the bank facilities for an aggregate sum of not less than HK$4,360 million. Accordingly, if the placing as mentioned above cannot be completed and/or the bank facilities cannot be obtained or the fund raised from the placing and/or the bank facilities is less than HK$4,360 million, the Completion would not been taken place. At present, the Directors are optimistic that other financing arrangements would be feasible in light of the current gearing position of the Group, and the profitability, and prospects of the Target Group.

(vi) Financial effects on the Acquisition

Earnings

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Company and their results will be consolidated into the financial statements of the Group. In view of the profitable track record of the Target Group for the three years ended 31 December 2007, the Target Group are expected to contribute positively to the revenue and earnings base of the Enlarged Group after Completion.

As disclosed in the unaudited pro forma financial information of the Enlarged Group contained in Appendix V to the Circular, assuming Completion took place on 1 January 2007, the results of the Enlarged Group for the year ended 31 December 2007 would be improved from loss of approximately HK$86.1 million to profit of approximately HK$442.5 million which is principally attributable to the profit contributed by the Target Group and the additional depreciation and amortization charged for the fair value adjustments to the property, plant and equipment and mining rights of the Target Group.

Net asset value

According to the unaudited pro forma financial information of the Enlarged Group contained in Appendix V to the Circular, net assets attributable to the Shareholders of the Enlarged Group would be increased significantly from approximately HK$733.7 million to approximately HK$10,340.7 million assuming Completion had been completed on 31 December 2007. This is mainly due to the revaluation surplus of the property, plant and equipment and mining rights of the Target Group and the increase in capital base as a result of the issue of the Consideration Shares, the Shougang Placing Shares and the Second Placing Shares. On a per Share basis, assuming the Consideration Share, the Shougang Placing Shares and the Second Placing Shares had been issued to finance the Acquisition as at 31 December 2007 as a result of the Completion, the net asset value per share would increase by 7.56 times from HK$0.30 to HK$2.27.

Gearing and cash flow

The Consideration of HK$4,860 million is to be satisfied by cash, of which HK$4,360 million shall be payable by the Group to the Seller on the Completion Date. As at 31 December 2007, the Group had cash on hand of approximately HK$460.5 million. As mentioned in the section headed "Funding for the Acquisition" above, the aggregate net proceed from the Shougang Placing and the Second Placing amounted to approximately HK$3,937.0 million is expected to settle part of the cash portion of the Consideration at Completion. In addition, the Directors advised that the Company also in discussion with a fellow subsidiary of BOCI to obtain a term loan of approximately US$153.8 million (equivalent to approximately HK$1,200 million) to finance the remaining cash portion of the Consideration.

The Group's gearing ratio (defined as interest bearing liabilities divided by the total equity) as at 31 December 2007 was 37.4%. After the Completion, the gearing ratio of the Enlarged Group as calculated on the basis of the pro forma financial information as contained in Appendix V to the Circular would be improved to about 13.7%.

(vii) Dilution effect on shareholding

The respective shareholding structures of the Company immediately before and after the Completion are set out below:

Name of Shareholders	**Existing Shareholding**		**Shareholding after the Completion (assuming that (i) Mr. Xing will take up 56.92% of the Consideration Shares which is in proportion to his effective interest in the Seller; and (ii) completion of the Shougang Placing and the Second Placing)** *(Note 2)*	
	Number of Shares	*%*	*Number of Shares*	*%*
Mr. Wong *(Note 1)*	1,239,950,000	50.83	1,434,450,000	31.46
Mr. Xing	–	–	717,185,700	15.73
Other Owners	–	–	448,314,300	9.83
Public Shareholders				
– Fine Power Group Limited	–	–	450,000,000	9.87
– Placees (other than Mr. Wong)	–	–	310,000,000	6.80
– Other public Shareholders	1,199,605,352	49.17	1,199,605,352	26.31
Total	**2,439,555,352**	**100.00**	**4,559,555,352**	**100.00**

Notes:

1. Mr. Wong holds 90,750,000 Shares and is the beneficial owner of the entire issued share capital of China Merit, which owns 1,149,200,000 Shares. Mr. Wong would receive 94,500,000 Consideration Shares representing 7.5% of the total Consideration Shares. The Placing Agent agreed to place 100,000,000 Mr. Wong Placing Share to China Merit.

2. As the Agreement, the Shongang Placing Letter and the Second Placing Letter will be completed simultaneously, the Consideration Shares, the Shougang Placing Shares and the Second Placing Shares will be issued and allotted simultaneously.

As shown in the table above, the aggregate shareholding interest of the existing public Shareholders will decrease from approximately 49.17% as at the Latest Practicable Date to approximately 26.31% immediately upon Completion, assuming that (i) Mr. Xing will take up 56.92% of the Consideration Shares which is in proportion to his effective interest in the Seller; and (ii) the Shougang Placing and the Second Placing will be completed simultaneously with the Completion.

Taking into account that (i) the issue of the Consideration Shares, the Shougang Placing Shares and the Second Placing Shares will enable the Group to complete the Acquisition; (ii) the enhancement in net asset value per Share and the benefits expected to be accrued to the Acquisition in terms of prospects and earnings as mentioned in the section headed "Financial effects on the Acquisition" above; and (iii) the Acquisition can enlarge the coal business and coal assets of the Group substantially, we consider the dilution in shareholding to the existing public Shareholders is acceptable.

2. POSSIBLE CONTINUING CONNECTED TRANSACTIONS

1. Background of and reasons for the Possible Continuing Connected Transactions

(i) mutual supply of coal

The Directors advised that other than the Target Group, Mr. Xing also owns other mining companies (Mr. Xing's Mining Companies) and coal preparation plants within the Liulin City of Shanxi Province to exploit raw coking coal and to produce clean coal which had sold raw coking coal to the Mining Companies prior to the entering into of the Agreement. In producing the cleaned coking coal, the Mining Companies normally blend 60% of low sulphur raw coking coal with 40% of high sulphur raw coking coal. As mentioned in the section headed "Information of the Target Group" above, the coal produced from Xingwu and Jinjiazhuang are principally low sulphur hard coking coal; while the coal produced from Zhaiyadi are principally high sulphur semi-hard coking coal. Xingwu owns a coal preparation plant. Accordingly, Xingwu had in the past purchased raw coking coal from Jinjiazhuang, Zhaiyadi and Mr. Xing's Mining Companies and will continue after Completion under the Supply Contract and the Mutual Coal Supply Contract.

In addition, Mr. Xing's Mining Companies also purchased raw coking coal from each of the Mining Companies for producing cleaned coking coal in the past and will continue after Completion under the Supply Contract.

Since the coal preparation plants of Jinjiazhuang and Zhaiyadi are expected to commence production in the first quarter of 2009 and June 2009 respectively, it is expected that there (a) will be mutual supply of raw coking coal among the Mining Companies under the Mutual Coal Supply Contract; and (b) purchase of raw coking coal from the Mr. Xing's Mining Companies under the Supply Contract when the supply of raw coking coal among the Mining Companies is not sufficient.

(ii) supply of electricity and purchase of accessories and small tools

Since both Xingwu and Mr. Xing's Mining Companies are commonly controlled by Mr. Xing prior to Completion and were located with the Liulin City of Shanxi Province, (a) Xingwu had supplied spare electricity to Mr. Xing's Mining Companies; and (b) the Mining Companies had purchased accessories and small tools in centralized order from Mr. Xing's Mining Companies in the past.

Having considered (i) the spare capacity of electricity generated by the electricity plant of Xingwu; and (ii) the facilities in place to supply electricity to Mr. Xing's Mining Companies, the Directors advised that they consider it is reasonable to continue the supply of electricity to Mr. Xing's Mining Companies after Completion which can provide additional revenue to Xingwu under the Supply Contract.

As to the purchase of accessories and small tools from Mr. Xing's Mining Companies, the Group expected that the Mining Companies will purchase most of the accessories and small tools from other suppliers directly other than through Mr. Xing's Mining Companies upon Completion. However, the Annual Caps for purchases of accessories and small tools from Mr. Xing's Mining Companies under the Supply Contract is to provide flexibility for the Mining Companies in conducing business.

Having considered the entering into of the Supply Contract and the Mutual Coal Supply Contract, which (i) enable the Mining Companies to secure a stable supply of raw coking coal with lower transaction cost and have flexibility in purchasing accessories and small tools from nearby Mr. Xing's Mining Companies; and (ii) enable Xingwu to utilize its spare electricity capacity, we consider the entering into of the Supply Contract and the Mutual Coal Supply Contract are in the interest of the Group.

2. Principal terms of the Possible Continuing Connected Transactions

(i) volume of coking coal and other material under the Supply Contract and the Mutual Coal Supply Contract

Supply of raw coking coal

Supply Contract

Pursuant to the terms of the Supply Contract, the Mining Companies and Mr. Xing's Mining Companies agree to purchase and sell the necessary raw coking coal as required by the others from the effective date of the Supply Contract (i.e. the Completion Date) until the year ending 31 December 2010. The following is a summary of the historical volume of raw coking coal purchased from and sold to Mr. Xing's Mining Companies for the year ended 31 December 2007 as well as the volume of raw coking coal to be purchased from and sold to Mr. Xing's Mining Companies under the Supply Contract:

Supplier	**Purchaser**	**For the year ended 31 December 2007**	**For the year ending 31 December 2008**	**2009**	**2010**
		(tonnes)	*(tonnes)*	*(tones)*	*(tonnes)*
Mr. Xing's Mining Companies	Xingwu	412,000	335,000	157,000	480,000
	Jinjiazhuang	–	–	–	215,000
	Zhaiyadi	–	–	–	611,000
Xingwu	Mr. Xing's Mining Companies	15,000	15,000	–	–
Jinjiazhuang		86,165	86,165	–	–
Zhaiyadi		174,720	104,625	–	–

Mutual Coal Supply Contract

Pursuant to the terms of the Mutual Coal Supply Contract, the Mining Companies agree to purchase raw coking coal, among themselves from the effective date of the Supply Contract (i.e. the Completion Date) until the year ending 31 December 2010. The following is a summary of the historical volume of raw coking coal purchased among the Mining Companies for the year ended 31 December 2007 as well as the volume of coking coal to be purchased among the Mining Companies under the Mutual Coal Supply Contract:

		For the year ended 31 December	For the year ending 31 December		
Supplier	**Purchaser**	**2007**	**2008**	**2009**	**2010**
		(tones)	*(tones)*	*(tones)*	*(tones)*
Xingwu	Zhaiyadi	–	–	600,000	833,000
Jinjiazhuang	Zhaiyadi	–	–	300,000	356,000
Jinjiazhuang	Xingwu	2,117,000	–	–	–
Zhaiyadi	Xingwu	145,000	145,000	323,000	–
Zhaiyadi	Jinjiazhuang	–	–	1,200,000	985,000

In analysing the volume of raw coking coal under the Supply Contract and the Mutual Coal Supply Contract, we have discussed with the management of the Group the bases in arriving at the volume to be transacted under the Supply Contract and the Mutual Coal Supply Contract and understand that they were determined after considering:

(a) the expected raw coking coal output of the Mining Companies for the three years ending 31 December 2010;

(b) the expected cleaned coking coal output of the coal preparation plants of the Mining Companies for the three years ending 31 December 2010;

(c) the expected completion date of the coal preparation plants of Jinjiazhuang and Zhaiyadi; and

(d) the expected percentage of low sulphur and high sulphur raw coking coal required to produce cleaned coking coal.

Since the coal preparation plants of Jinjiazhuang and Zhaiyadi is expected to commence production since the first quarter of 2009 and June 2009, the Directors expect (i) the quantities of raw coking coal to be sold to Mr. Xing's Mining Companies and (ii) the quantities of high sulphur raw coking coal to be supplied by Zhaiyadi to the coal preparation plant of Xingwu for the year ending 31 December 2008 would remain the same level as recorded for the year ended 31 December 2007. As to the decrease in the expected volume of raw coking coal to be purchased by (i) Xingwu from Mr. Xing's Mining Companies and (ii) Mr. Xing's Mining Companies from Zhaiyadi for the year ending 31 December 2008, we understand from the management of the Group that it was determined principally based on (i) the expected quantities of high sulphur raw coking coal required to meet the expected cleaned coking coal output of Xingwu for the year ending 31 December 2008; and (ii) the expected quantities of high sulphur raw coking coal to be purchased from Zhaiyadi mentioned above. As to the purchase of lower sulphur raw coking coal between Xingwu and Jinjiazhuang for the year ended 31 December 2007, we understand from the management of the Group that it was due to the shortage of lower sulphur raw coking coal produced by Mine A during the year ended 31 December 2007 where the Directors expect it may not happen in future.

Since the coke preparation plants of Jinjiazhuang and Zhaiyadi commence production in 2009, the Mining Companies will cease to sell raw coking coal to Mr. Xing's Mining Companies and the raw coking coal of the Mining Companies will be used to satisfy the internal demand of their respective coal preparation plants, and will purchase raw coking coal from Mr. Xing's Mining Companies in case of shortage.

When the coal preparation plants of the Mining Companies were in full operation in 2010, it is expected that the Mining Companies will purchase more raw coking coal from Mr. Xing's Mining Companies.

Supply of the electricity

Under the Supply Contract, Xingwu also agree to supply electricity to Mr. Xing's Mining Companies from the effective date of the Supply Contract (i.e. the Completion Date) until the year ending 31 December 2010. The following is the historical volume of electricity supplied to Mr. Xing's Mining Companies for the year ended 31 December 2007 as well as the volume of electricity expected to be supplied to Mr. Xing's Mining Companies under the Supply Contract:

		For the year ended 31 December	For the year ending 31 December		
Supplier	**Purchaser**	**2007**	**2008**	**2009**	**2010**
		(meter)	*(meter)*	*(meter)*	*(meter)*
Xingwu	Mr. Xing's Mining Companies	6,256,000	6,256,000	6,256,000	6,256,000

The Directors advised that they assume the electricity to be supplied to Mr. Xing's Mining Companies for the three years ending 31 December 2010 will remain at the same level as record during the year ended 31 December 2007.

Purchase of the accessories and small tools

Under the Supply Contract, Mr. Xing's Mining Companies also agree to supply accessories and small tools as requested by the Mining Companies from the effective date of the Supply Contract (i.e. the Completion Date) until the year ending 31 December 2010.

Having considered that the volume of raw coking coal to be purchased from and supplied to Mr. Xing's Mining Companies and among the Mining Companies was determined based on (i) the expected raw coking coal output and the expected cleaned coking coal output of the Mining Companies for the three year ending 31 December 2010; (ii) raw coking coal output produced by the Mining Companies will fulfil the internal demand of the Mining Companies first before sale to its connected persons, Mr. Xing's Mining Companies, (iii) there is no obligation for the Mining Companies to purchase raw coking coal from Mr. Xing's Mining Companies; and (iv) the supply of electricity to Mr. Xing's Mining Companies can utilized the spare electricity capacity of Xingwu, we are of the view that the terms of the Supply Contract and Mutual Coal Supply Contract relating to volume of raw coking coal and electricity to be sold and purchased are fair and reasonable.

(ii) Pricing and payment terms of coking coal, accessories and small tools to be purchased

Pursuant to the Supply Contract and the Mutual Coal Supply Contract, the unit price of coking coal, accessories and small tools payable by the purchaser to the supplier shall be no less favourable than the unit price offered to the purchaser by independent suppliers for the same type of coking coal accessories and small tools; while the electricity to be supplied to Mr. Xing's Mining Companies will be charged with reference to the standard price charged within the region.

Regarding the payment terms, according to the Supply Contract and the Mutual Coal Supply Contract, the amount payable shall be settled within 30 days upon receipt of the purchase (except for electricity which shall be settled within 14 days upon receipt of the invoice). After our discussion with the management of the Group and reviewing the supply contracts entered into between the supplier and other independent third parties, we understand that save for those major customers, the Mining Companies usually requires its customers to pay a portion of the full purchase value of the coking coal ordered before or upon shipment and the remaining will be paid within 30 to 90 days. Having considered the payment terms under the Supply Contract and the Mutual Coal Supply Contract will not tie up the working capital of the Mining Companies and are executed on a reciprocal basis and can utilize the spare electricity capacity of Xingwu, we consider the payment terms is reasonable.

Having considered that (i) the coking coal, electricity, accessories and small tools will be charged at market price; and (ii) the payment terms are executed on a reciprocal basis, we are of the view that the pricing and payment terms of the Supply Contract and the Mutual Coal Supply Contract are fair and reasonable.

3. Annual Caps

The Possible Continuing Connected Transactions are subject to Listing Rules requirements and conditions as more particularly discussed under the section headed "Reporting requirements and conditions of the Possible Continuing Connected Transactions" below. In particular, the Possible Continuing Connected Transactions are subject to the Annual Caps for each of the three years ending 31 December 2010. The following is a summary of the historical transaction amounts for each of the Possible Continuing Connected Transactions for the year ended 31 December 2007 as well as the respective Annual Caps for each of the three years ending 31 December 2010:

Name of contract	Historical figures For the year ended 31 December 2007 *RMB'000 (excluded VAT)*	Annual Caps For the year ending 31 December 2008 *RMB'000 (excluded VAT) (note)*	2009 *RMB'000 (excluded VAT)*	2010 *RMB'000 (excluded VAT)*
(i) Supply Contract				
a. mutual supply of coking coal				
– purchase by Xingwu from Mr. Xing's Mining Companies	89,502	220,863	111,790	369,119
– purchase by Jinjiazhuang from Mr. Xing's Mining Companies	–	–	–	165,335
– purchase by Zhaiyadi from Mr. Xing's Mining Companies	–	–	–	469,858
– purchase by Mr. Xing's Mining Companies from Xingwu	5,884	13,009	–	–
– purchase by Mr. Xing's Mining Companies from Jinjiazhuang	37,105	74,727	–	–
– purchase by Mr. Xing's Mining Companies from Zhaiyadi	50,251	68,978	–	–
Annual Caps for coking coal under the Supply Contract	**182,742**	**377,577**	**111,790**	**1,004,312**
b. supply of electricity				
– supply by Xingwu to Mr. Xing's Mining Companies	2,454	2,651	2,863	3,092
Annual Caps for electricity under the Supply Contract	**2,454**	**2,651**	**2,863**	**3,092**
c. purchase of accessories and small tools				
– purchase by Xingwu from Mr. Xing's Mininig Companies	3,157	1,000	1,000	1,000
– purchase by Jinjiazhuang from Mr. Xing's Mininig Companies	10,152	1,000	1,000	1,000
– purchase by Xingwu from Mr. Xing's Mininig Companies	2,737	1,000	1,000	1,000
Annual Caps for accessories and small tools under the Supply Contract	**16,046**	**3,000**	**3,000**	**3,000**
(ii) Mutual Coal Supply Contract				
– purchase by Zhaiyadi from Xingwu	–	–	561,982	842,636
– purchase by Zhaiyadi from Jinjiazhuang	–	–	280,991	360,118
– purchase by Xingwu from Jinjiazhuang	2,117	–	–	–
– purchase by Xingwu from Zhaiyadi	35,964	95,592	229,987	–
– purchase by Jinjiazhuang from Zhaiyadi	–	–	854,442	757,463
Annual Caps for Mutual Coal Supply Contract	**38,081**	**95,592**	**1,927,402**	**1,960,217**

Note: The Annual Caps for the year ending 31 December 2008 will pro rata from the effective date of he Supply Contract and the Mutual Coal Supply Contract to 31 December 2008.

Annual Caps for supply of raw coking coal

We understand from the management of the Group that the Annual Caps for the purchase and sell of raw coking coal under the Supply Contract and the Mutual Coal Supply Contract for the three years ending 31 December 2010 were determined principally based on (i) the quantity of raw coking coal to be purchased and sold between the parties under the Supply Contract and the Mutual Coal Supply Contract; (ii) the current market price of raw coking coal; and (iii) the expected inflation of the raw coking coal in the PRC during the three years ending 31 December 2010.

In evaluating the Annual Caps for the purchase and sell of raw coking coal under the Supply Contract and the Mutual Coal Supply Contract for the three years ending 31 December 2010, we have analyzed the bases in arriving at the expected quantity of coking coal to be purchased and sold under the Supply Contract and the Mutual Coal Supply Contract for the three years ending 31 December 2010 as discussed in the section headed "Volume of coking coal and other material under the Supply Contract and the Mutual Coal Supply Contract" above which we consider reasonable. We also noted that the expected inflation of the price of coking coal during the three years ending 31 December 2010 is also comparable with those projected by a number of investment banks.

Annual Caps for supply of electricity

The Annual Caps for the supply of electricity to Mr. Xing's Mining Companies under the Supply Contract for the three years ending 31 December 2010 were determined principally based on (i) the quantity of electricity consumed by Mr. Xing's Mining Companies for the year ended 31 December 2007; and (ii) the current electricity price charged by independent third party; and (iii) the expected inflation rate in the PRC during the three years ending 31 December 2010.

Annual Caps for purchase of accessories and small tools

As mentioned in the section headed "Background of and reasons for the Possible Continuing Connected Transactions" above, the Directors expected that the Mining Companies will purchase most of the accessories and small tools from other suppliers directly other than through Mr. Xing's Mining Companies upon Completion, the Annual Caps for purchase of accessories and small tools under the Supply Contract of approximately RMB 3 million is to provide flexibility to the Mining Companies in conducting the business.

Based on the bases on which the Annual Caps were determined as described above, we are of the view that the Annual Caps are fair and reasonable. The Possible Continuing Connected Transactions are subject to annual review by the independent non-executive Directors and the Company's auditors, detail requirements are set out in the below paragraph headed ''Reporting requirements and conditions of the Possible Continuing Connected Transactions''. Such annual review shall safeguard the interests of the Independent Shareholders.

4. Reporting requirements and conditions of the Possible Continuing Connected Transactions

Pursuant to Listing Rules 14A.37 to 14A.40, the Possible Continuing Connected Transactions are subject to the following annual review requirements:

(a) each year the independent non-executive Directors must review the Possible Continuing Connected Transactions and confirm in the annual report and accounts that the Possible Continuing Connected Transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(b) each year the auditors of the Group must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Possible Continuing Connected Transactions:

(i) have received the approval of the Board;

(ii) are in accordance with the pricing policies of the Group;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the relevant Annual Caps;

(c) the Group shall allow, and shall procure that the relevant counterparties to the Possible Continuing Connected Transactions shall allow, the Company's auditors with sufficient access to their records for the purpose of the reporting on the Possible Continuing Connected Transactions as set out in paragraphs (b); and

(d) the Group shall promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Group will not be able to confirm the matters set out in paragraphs (a) and (b) respectively.

In light of the reporting requirements attached to the Possible Continuing Connected Transactions, in particular, (i) the restriction of the value of the Possible Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Group of the terms of the Possible Continuing Connected Transactions and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Possible Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

Discussion and conclusion

The Group has determined to focus on the coal industry within Shanxi Province and had been reviewing opportunities to acquire in-operation coal mines. The Acquisition provides an opportunity for the Group to further enlarge its coal operation and enrich the coal assets of the Group which are in line with the business strategy of the Group.

The principal assets of the Target Group are the Mines with an aggregate recoverable reserves of approximately 142.35 million tones in Liulin City of the Shanxi Province. The Target Group has a profitable coal mining businesses which has an established operating track record and an experienced management team. The Acquisition is expected to broaden the source of revenue and contribute to the earnings of the Group.

The Consideration represents a discount of about 10.8% to the attributable market value of the Target Group to the Seller and will be adjusted for the net asset value of the Target Group on Completion Date and any outstanding determined claims from the Group. The Consideration will be satisfied as to approximately 46.15% by cash and as to the remaining 53.85% by the issue of the Consideration Shares. Such settlement method enables the Group to complete the Acquisition without incurring substantial and immediate cash outlay. The issue of the Consideration Shares would also enlarge the capital base of the Company. The Issue Price is at discount to the closing Share price immediately and shortly before the signing of the MOU and the Agreement.

Existing public Shareholders would suffer dilution in shareholding percentage from 49.17% to 26.31% immediately upon Completion assuming successful completion of the Shougang Placing and the Second Placing to finance the Acquisition. We consider such dilution to be acceptable given the enhancement in net asset value per Share and the benefits expected to be accrued to the Acquisition in terms of prospects and earnings.

In regard to the Possible Continuing Connected Transactions, we consider that (i) the terms of the Possible Continuing Connected Transactions are fair and reasonable and on normal commercial terms and will be entered into in the ordinary and usual course of business of the Enlarged Group; and (ii) the Annual Caps were reasonably determined. As such, the Possible Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

OPINION AND ADVICE

Having taken into account the above principal factors and reasons, we consider that the Acquisition and the Possible Continuing Connected Transactions, being made in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole, and the terms of the Acquisition and the Possible Continuing Connected Transactions are on normal commercial terms and fair and reasonable.

Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition and the Possible Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Helen Zee — *Managing Director*
Fanny Lee — *Executive Director*

The following is the text of an accountant's report of the Target Group A received from the independent reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong, for inclusion in this circular.

Grant Thornton
均富

Member of Grant Thornton International Ltd

25 June 2008

The Directors
Fushan International Energy Group Limited
12th Floor, Kwan Chart Tower
No. 6 Tonnochy Road, Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the combined financial information of Thechoice Finance Limited ("Company A") and its subsidiary (hereinafter collectively referred to as the "Target Group A"), including the combined balance sheets and Company A's balance sheets as at 31 December 2005, 2006 and 2007, the combined income statements, the combined cash flow statements and the combined statements of changes in equity for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods") and notes thereto, prepared for inclusion in the circular (the "Circular") dated 25 June 2008 issued by Fushan International Energy Group Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of Company A (the "Very Substantial Acquisition").

Company A was incorporated in the British Virgin Islands (the "BVI") as a limited liability company under the International Business Companies Act (Cap. 291) of the BVI on 6 December 2004 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Its registered office is P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands and its principal place of business is located at Suite 2801, Two Exchange Square, Central, Hong Kong. The principal activity of Company A during the Relevant Periods was investment holding.

As at the date of this report, Company A has direct interests in the following subsidiary:

Name of subsidiary	Registered capital	Date and place of establishment	Principal place of operation	Direct attributable equity interest	Principal activities
Shanxi Liulin Xingwu Coalmine Company Limited ("PRC Subsidiary A")# 山西柳林興無煤礦有限責任公司	RMB250,000,000	29 August 1981, The People's Republic of China (the "PRC")	The PRC	65%	Production and sale of coal

The unofficial English translation is for identification purpose only.

All companies now comprising the Target Group A have adopted 31 December as their financial year-end date.

No audited financial statements have been prepared for Company A since its date of incorporation as there are no statutory audit requirements in the country of its jurisdiction. We have not acted as auditors of the Target Group A for each of the Relevant Periods referred to in this report.

The financial statements of PRC Subsidiary A were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC. The financial statements of PRC Subsidiary A for the years ended 31 December 2005, 2006 and 2007 were audited by 山西元源會計師事務所 ("Shanxi Yuanyuan Accountant Office") (for identification purpose only), a firm of certified public accountants registered in the PRC.

For the purpose of this report, the directors of Company A have prepared the combined financial statements (the "Underlying Financial Statements") of the Target Group A for the Relevant Periods, in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements of Company A for the Relevant Periods, in accordance with Hong Kong Standards on Auditing issued by the HKICPA, except as described in the paragraph immediate below.

As at 31 December 2005, carrying amounts of spare parts and consumables of PRC Subsidiary A were stated at RMB14,563,000. PRC Subsidiary A did not perform physical count on these spare parts and consumables until 30 June 2006 when a full physical count was performed. Based on the results of this physical count, although only a discrepancy of RMB2,000 (stock gain and stock loss being RMB43,000 and RMB45,000 respectively) was identified, there were significant weaknesses in recording the movements of the spare parts and consumables until the recording systems were properly rectified through its new computerised system which was in place after physical count on 30 June 2006. Under these circumstances, we were unable to carry out audit procedures necessary to obtain adequate assurance regarding the existence and valuation of these spare parts and consumables. There are no other satisfactory audit procedures that we could perform to satisfy ourselves as to the existence and carrying amounts of the spare parts and consumables as at 31 December 2005. We are unable to determine whether any adjustments might be necessary to the carrying amounts of the spare parts and consumables as at 31 December 2005. Any adjustments considered necessary to the carrying amounts of these spare parts and consumables would have consequential effects on the results of the Target Group A for the years ended 31 December 2005 and 2006, and the state of affairs of the Target Group A as at 31 December 2005.

The financial information and the notes thereto for the Relevant Periods (the "Financial Information") as set out in this report have been prepared by the directors of Company A based on the Underlying Financial Statements and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Company A are responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the existence and valuation of the spare parts and consumables as at 31 December 2005 which would have consequential effects on the results for the years ended 31 December 2005 and 2006 and the state of affairs of the Target Group A as at 31 December 2005, in our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Group A and Company A as at 31 December 2005, 2006 and 2007 and of the combined results and combined cash flows of the Target Group A for each of the Relevant Periods.

I. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

		Year ended 31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	556,280	567,305	705,531
Cost of sales		(213,134)	(229,567)	(259,601)
Gross profit		343,146	337,738	445,930
Other income	*6*	11,215	84,088	20,085
Selling expenses		(8,608)	(14,108)	(56,597)
Administrative expenses		(55,058)	(43,769)	(46,740)
Other operating expenses		(18,581)	(3,605)	(1,281)
Operating profit		272,114	360,344	361,397
Finance costs	*7*	(68,920)	(85,045)	(39,268)
Share of (loss)/profit of associate		–	(51)	317
Profit before income tax	*8*	203,194	275,248	322,446
Income tax expense	*9*	(74,873)	(33,756)	–
Profit for the year		128,321	241,492	322,446
Attributable to:				
Equity holders of Company A	*10*	83,409	151,836	203,041
Minority interests		44,912	89,656	119,405
		128,321	241,492	322,446

COMBINED BALANCE SHEETS

		As at 31 December		
		2005	***2006***	***2007***
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*13*	253,911	293,748	320,913
Prepaid lease payments	*15*	26,138	25,529	24,920
Mining rights	*16*	164,500	159,453	153,990
Interests in associate	*17*	–	16,749	17,066
Available-for-sale financial assets	*18*	161,020	–	–
Pledged bank deposits	*24*	–	1,003	–
		605,569	496,482	516,889
Current assets				
Inventories	*19*	17,137	29,779	23,966
Available-for-sale financial assets	*18*	200	400	400
Trade and bill receivables	*20*	82,312	117,079	195,574
Deposits, prepayments and other receivables	*21*	14,953	259,512	60,152
Amounts due from ultimate holding company	*28*	525	–	18,581
Amounts due from a related party/related companies	*22*	731,184	418,863	222,267
Amounts due from minority investor	*23*	–	–	449,273
Pledged bank deposits	*24*	54,534	11,808	30,545
Cash and cash equivalents	*25*	13,176	53,295	16,514
		914,021	890,736	1,017,272
Current liabilities				
Trade and bill payables	*26*	111,195	85,645	85,262
Other payables and accruals	*27*	355,782	130,528	329,293
Amounts due to related companies	*22*	62,632	38,687	70,652
Amounts due to a fellow subsidiary	*23*	2,739	–	4,432
Amounts due to minority investor	*23*	4,136	–	–
Amounts due to ultimate holding company	*28*	–	14,216	–
Borrowings	*29*	495,000	261,688	64,325
Provision for tax		83,115	85,927	85,745
		1,114,599	616,691	639,709
Net current (liabilities)/assets		(200,578)	274,045	377,563
Total assets less current liabilities		404,991	770,527	894,452

COMBINED BALANCE SHEETS *(Continued)*

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Long term payables	*30*	21,176	21,980	16,603
Borrowings	*29*	96,260	73,198	48,130
Loans from ultimate holding company	*31*	–	157,909	147,589
		117,436	253,087	212,322
Net assets		287,555	517,440	682,130
EQUITY				
Equity attributable to the equity holders of Company A				
Share capital	*32*	–	–	–
Reserves	*33*	165,460	292,284	504,702
		165,460	292,284	504,702
Minority interests		122,095	225,156	177,428
Total equity		287,555	517,440	682,130

BALANCE SHEETS

		As at 31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Interests in subsidiary	*14*	–	157,909	147,589
Current assets				
Amounts due from ultimate holding company	*28*	–	–	18,431
Cash and cash equivalents	*25*	–	–	720
		–	–	19,151
Current liability				
Amounts due to ultimate holding company	*28*	–	14,366	–
Net current (liabilities)/assets		–	(14,366)	19,151
Total assets less current liabilities		–	143,543	166,740
Non-current liability				
Loans from ultimate holding company	*31*	–	157,909	147,589
Net (liabilities)/assets		–	(14,366)	19,151
EQUITY				
Share capital	*32*	–	–	–
Reserves	*33*	–	(14,366)	19,151
(Capital deficiency)/Total equity		–	(14,366)	19,151

COMBINED CASH FLOW STATEMENTS

	Notes	2005 RMB'000	2006 RMB'000	2007 RMB'000
		Year ended 31 December		
Cash flows from operating activities				
Profit before income tax		203,194	275,248	322,446
Adjustments for:				
Amortisation of prepaid lease payments		3,024	609	609
Amortisation of mining rights		4,280	5,047	5,463
Bad debts written off		4,226	–	–
Depreciation of property, plant and equipment		16,475	24,029	26,193
Finance costs		68,920	85,045	39,268
Gain on disposals of available-for-sale financial assets		–	(74,429)	–
Gain on disposals of property, plant and equipment		–	(11)	(800)
Interest income		(585)	(2,736)	(549)
Provision for impairment loss on trade and bill receivables		189	–	–
Provision for impairment loss on other receivables		5,397	2,088	6,318
Share of loss/(profit) of associate		–	51	(317)
Operating profit before working capital changes		305,120	314,941	398,631
Decrease/(Increase) in inventories		8,056	(12,642)	5,813
Increase in trade and bill receivables		(34,421)	(34,767)	(78,495)
Decrease/(Increase) in deposits, prepayments and other receivables		140,470	(246,647)	193,042
Decrease in amounts due from associate		39,649	–	–
(Increase)/Decrease in amounts due from a related party/related companies	*38*	(350,613)	283,144	178,972
Increase in amounts due from minority investor		–	–	(616,406)
(Increase)/Decrease in amounts due from ultimate holding company		(525)	525	(18,581)
Decrease in trade and bill payables		(32,081)	(25,550)	(383)
Increase/(Decrease) in other payables and accruals		49,940	(225,254)	198,765
Increase/(Decrease) in amounts due to related companies	*38*	62,632	(23,945)	31,965
Increase/(Decrease) in amounts due to ultimate holding company		–	14,216	(14,216)
Increase/(Decrease) in amounts due to minority investor		4,136	(4,136)	–
Increase/(Decrease) in amounts due to a fellow subsidiary		2,739	(2,739)	4,432
Cash generated from operations		195,102	37,146	283,539
Interest paid		(3,110)	(4,740)	(7,347)
Income tax paid		(20,865)	(30,944)	(182)
Net cash generated from operating activities		171,127	1,462	276,010

COMBINED CASH FLOW STATEMENTS *(Continued)*

		Year ended 31 December		
		2005	***2006***	***2007***
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities				
Purchases of property, plant and equipment		(132,124)	(66,871)	(54,590)
Proceeds from disposals of property, plant and equipment	*38.1*	122	85	2,032
Purchases of available-for-sale financial assets		(200)	(200)	–
Purchases of mining rights		(168,780)	–	–
Capital contribution to associate		–	(16,800)	–
Capital contribution to subsidiary		–	(120,000)	–
Disposals of interests in subsidiary	*38.2*	–	(14)	–
Proceeds from disposals of prepaid lease payments		6,802	–	–
Proceeds from disposals of interests in associate		2,200	–	–
Proceeds from disposals of available-for-sale financial assets		–	235,449	–
Interest received		585	2,736	549
Net cash (used in)/generated from investing activities		(291,395)	34,385	(52,009)
Cash flows from financing activities				
Increase/(Decrease) in long term payables		5,433	804	(5,377)
Decrease/(Increase) in pledged bank deposits		18,955	41,723	(17,734)
Interest paid		(65,810)	(80,305)	(31,921)
Proceeds from new borrowings		467,560	543,003	40,000
Repayments of borrowings	*38.1*	(321,611)	(647,255)	(244,807)
Proceeds from loans from ultimate holding company		–	157,909	–
Dividends paid to minority investor		–	(16,000)	–
Net cash generated from/(used in) financing activities		104,527	(121)	(259,839)
Net (decrease)/increase in cash and cash equivalents		(15,741)	35,726	(35,838)
Cash and cash equivalents at beginning of year		28,917	13,176	53,295
Effect of foreign exchange rates changes		–	4,393	(943)
Cash and cash equivalents at end of year	*25*	13,176	53,295	16,514

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of Company A						Minority interests	Total equity
	Share capital	Statutory reserves	Exchange reserve	Merger reserve	Retained profits	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	**–**	**–**	**–**	**82,051**	**–**	**82,051**	**77,183**	**159,234**
Profit for the year	–	–	–	–	83,409	83,409	44,912	128,321
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**83,409**	**83,409**	**44,912**	**128,321**
Appropriations	–	28,822	–	–	(28,822)	–	–	–
At 31 December 2005	**–**	**28,822**	**–**	**82,051**	**54,587**	**165,460**	**122,095**	**287,555**
At 1 January 2006	**–**	**28,822**	**–**	**82,051**	**54,587**	**165,460**	**122,095**	**287,555**
Currency translation differences (Net income recognised directly in equity)	–	–	4,393	–	–	4,393	–	4,393
Profit for the year	–	–	–	–	151,836	151,836	89,656	241,492
Total recognised income and expense for the year	**–**	**–**	**4,393**	**–**	**151,836**	**156,229**	**89,656**	**245,885**
Capital contributions made by minority investor by transfer of retained profits	–	–	–	–	(29,405)	(29,405)	29,405	–
Dividends paid to minority investor of subsidiary	–	–	–	–	–	–	(16,000)	(16,000)
Appropriations	–	20,431	–	–	(20,431)	–	–	–
At 31 December 2006	**–**	**49,253**	**4,393**	**82,051**	**156,587**	**292,284**	**225,156**	**517,440**
At 1 January 2007	**–**	**49,253**	**4,393**	**82,051**	**156,587**	**292,284**	**225,156**	**517,440**
Currency translation differences (Net income recognised directly in equity)	–	–	9,377	–	–	9,377	–	9,377
Profit for the year	–	–	–	–	203,041	203,041	119,405	322,446
Total recognised income and expense for the year	**–**	**–**	**9,377**	**–**	**203,041**	**212,418**	**119,405**	**331,823**
Dividends paid to minority investor of subsidiary	–	–	–	–	–	–	(167,133)	(167,133)
Appropriations	–	32,538	–	–	(32,538)	–	–	–
At 31 December 2007	**–**	**81,791**	**13,770**	**82,051**	**327,090**	**504,702**	**177,428**	**682,130**

II. NOTES TO THE FINANCIAL INFORMATION

1. BACKGROUND INFORMATION AND BASIS OF PRESENTATION

Company A was incorporated in the BVI as an exempted company with limited liability on 6 December 2004 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office is P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, the BVI and its principal place of business is located at Suite 2801, Two Exchange Square, Central, Hong Kong. The principal activity of Company A during the Relevant Periods was investment holding. Company A is wholly owned by Fortune Dragon Group Limited ("Fortune Dragon"), a company incorporated in the BVI. In the opinion of the directors, the ultimate holding company is Fortune Dragon.

PRC Subsidiary A is the only subsidiary of Company A and is 65% and 35% beneficially owned by Company A and Shanxi Liulin Jinjiazhuang Coal Company Limited ("PRC Subsidiary B" or the "minority investor"), a company incorporated in the PRC, respectively.

As Company A and PRC Subsidiary A are ultimately controlled by the same ultimate group of parties, who also owns Fortune Dragon, before and after Company A has become the immediate holding company of PRC Subsidiary A in September 2005, there is a continuation of the risks and benefits to the ultimate group of parties that existed before Company A had become the immediate holding company of PRC Subsidiary A. Company A is regarded as a continuing entity and consequently the reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. Accordingly, the Financial Information has been prepared on the basis of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, under which Company A is considered as the holding company of the Target Group A during the Relevant Periods. The results and cash flows of the Target Group A for the Relevant Periods include the results and cash flows of Company A and PRC Subsidiary A, from 1 January 2005, or since Company A's and the PRC Subsidiary A's respective date of incorporation/establishment whichever is shorter, as if the current group structure had been in existence throughout the Relevant Periods. The combined balance sheet as at the respective balance sheet dates of the Relevant Periods is a combination of the balance sheets of Company A and the PRC Subsidiary A at each balance sheet date.

The Financial Information sets out in this report have been prepared in accordance with HKFRSs, which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretation ("INT") issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF NEW AND AMENDED HKFRSs

The Target Group A has adopted all the new and amended HKFRSs which are relevant to and effective for the accounting periods beginning on 1 January 2007, issued by the HKICPA in the preparation of the Financial Information throughout the Relevant Periods. HKFRS 1 "First-time Adoption of HKFRS" has been applied in preparing the Financial Information. The Financial Information is the first set of financial statements prepared in accordance with HKFRSs by the Target Group A.

The accounting policies set out below have been applied consistently by the Target Group A to the Relevant Periods in the Financial Information and in preparing the opening HKFRS balance sheet at 1 January 2005 for the purpose of the first set of HKFRSs financial statements.

At the date of this report, the following HKFRSs have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amended)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
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
5 Effective for annual periods beginning on or after 1 July 2009

The Target Group A has not early adopted these HKFRSs in the preparation of the Financial Information.

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Financial Information. This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Target Group A but will give rise to additional disclosures. The directors of the Company A are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Financial Information.

The functional currency of Company A is US Dollars ("US$"). The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the primary economic environment in which PRC Subsidiary A operates.

The significant accounting policies that have been used in the preparation of the Financial Information are summarised below. These policies have been consistently applied to the Relevant Periods unless otherwise stated. The Financial Information has been prepared under the historical cost convention except for available-for-sale financial assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are described in note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of combination and subsidiaries

A subsidiary is an entity (including special purpose entity) over which the Target Group A has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group A controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group A. They are excluded from consolidation from the date that control ceases.

The Financial Information incorporates the financial statements of Company A and its subsidiary after elimination of intra-group transactions, balances and unrealised gains on transactions, unless the transactions provide evidence of an impairment of the asset transferred, within the Target Group A. As explained in note 1 above, the Financial Information has been prepared using the merger method of accounting.

The merger method of accounting involves measuring the cost of acquisition at the historical carrying value of the assets and liabilities of the merging entities. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. The combined income statements include the results of each of the combining entities from the date of incorporation/establishment or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Minority interests represent the portion of the profit or loss and net assets of the subsidiary attributable to equity interests that are not owned by the Target Group A and are not the Target Group A's financial liabilities.

Minority interests are presented in the combined balance sheets within equity, separately from the equity attributable to the equity holders of Company A. Profit or loss attributable to the minority interests are presented separately in the combined income statements as an allocation of the Target Group A's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interests to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Target Group A's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interests only after the minority's share of losses previously absorbed by the Target Group A has been recovered.

In case of the changes in ownership in a subsidiary after control is obtained that do not result in a loss of control, an excess of the cost of the further acquisition over the carrying amounts of the net assets acquired is recognised as goodwill in the combined balance sheet. A surplus of the carrying amounts of the net assets acquired over the cost of the further acquisition is recognised in the combined income statement as the discount on acquisition of minority shares.

In Company A's balance sheet, a subsidiary is carried at cost less impairment loss. The results of the subsidiary are accounted for by Company A on the basis of dividends received and receivables at the balance sheet date.

3.2 Associate

Associates are those entities over which the Target Group A is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In the Financial Information, investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Target Group A's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Target Group A's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale. The combined income statement includes the Target Group A's share of the post-acquisition, post-tax results of the associate for the Relevant Periods, including any impairment loss on goodwill relating to the investment in associate recognised for the Relevant Periods.

When the Target Group A's share of losses in associate equals or exceeds its interest in the associate, the Target Group A does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Target Group A's interest in the associate is the carrying amount of the investment under the equity method together with the Target Group A's long-term interests that in substance form part of the Target Group A's net investment in the associate.

Unrealised gains on transactions between the Target Group A and its associate are eliminated to the extent of the Target Group A's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.3 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any identified impairment.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group A and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the Relevant Periods in which they are incurred.

Other than mining structures, depreciation is provided to write off the cost less their estimated residual values over their estimated useful lives, using the straight-line method, as follows:

Buildings	20 years
Mining machinery and equipment	10 years
Office equipment and motor vehicles	5 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation on mining structures is provided to write off the cost of the mining structures using the units-of-production method utilising only proved and probable coal reserves as the depletion base.

CIP represents property, plant and equipment in the course of construction for production or for its own use purpose and is stated at cost less any recognised impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects and is reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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

3.4 Foreign currency translation

In the individual financial statements of the combined entity, foreign currency transactions are translated into its functional currency using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet dates retranslation of monetary assets and liabilities are recognised in the combined income statements.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Target Group A's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the balance sheet date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of applicable valued-added tax, rebates and discounts. Provided it is probable that the economic benefits will flow to the Target Group A and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

3.6 Borrowing costs

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

3.7 Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire long term interests in the usage of the land on which various mining plants and buildings are situated. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the lease term, i.e. 50 years.

3.8 Mining rights

Mining rights are stated at cost less accumulated amortisation and are amortised on a straight line basis over the shorter of their useful lives estimated based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

3.9 Impairment of non-financial assets

Prepaid lease payments, mining rights, property, plant and equipment, interests in subsidiary and associate are subject to impairment testing. All individual assets are tested for impairment whenever there are indications that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group A determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease as the lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group A are classified as operating leases.

In addition to the prepaid lease payments as described in note 3.7 above, when the Target Group A has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.11 Financial assets

Recognition and measurement

The Target Group A's financial assets include trade and bill receivables, deposits and other receivables, amounts due from a related party/related companies, ultimate holding company and minority investor and available-for-sale financial assets. Other than available-for-sale financial assets, these are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Target Group A becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on settlement date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in income statement. Interest calculated using the effective interest method is recognised in income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

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

Derecognition

Derecognition of financial assets occurs when the rights to receive cash flows from the receivables expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

A provision for impairment of loans and receivables is established when there is objective evidence that the Target Group A will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement in the period in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in income statement.

3.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling prices in the ordinary course of business less any applicable selling expenses.

3.13 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet dates. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.15 Retirement benefit costs and short term employee benefits

PRC central pension scheme

Retirement benefits to employees are provided through defined contribution plans. A defined contribution plan is a pension plan under which the Target Group A pays fixed contributions into a separate entity.

The Target Group A's only subsidiary, PRC Subsidiary A, operates in the PRC and is required to participate in a central pension scheme operated by the local municipal government. PRC Subsidiary A is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.16 Financial liabilities

The Target Group A's financial liabilities include borrowings, trade and bill payables, other payables and accruals, amounts due to related companies, minority investor, a fellow subsidiary and ultimate holding company.

Financial liabilities are recognised when the Target Group A becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in "finance costs" in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Bank and other loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Bank and other loans classified as current liabilities unless the Target Group A has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and bill payables, other payables and accruals, amounts due to related companies, minority investor, a fellow subsidiary and ultimate holding company

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3.17 Financial guarantee issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transactions costs that are directly attributable to the acquisition or issuance of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Target Group A measures the financial guarantee contract at higher of: (i) the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, accumulated amortisation recognised in accordance with HKAS 18 "Revenue".

3.18 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Target Group A has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.19 Related parties

A party is considered to be related to the Target Group A if:

(i) the party, directly, or indirectly through one or more intermediaries:

- controls, is controlled by, or is under common control with the Target Group A;
- has an interest in the Target Group A that gives it significant influence over the Target Group A; or
- has joint control over the Target Group A;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

(iv) the party is a member of the key management personnel of the Target Group A or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Target Group A, or of any entity that is a related party of the Target Group A.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Target Group A makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of receivables

Allowances for impairment of receivables are determined by management of the Target Group A based on the repayment history of its debtors and the current market conditions. It could change significantly as a result of changes in the financial position of the debtors. Management would reassess the amount of impairment allowances of receivables, if any, at each balance sheet date.

(ii) Depreciation

The Target Group A depreciates its property, plant and equipment using the straight-line method over their estimated useful lives. The estimated useful lives reflect the directors' estimate of the period that the Target Group A will derive future economic benefits from the use of the Target Group A's property, plant and equipment.

(iii) Amortisation of mining rights

Mining rights are amortised over the estimated reserves of the coal mines using units-of-production method. The Target Group A assesses annually the estimated reserve of the coal mine. However, the licence period of the mining rights held by the Target Group A is ranging from three to five years which is shorter than the estimated useful lives of the coal mine estimated by the Target Group A. Management of the Target Group A is of the opinion that the Target Group A will be able to renew the licence of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the depreciation and the amortisation charged in the year in which such estimate is changed.

5. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the Target Group A's sole business is the exploitation of coal. The Target Group A's revenue, expenses, results, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is the PRC.

6. REVENUE AND OTHER INCOME

Revenue, which is also the Target Group A's turnover, comprises total invoiced value of goods supplied, net of applicable valued-added tax in the PRC. Revenue and other income recognised during the Relevant Periods are as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Sales of coal	556,280	567,305	705,531
Other income			
Interest income	585	2,736	549
Profit on sale of purchased coal	2,671	202	12,098
Sales of scrapped products	5,653	6,710	6,638
Gain on disposals of property, plant and equipment	–	11	800
Gain on disposals of available-for-sale financial assets *(Note)*	–	74,429	–
Others	2,306	–	–
	11,215	84,088	20,085

Note: Included in the amount of RMB74,429,000 for the year ended 31 December 2006 was a gain of RMB74,316,000 derived on the disposals of 82,574,000 unlisted shares in 中國光大銀行股份有限公司 for RMB235,336,000 in December 2006 (note 18).

7. FINANCE COSTS

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Interests charged on:			
– bank borrowings repayable within five years	12,101	12,940	5,864
– other borrowings wholly repayable within five years	53,709	52,697	7,329
– loans from ultimate holding company repayable within five years	–	14,668	18,728
Interest on early redemption of bill receivables	3,110	4,740	7,347
Total finance costs	68,920	85,045	39,268

8. PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax is arrived at after charging:			
Cost of inventories recognised as expenses	117,665	125,568	119,855
Amortisation of:			
– prepaid lease payments	3,024	609	609
– mining rights	4,280	5,047	5,463
Auditors' remuneration	250	250	250
Bad debts written off	4,226	–	–
Depreciation of property, plant and equipment	16,475	24,029	26,193
Employee benefit expenses (including directors' emoluments) *(note 11)*	48,779	47,957	52,498
Provision for impairment loss on trade and bill receivables	189	–	–
Provision for impairment loss on other receivables	5,397	2,088	6,318
Operating lease charges	170	2,030	4,488

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Target Group A had no assessable profit arising in Hong Kong during the Relevant Periods. Prior to May 2006, provision for income tax in the PRC is based on the statutory rate of 33% of the assessable profit of PRC Subsidiary A as determined in accordance with the relevant income tax rules and regulations of the PRC for the Relevant Periods.

From September 2005, as PRC Subsidiary A became a Sino-foreign equity joint venture company and received preferential income tax treatment, PRC Subsidiary A is entitled to full exemption on the income tax in the PRC for the period from 1 May 2006 to 31 December 2007 and a 50% deduction of income tax in the PRC for the three subsequent years ending 31 December 2010.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, effective from 1 January 2008, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%. Pursuant to the announcement (the "Announcement") on the traditional preferential policy issued by State Tax Bureau on 29 December 2007, "2-years full exemption and 3-years half exemption" tax policy (the "Tax Holiday") is still effective under new tax policy. For those enterprises not yet got assessable profits, the preferential period is no longer delayed. The calendar year of 2008 shall be counted as the first preferential year of preferential period and lasts for five years up to year 2012.

As PRC Subsidiary A had assessable profit in 2006, its preferential period arising from the Tax Holiday started in 2006. The Announcement had no impact on PRC Subsidiary A for 2006 and 2007. However, the enterprise income tax rate for the calendar years from 2008 to 2010 will be changed from 16.5% to 12.5%. From the calendar year of 2011 onwards, PRC Subsidiary A's enterprise income tax rate shall become 25% without any exemption.

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Current tax – the PRC	74,873	33,756	–

No deferred tax has been provided for the Relevant Periods as there are no material temporary differences.

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	203,194	275,248	322,446
Less: Adjustment:			
– Share of loss/(profit) of associate	–	51	(317)
Adjusted profit before income tax	203,194	275,299	322,129
Tax calculated at the rates applicable to the tax jurisdiction concerned	67,054	93,122	109,220
Tax effect of non-deductible expenses	7,819	4,375	5,873
Tax effect of non-taxable revenue	–	(63,741)	(115,093)
Income tax expense	74,873	33,756	–

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF COMPANY A

Profit attributable to the equity holders of Company A includes nil, a loss of RMB14,668,000 and a profit of RMB33,688,000 for the years ended 31 December 2005, 2006 and 2007 (note 33) respectively which have been dealt with in the financial statements of Company A.

11. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Directors' remuneration *(note 12)*	212	211	599
Salaries, wages and allowances	40,365	36,079	41,580
Bonus	2,169	950	–
Staff welfare	6,033	10,717	10,319
	48,779	47,957	52,498

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Directors' fee	Salaries, wages and allowances	Staff welfare	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2005				
Executive directors				
Wang Dayong	–	–	–	–
Ding Shumiao	–	–	–	–
Xing Libin ("Mr. Xing")	28	68	17	113
Zhang Fengping	25	59	15	99
Ting Yin Wang	–	–	–	–
Total	53	127	32	212
Year ended 31 December 2006				
Executive directors				
Wang Dayong	–	–	–	–
Ding Shumiao	–	–	–	–
Mr. Xing	96	–	16	112
Zhang Fengping	84	–	15	99
Ting Yin Wang	–	–	–	–
Total	180	–	31	211
Year ended 31 December 2007				
Executive directors				
Wang Dayong	–	–	–	–
Ding Shumiao	–	–	–	–
Mr. Xing	320	–	56	376
Zhang Fengping	190	–	33	223
Ting Yin Wang	–	–	–	–
Total	510	–	89	599

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(b) The five individuals whose emoluments were the highest in the Target Group A for the Relevant Periods included nil director in 2005 and 2006 and two directors in 2007. The emoluments payable to the remaining five, five and three highest paid individuals during the three years ended 31 December 2005, 2006 and 2007 respectively are as follows:

	Year ended 31 December 2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and allowances	923	896	776
Staff welfare	161	157	136
	1,084	1,053	912

The number of the remaining highest paid individuals fell within the following emolument band:

	Year ended 31 December		
	2005	**2006**	**2007**
Emolument band:			
Nil to RMB1,000,000	5	5	3

During the Relevant Periods, no emoluments were paid by the Target Group A to the five highest paid individuals and the directors, as an inducement to join or upon joining the Target Group A or as compensation for loss of office.

13. PROPERTY, PLANT AND EQUIPMENT – TARGET GROUP A

	Buildings	**CIP**	**Mining structures**	**Mining machinery and equipment**	**Office equipment**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005							
Cost	38,486	164,030	71,413	49,562	1,181	20,255	344,927
Accumulated depreciation	(8,697)	–	(13,399)	(4,965)	(63)	(6,804)	(33,928)
Net book amount	29,789	164,030	58,014	44,597	1,118	13,451	310,999
Year ended 31 December 2005							
Opening net book amount	29,789	164,030	58,014	44,597	1,118	13,451	310,999
Additions	30,823	27,571	–	72,284	1,154	292	132,124
Transfer from CIP	12,225	(28,746)	16,521	–	–	–	–
Disposals	(7,513)	(155,122)	–	(1,307)	(167)	(8,628)	(172,737)
Depreciation	(1,880)	–	(952)	(11,215)	(694)	(1,734)	(16,475)
Closing net book amount	63,444	7,733	73,583	104,359	1,411	3,381	253,911
At 31 December 2005							
Cost	72,433	7,733	87,934	120,407	2,158	8,805	299,470
Accumulated depreciation	(8,989)	–	(14,351)	(16,048)	(747)	(5,424)	(45,559)
Net book amount	63,444	7,733	73,583	104,359	1,411	3,381	253,911

	Buildings	CIP	Mining structures	Mining machinery and equipment	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006							
Opening net book amount	63,444	7,733	73,583	104,359	1,411	3,381	253,911
Additions	–	37,235	–	24,655	899	4,314	67,103
Transfer from CIP	5,606	(31,224)	25,618	–	–	–	–
Disposals	(3,163)	–	–	–	–	(74)	(3,237)
Depreciation	(3,322)	–	(5,748)	(11,286)	(442)	(3,231)	(24,029)
Closing net book amount	62,565	13,744	93,453	117,728	1,868	4,390	293,748
At 31 December 2006							
Cost	73,880	13,744	113,553	145,063	3,058	13,053	362,351
Accumulated depreciation	(11,315)	–	(20,100)	(27,335)	(1,190)	(8,663)	(68,603)
Net book amount	62,565	13,744	93,453	117,728	1,868	4,390	293,748
Year ended 31 December 2007							
Opening net book amount	62,565	13,744	93,453	117,728	1,868	4,390	293,748
Additions	43	35,468	–	16,036	891	2,152	54,590
Transfer from CIP	–	(17,838)	17,838	–	–	–	–
Disposals	–	–	–	(946)	–	(286)	(1,232)
Depreciation	(3,482)	–	(5,816)	(14,356)	(737)	(1,802)	(26,193)
Closing net book amount	59,126	31,374	105,475	118,462	2,022	4,454	320,913
At 31 December 2007							
Cost	73,923	31,374	131,391	159,882	3,949	12,551	413,070
Accumulated depreciation	(14,797)	–	(25,916)	(41,420)	(1,927)	(8,097)	(92,157)
Net book amount	59,126	31,374	105,475	118,462	2,022	4,454	320,913

The carrying amounts of property, plant and equipment amounting to RMB71,030,000 and RMB65,489,000 as at 31 December 2006 and 2007 respectively have been pledged to the banks as securities of the bank borrowings of the Target Group A (note 29) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group A, in relation to the issuance of US$160,000,000 floating rate notes due in 2011. No property, plant and equipment was pledged to the banks as securities of the bank borrowings as at 31 December 2005.

14. INTERESTS IN SUBSIDIARY – COMPANY A

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity interest, at cost	–	157,909	147,589

15. PREPAID LEASE PAYMENTS – TARGET GROUP A

The Target Group A's interests in prepaid lease payments and their net book value are analysed as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Opening net carrying amount	35,964	26,138	25,529
Annual charges of prepaid operating lease payments	(3,024)	(609)	(609)
Disposal to a related company	(6,802)	–	–
Closing net carrying amount	26,138	25,529	24,920

All prepaid lease payments were made on the land in the PRC with a medium term of 50 years.

Prepaid lease payments for the land with the carrying amounts of RMB25,529,000 and RMB24,920,000 as at 31 December 2006 and 2007 respectively have been pledged to the banks as securities of the bank borrowings of the Target Group A (note 29) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group A, in relation to the issuance of US$160,000,000 floating rate notes due in 2011.

In September 2005, a piece of residential land was transferred to a related company, Shanxi Luensheng Energy Limited ("Luensang A"), at its carrying amount of RMB6,802,000.

16. MINING RIGHTS – TARGET GROUP A

	RMB'000
Year ended 31 December 2005	
Acquisition of mining rights	168,780
Amortisation charge	(4,280)
Carrying amount at 31 December 2005	164,500
At 31 December 2005	
Gross carrying amount	168,780
Accumulated amortisation	(4,280)
Carrying amount at 31 December 2005	164,500
Year ended 31 December 2006	
Carrying amount at 1 January 2006	164,500
Amortisation charge	(5,047)
Carrying amount at 31 December 2006	159,453
At 31 December 2006	
Gross carrying amount	168,780
Accumulated amortisation	(9,327)
Carrying amount at 31 December 2006	159,453
Year ended 31 December 2007	
Carrying amount at 1 January 2007	159,453
Amortisation charge	(5,463)
Carrying amount at 31 August 2007	153,990
At 31 December 2007	
Gross carrying amount	168,780
Accumulated amortisation	(14,790)
Carrying amount at 31 December 2007	153,990

Having become a limited liability company in 2005, PRC Subsidiary A acquired the mining rights from the Bureau of Land and Resources, a government authority, at a cost of RMB168,780,000. The consideration is based on the coal reserve and multiplication of the coal price of the nature of coal.

As at 31 December 2006 and 2007, mining rights with carrying amounts of RMB159,453,000 and RMB153,990,000 respectively have been pledged to the banks as securities of the bank borrowings of the Target Group A (note 29) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group A, in relation to the issuance of US$160,000,000 floating rate notes due in 2011.

17. INTERESTS IN ASSOCIATE – TARGET GROUP A

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	–	–	16,749
Capital contribution to the associate	–	16,800	–
Share of (loss)/profit of associate	–	(51)	317
Share of net assets	–	16,749	17,066

Particulars of the associate at 31 December 2006 and 2007 are as follows:

Name	Place of incorporation	Registered capital	Effective percentage held by the Target Group A	Effective percentage held by PRC Subsidiary A	Principal activities and place of operations
呂梁晉煜倉儲有限公司 Luliang Jin Yu Cangchu Company Limited ("Jin Yu Cangchu")#	The PRC	RMB42,000,000	26%	40%	Provision of coal storage services in the PRC

The unofficial English translation is for identification purpose only.

The summarised financial information of Jin Yu Cangchu extracted from its financial statements is as follows:

	2006	**2007**
	RMB'000	*RMB'000*
Revenue	1,180	4,153
(Loss)/Profit after income tax	(127)	792
Assets	42,172	46,761
Liabilities	299	4,095

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS – TARGET GROUP A

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Non-current:			
– Unlisted shares, at cost	161,020	–	–
Current:			
– Unlisted security fund investment, at cost	200	400	400
	161,220	400	400

As at 31 December 2005, available-for-sale financial assets with carrying amounts of RMB161,020,000 was pledged to a company as a security of the guarantee by that company on the bank borrowings amounting to RMB113,000,000. These financial assets were disposed of in 2006 (note 6).

19. INVENTORIES – TARGET GROUP A

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Coal	2,574	–	1,963
Spare parts and consumables	14,563	29,779	22,003
	17,137	29,779	23,966

No physical count on spare parts and consumables had been carried out until 30 June 2006. The balance of spare parts and consumables, amounting to RMB14,563,000 as at 31 December 2005, was based on the manual perpetual inventory recording system as accounted for in the books of the Target Group A.

Based on the results of the physical count on spare parts and consumable held on 30 June 2006, a total net stock loss amounting to RMB2,000 (stock gain and stock loss being RMB43,000 and RMB45,000 respectively) was identified. As most of the delivery notes prior to the physical count on 30 June 2006 had been misplaced and there were no other reliable records being kept in place, management of the Target Group A was unable to verify with reasonable certainty that the existence and valuation of spares parts and consumables as at 31 December 2004 and 2005 and was of the opinion that there were misstatements in the balance of spare parts and consumables as at 31 December 2005. The misstatement might have consequential impact on the results of the Target Group A for the years ended 31 December 2005 and 2006.

20. TRADE AND BILL RECEIVABLES – TARGET GROUP A

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bill receivables	86,409	121,176	199,671
Less: Provision for impairment loss	(4,097)	(4,097)	(4,097)
	82,312	117,079	195,574

The Target Group A bills to its customers according to the terms of the relevant agreements generally 90 days. All trade and bill receivables are denominated in RMB.

The carrying amount of trade and bill receivables is considered a reasonable approximate of fair value at this financial asset, which is measured at amortised cost, is expected to be paid within a short timescale, such that the time value of money impact is not significant.

At each balance sheet date, the trade and bill receivables are individually determined to be impaired. The individually impaired receivables, if any, are recognised, based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision is recognised. The Target Group A does not hold any collaterals over these balances.

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Target Group A is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bill receivables directly.

As at 31 December 2005, 2006 and 2007, ageing analysis of net trade and bill receivables, based on the invoice dates, are as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	43,799	74,802	62,995
91 – 180 days	11,411	3,471	31,959
181 – 365 days	1,538	7,806	51,527
Over 365 days	25,564	31,000	49,093
	82,312	117,079	195,574

As at 31 December 2005, 2006 and 2007, ageing analysis of trade and bill receivables that are not impaired is as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	43,799	74,802	62,995
1 – 90 days past due	11,411	3,471	31,959
91 – 180 days past due	1,538	7,806	51,527
Over 180 days past due	25,564	31,000	49,093
	38,513	42,277	132,579
	82,312	117,079	195,574

Trade and bill receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of credit.

Trade and bill receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Target Group A. Based on past experience, management believes that no additional impairment allowance is necessary in respect of these balances as there had not been a significant change in credit quality and the balances are considered fully recoverable.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES – TARGET GROUP A

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	12,660	256,608	51,744
Less: Provision for impairment loss	(8,069)	(10,157)	(16,475)
Other receivables – net	4,591	246,451	35,269
Deposits paid to suppliers	4,820	11,504	22,780
Utility deposits and prepayments	5,542	1,557	2,103
	14,953	259,512	60,152

22. AMOUNTS DUE FROM/(TO) A RELATED PARTY/RELATED COMPANIES – TARGET GROUP A

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from:			
Luensang A	660,433	373,807	208,469
Liulin Xian Zhuangshang Zhen Nangou Meikuang ("Nangou Meikuang")# 柳林縣莊上鎮南溝煤礦	–	15	–
Shanxi Liulin Shizigou Meiye Company Limited ("Shizigou Meiye") (previously known as Liulin Xian Shiweigou Cunban Meikuang)# 山西柳林獅子溝煤業有限公司 (previously known as 柳林縣獅尾溝村辦煤礦)	28,575	25,578	8,227
Liulin Xian Wangjiagou Meikuang ("Wangjiagou Meikuang")# 柳林縣王家溝煤礦	4,168	7,163	–
Liulin Xian Chenjiawanxiang Baicaoer Meikuang ("Baicaoer Meikuang")# 柳林縣陳家灣鄉白草耳煤礦	–	872	–
Liulin Xian Liansheng Duozhong Jingying Company Limited ("LSDJ")# 柳林縣聯盛多種經營有限責任公司	26,034	–	–
Liulin Xian Chejiagou Meikuang ("Chejiagou Meikuang")# 柳林縣車家溝煤礦	4,475	–	–
Shanxi Liulin Guojiashan Meiye Company Limited ("Guojiashan Meiye") (previously known as Liulin Guojiashan Meikuang) 山西柳林郭家山煤業有限公司 (previously known as 柳林縣郭家山煤礦)	–	4,624	535
Liulin Xian Longmenta Meikuang ("Longmenta Meikuang")# 柳林縣龍門塔煤礦	7,499	1	–
Shanxi Fortune Dragon Coalification Company Limited ("Shanxi Fortune Dragon")# 山西福龍煤化有限公司	–	–	5,032
Liulin Xian Yongsheng Ximeichang ("Yongsheng Xuanmeichang")# 柳林縣永勝選煤廠	–	6,799	–
Mr. Xing Yanbin	–	4	4
	731,184	418,863	222,267

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Maximum balance outstanding during the year:			
Luensang A	927,443	1,009,415	208,469
Nangou Meikuang	75,668	20,015	–
Shizigou Meiye	28,575	28,575	9,689
Wangjiagou Meikuang	11,230	8,498	1,479
Baicaoer Meikuang	–	36,027	872
LSDJ	68,641	50,050	1,741
Chejiagou Meikuang	11,280	4,475	1,324
Guojiashan Meiye	1,058	7,420	535
Longmenta Meikuang	14,540	7,499	406
Shanxi Fortune Dragon	–	–	5,032
Yongsheng Xuanmeichang	–	6,799	–
Mr. Xing Yanbin	4,000	–	5

\# *The unofficial English translation is for identification purpose only.*

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to:			
Nangou Meikuang	4,514	–	28
Liulin Xian Nahagou Meiye Company Limited ("Nahagou Meiye")# 柳林縣哪哈溝煤業有限公司 (previously known as 柳林縣哪哈溝煤礦)	–	162	38,261
Wangjiagou Meikuang	–	–	33
Baicaoer Meikuang	–	–	32
Liulin Xian Chenjiawanxiang Shipanshang Lianying Meikuang ("Shipanshang Meikuang")# 柳林縣陳家灣鄉石盤上聯營煤礦	15,463	15,796	–
LSDJ	–	245	1,450
Liulin Xian Hejiashe Meikuang ("Hejiashe Meikuang")# 柳林縣賀家社煤礦	32,152	19,823	–
Chejiagou Meikuang	–	1,324	–
Guojiashan Meiye	5,332	–	–
Shanxi Liulin Xiasitou Meiye Company Limited ("Xiasitou Meiye") (previously known as Liulin Xian Chenjiawanxiang Meikuang)# 山西柳林下寺頭煤業有限公司(previously known as 柳林縣陳家灣鄉煤礦)	1,531	927	27
Shanxi Liulin Chenjiawan Meiye Company Limited ("Chenjiawan Meiye") (previously known as Liulin Xian Chenjiawanxiang Chenjiawancun Meikuang)# 山西柳林陳家灣煤業有限公司 (previously known as 柳林縣陳家灣鄉陳家灣村煤礦)	3,640	–	129
Luliang Jianzhu Anzhuang Zonggongsi Kuangjian Gongchengchu ("Luliang Jianzhu")# 呂梁建築安裝總公司礦建工程處	–	410	210
Yongsheng Xuanmeichang	–	–	30,482
	62,632	38,687	70,652

\# *The unofficial English translation is for identification purpose only.*

Amounts due are all unsecured, interest-free and repayable on demand. Mr. Xing Yanbin is a brother of Mr. Xing. Except for Yongsheng Xuanmeichang and Luliang Jianzhu, all related companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, the beneficial owners of the Target Group A. Yongsheng Xuanmeichang was set up on 12 December 2005 and is owned by Mr. Xing Yanbin whilst Luliang Jianzhu is connected to Mr. Xing Yanbin who obtained the financial benefits from the construction work conducted by Luliang Jianzhu.

23. AMOUNTS DUE FROM/(TO) MINORITY INVESTOR/A FELLOW SUBSIDIARY – TARGET GROUP A

Amounts due are unsecured, interest-free and repayable on demand.

24. PLEDGED BANK DEPOSITS – TARGET GROUP A

As at 31 December 2006 and 2007, bank deposits amounted to US$125,000 (equivalent to RMB1,003,000) were pledged to the banks as security of the bank borrowings of the Target Group A (note 29) which are repayable on 31 July 2008 and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group A, in relation to the issuance of US$160,000,000 floating rate notes due in 2011. All other current portion of the bank deposits as at 31 December 2005, 2006 and 2007 are pledged as securities for the bank borrowings.

25. CASH AND CASH EQUIVALENTS

	TARGET GROUP A			COMPANY A		
	As at 31 December			As at 31 December		
	2005	2006	2007	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks and in hand	13,176	3,295	16,514	–	–	720
Short-term bank deposits	–	50,000	–	–	–	–
	13,176	53,295	16,514	–	–	720

The effective interest rate of short-term bank deposits ranged between 1% and 5.45% per annum. The deposits had a maturity of 3 months and were generally made for the periods ranging between one day and three months depending on the immediate cash requirement of the Target Group A, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

All cash and bank balances of the Target Group A as at 31 December 2005, 2006 and 2007 were denominated in US$ or in RMB and deposited with the banks in Hong Kong and in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Target Group A is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

26. TRADE AND BILL PAYABLES – TARGET GROUP A

The Target Group A was granted by its suppliers the credit periods ranging between 30 and 180 days during the Relevant Periods. Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2005, 2006 and 2007 are as follows:

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	70,538	54,920	69,336
91 – 180 days	34,515	10,911	6,059
181 – 365 days	1,115	9,720	3,921
Over 365 days	5,027	10,094	5,946
	111,195	85,645	85,262

27. OTHER PAYABLES AND ACCRUALS – TARGET GROUP A

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Advances from customers	119,487	48,827	189,780
Other payables	227,847	61,471	123,246
Accruals	8,448	20,230	16,267
	355,782	130,528	329,293

In view of strong demands of PRC Subsidiary A's products and with the view of expanding its customer base, more new customers approached to PRC Subsidiary A and placed the orders in 2007. To strengthen better controls over the new customers, these customers are required to place deposits before deliveries are made. Accordingly, there was a substantial increase in advances from customers during the year ended 31 December 2007.

Other payables as at 31 December 2005 included an amount of RMB158,779,000 payable to the State Land and Resource Bureau in relation to the acquisition cost of the mining rights. The balance was settled in 2006.

Other payables as at 31 December 2007 included amounts of RMB20,258,000, RMB16,826,000, RMB10,743,000 and RMB11,970,000 payables for coal continuing development fund, value-added tax payable, business tax and other tax levy payables respectively.

28. AMOUNTS DUE FROM/(TO) ULTIMATE HOLDING COMPANY - TARGET GROUP A AND COMPANY A

Amounts due are unsecured, interest-free and repayable on demand.

29. BORROWINGS – TARGET GROUP A

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Non-current:			
Secured bank borrowings due in the second year	–	1,003	–
Other borrowings *(note 30)*	96,260	72,195	48,130
	96,260	73,198	48,130
Current:			
Secured bank borrowings	225,000	220,000	41,003
Other borrowings	270,000	41,688	23,322
	495,000	261,688	64,325
Total borrowings	591,260	334,886	112,455

The carrying amounts of the borrowings approximate to their fair value.

As at 31 December 2005, 2006 and 2007, bank borrowings of RMB225,000,000, RMB220,000,000 and RMB40,000,000 respectively were denominated in RMB and as at 31 December 2006 and 2007, bank borrowings of RMB1,003,000 was denominated in US$ and repayable in July 2008. These borrowings were interest-bearing at the rates ranging between 5.2% and LIBOR+6.8% per annum during the Relevant Periods. All of the bank borrowings were guaranteed by independent third parties except for the amount of RMB1,003,000 as at 31 December 2006 and 2007 which was secured by the Target Group A's land use rights, mining rights, buildings machinery and bank deposit of US$125,000.

As at 31 December 2005, 2006 and 2007, other borrowings denominated in RMB were borrowed from independent third parties and had no fixed terms of repayment. Other than the current loan amount of RMB200,000,000 as at 31 December 2005 which was guaranteed by an independent third party, all remaining balances as at 31 December 2005, 2006 and 2007 were unsecured and had no fixed terms of repayment. All other borrowings as at 31 December 2005, 2006 and 2007 were interest-bearing at the rates ranging between 3.6% and 11% per annum.

30. LONG TERM PAYABLES – TARGET GROUP A

The balance represents the interest portion due on a loan obtained from an independent third party, 華晉焦煤有限責任公司("Huajin Jiaomei Company Limited") (for identification purpose only), amounting to RMB96,260,000 (note 29) granted in 1994. The loan is interest bearing at 3.6% per annum and is due for repayment in 2010.

31. LOANS FROM ULTIMATE HOLDING COMPANY – TARGET GROUP A AND COMPANY A

The loans are secured, interest-bearing at a rate of 12% per annum and repayable in 2011.

32. SHARE CAPITAL

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Authorised:			
50,000 ordinary shares of US$1 each	400	400	400
Issued and fully paid:			
1 ordinary share of US$1	RMB8	RMB8	RMB8

Company A was incorporated in the BVI on 6 December 2004 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. 1 subscriber share of US$1 was allotted and issued for cash on 12 January 2005.

33. RESERVES

TARGET GROUP A

The amounts of the Target Group A's reserves and the movements therein for the Relevant Periods are presented in the combined statement of changes in equity on page I-10 of the Financial Information.

Statutory reserves

In accordance with the relevant laws and regulations of the PRC, PRC Subsidiary A is required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

Prior to the revised Company Law of PRC which came into effect in late 2005, 5% to 10% of the net profits was required to be appropriated to the statutory common welfare fund, which was used for the collective welfare of the staff and workers of PRC Subsidiary A. Pursuant to the revised Company Law, the remaining balance of this fund at 1 January 2006 has been transferred to the statutory reserve fund in accordance with the regulations promulgated by the Ministry of Finance of the PRC.

Merger reserve

The merger reserve of the Target Group A arose as a result of the reorganisation which was completed on 5 September 2005 and represented the difference between the consideration under the reorganisation and the net assets value of PRC Subsidiary A then acquired.

COMPANY A

	Exchange reserve	(Accumulated losses)/ Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2005	–	–	–
Result for the year	–	–	–
At 31 December 2005	–	–	–
At 1 January 2006	–	–	–
Currency translation differences	302	–	302
Loss for the year	–	(14,668)	(14,668)
Total recognised income and expense for the year	302	(14,668)	(14,366)
At 31 December 2006	302	(14,668)	(14,366)
At 1 January 2007	302	(14,668)	(14,366)
Currency translation differences	(171)	–	(171)
Profit for the year	–	33,688	33,688
Total recognised income and expense for the year	(171)	33,688	33,517
At 31 December 2007	131	19,020	19,151

34. OPERATING LEASE COMMITMENTS

TARGET GROUP A

At the respective balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable by the Target Group A as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	300	300	300
In the second to fifth years, inclusive	1,200	1,200	1,200
Over five years	3,500	3,200	2,900
	5,000	4,700	4,400

The Target Group A leases a number of properties under operating leases. The leases run for an initial period of 20 years, without an option to renew the leases and renegotiated the terms at the expiry date or at dates as mutually agreed between the Target Group A and respective lessors. None of the leases include contingent rental.

COMPANY A

At the respective balance sheet dates, Company A did not have any operating lease commitments.

35. CAPITAL COMMITMENTS

	TARGET GROUP A As at 31 December			COMPANY A As at 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for:						
– acquisition of property, plant and equipment	14,298	19,900	27,884	–	–	–
– investment in subsidiary	–	–	–	162,000	–	–
	14,298	19,900	27,884	162,000	–	–

36. RELATED PARTY TRANSACTIONS – TARGET GROUP A

Except as disclosed elsewhere in this report, the following transactions were carried out with related parties:

(a) During the Relevant Periods, the Target Group A had the following transactions carried out with its fellow subsidiary, related companies and immediate holding company:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of coal from immediate holding company	2,995	–	–
Purchase of coal from minority investor	462	1,675	2,117
Purchase of coal from a fellow subsidiary	13,007	4,294	35,964
Purchase of coal from related companies	76,817	76,604	86,503
Subcontracting charges paid to related companies	–	–	2,999
Sales of coal to related companies	–	9,600	5,884
Interests charged on loans from ultimate holding company repayable within five years	–	14,668	18,728
Electricity income charged to a fellow subsidiary	812	–	186
Electricity income charged to related companies	2,776	2,000	2,454

The above related party transactions were conducted in the normal course of business at prices and terms agreed between the parties. All related companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, the beneficial owners of the Target Group A, except for Yongsheng Xuanmeichang which is owned by Mr. Xing Yanbin. During the years ended 31 December 2006 and 2007, sales of coal to Yongsheng Xuanmeichang were amounted to RMB9,600,000 and RMB3,450,000 respectively and purchase of coal from Yongsheng Xuanmeichang was amounted to RMB36,442,000 during the year ended 31 December 2007.

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to directors of Company A, is as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other employee benefits	1,084	1,053	1,511

(c) Disposal of a subsidiary

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Disposal of 55% equity interest in Shanxi Fortune Dragon Coalification Company Limited to a related company	–	120,000	–

Shanxi Fortune Dragon Coalification Company Limited ("Shanxi Fortune Dragon") was incorporated on 5 September 2006 with a registered capital of RMB780,000,000. Total investment cost of PRC Subsidiary A in this company was RMB430,000,000 (representing 55% equity interest in Shanxi Fortune Dragon), of which an amount of RMB120,000,000 was contributed in full in September 2006.

On 10 December 2006, three months after the contribution of RMB120,000,000 had been made, the 55% equity interest in Shanxi Fortune Dragon, was disposed to a related company, Luensang A, at the cost of RMB120,000,000 due to management's proposal for restructuring. The disposal was conducted in the normal course of business at the consideration agreed between the parties.

37. FINANCIAL GUARANTEE CONTRACTS – TARGET GROUP A

As at 31 December 2007, PRC Subsidiary A executed guarantees amounting to approximately RMB517,000,000 with respect to the bank loans to two independent third parties, under which PRC Subsidiary A is liable to pay the banks if the banks are unable to recover the loans from these third parties. At the balance sheet date, no provision for the Target Group A's obligation under the guarantee contract has been made as the directors consider that it is not probable that the repayment of the loans will be in default.

38. NOTES TO THE COMBINED CASH FLOW STATEMENTS

38.1 Major non-cash transactions

(a) During the year ended 31 December 2005, some of the property, plant and equipment were disposed to a related company, Shanxi Luensang Energy Limited ("Luensang A"), at their carrying amount of RMB172,615,000 which consisted of buildings, CIP, mining machinery and equipment, office equipment and motor vehicles amounting to RMB7,513,000, RMB155,122,000, RMB1,185,000, RMB167,000 and RMB8,628,000 respectively. During the year ended 31 December 2006, buildings amounted to RMB3,163,000 was disposed to Luensang A and motor vehicles amounted to RMB232,000 were acquired from Luensang A. All the above disposals and acquisitions were settled through current account with Luensang A.

(b) Other borrowings of RMB73,370,000, RMB152,122,000 and RMB17,624,000 was repaid by a related company, Luensang A, on behalf of the Target Group A, during the years ended 31 December 2005, 2006 and 2007 respectively.

(c) Pursuant to resolutions passed on 22 March, 7 August, 16 September and 27 September 2007, dividends of RMB32,794,000, RMB1,895,000, RMB18,485,000 and RMB167,133,000 attributable to the year ended 31 December 2006 were proposed, where RMB32,794,000, RMB1,895,000 and RMB18,485,000 were paid by PRC Subsidiary A to its equity holders in cash in March, August and September 2007 respectively. The remaining RMB167,133,000 was paid through the current account under "amounts due from minority investor" in October 2007.

38.2 Disposal of a subsidiary

As described in note 36(c) to the Financial Information above, 55% equity interest in Shanxi Fortune Dragon, was disposed to a related company, Luensang A. The net assets disposed of and the result on disposal of the subsidiary are as follows :

	Year ended 31 December 2006 *RMB'000*
Net assets disposed of :	
Property, plant and equipment	391,802
Deposits, prepayments and other receivables	119,986
Cash and cash equivalents	14
Other payables and accruals	(391,802)
	120,000
Result on disposal of a subsidiary	–
Net consideration	120,000
Satisfied by :	
Amount due from a related company	120,000

An analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows :

Cash and bank balance disposed	(14)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(14)

39. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group A is exposed to a variety of financial risks which results from both its operating and investing activities. The Target Group A does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate measures to manage the Target Group A's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Target Group A employs a conservative strategy regarding its risk management. As the directors consider that the Target Group A's exposure to market risk is kept at a minimum level, the Target Group A has not used any derivatives or other instruments for hedging purposes. The Target Group A does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Target Group A is exposed are described below.

(a) Foreign currency risk

PRC Subsidiary A mainly operates in the PRC with most of the transactions settled in RMB, its functional currency, while the functional currency of Company A is US$. The exposure in exchange rate risks mainly arises from fluctuations on US$ against the functional currency of the Target Group A. The Target Group A does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely.

Based on the market conditions as at 31 December 2005, 2006 and 2007, the Target Group A determined that it is reasonably possible for RMB to strengthen/weaken by 5% against US$ in the coming twelve months. If RMB had strengthen/weakened by 5% against US$ with all other variables held constant as at 31 December 2005, 2006 and 2007, the Target Group A's exchange reserve and Company A's retained earnings would increase/(decrease) by approximately RMBNil, RMB7,896,000 and RMB6,421,000 respectively, as a result of foreign exchange gains/losses on conversion of US$ denominated monetary items.

(b) Credit risk

The Target Group A's credit risk is primarily attributable to trade and bill receivables and other receivables. Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Target Group A thereby suffers financial loss. The carrying amounts of trade and bill receivables, other receivables, amounts due from group companies and related parties and cash and cash equivalents included in the balance sheet represent the Target Group A's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk. The exposures to these are actively monitored by management to avoid significant concentrations of credit risk. The Target Group A also monitors the trade and bill receivables on an ongoing basis and only trades with creditworthy third parties. All cash and cash equivalents are deposited with the major banks located in the PRC. No other financial assets carry a significant exposure to credit risk. Accordingly, the Target Group A has no significant concentrations of credit risk.

(c) Interest rate risk

The Target Group A's income and operating cash flows are substantially independent of changes in market interest rates and the Target Group A has no significant interest-bearing assets. The Target Group A's exposure to changes in interest rates is mainly attributable to its borrowings. The Target Group A has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

In managing interest rate risk, the Target Group A aims to reduce the impact of short-term fluctuation and long-term permanent changes on the Target Group A's profitability. As at 31 December 2005, 2006 and 2007, it is estimated that a general increase of one percentage point in interest rates would increase the Target Group A's profit after income tax by approximately RMB5,236,000, RMB4,267,000, and RMB2,234,000 respectively, so far as the effect on interest-bearing secured bank borrowings and other borrowings are concerned.

(d) Fair values

At the balance sheet dates, the fair values of the Target Group A's following current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity: trade and bill receivables, deposits and other receivables, amounts due from/to a related party/related companies, amounts due to a fellow subsidiary, amounts due from/to minority investor, cash and cash equivalents, trade and bill payables, other payables and accruals and amounts due from/to ultimate holding company. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair values as at the balance sheet dates.

(e) Liquidity risk

As at 31 December 2007, the Target Group A had net current assets of RMB377,563,000 and net assets of RMB682,130,000. Management considered the liquidity risk is minimal.

The Target Group A manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long term liquidity needs for a 360-day lookout period are identified on a monthly basis.

The Target Group A maintains mainly cash to meet its liquidity requirements for up to 30-day periods, funding for long-term liquidity needs will be considered when there is any potential investment identified.

The following table details the remaining contractual maturities at the balance sheet dates of non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating, based on rates current at the balance sheet date) and the earliest date the Target Group A can be required to pay:

As at 31 December 2007	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP A						
Trade and bill payables	85,262	85,262	85,262	–	–	–
Other payables and accruals	139,513	139,513	139,513	–	–	–
Amounts due to a fellow subsidiary	4,432	4,432	4,432	–	–	–
Amounts due to related companies	70,652	70,652	70,652	–	–	–
Borrowings	112,455	112,455	64,325	–	48,130	–
Long term payables	16,603	16,603	16,603	–	–	–
Loans from ultimate holding company	147,589	147,589	–	–	147,589	–
	576,506	576,506	380,787	–	195,719	–
COMPANY A						
Loans from ultimate holding company	147,589	147,589	–	–	147,589	–
	147,589	147,589	–	–	147,589	–

As at 31 December 2006	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP A						
Trade and bill payables	85,645	85,645	85,645	–	–	–
Other payables and accruals	81,701	81,701	81,701	–	–	–
Amounts due to related companies	38,687	38,687	38,687	–	–	–
Amounts due to ultimate holding company	14,216	14,216	14,216	–	–	–
Borrowings	334,886	334,886	261,688	19,051	54,147	–
Long term payables	21,980	21,980	21,980	–	–	–
Loans from ultimate holding company	157,909	157,909	–	–	157,909	–
	735,024	735,024	503,917	19,051	212,056	–
COMPANY A						
Amount due to ultimate holding company	14,366	14,366	14,366	–	–	–
Loans from ultimate holding company	157,909	157,909	–	–	157,909	–
	172,275	172,275	14,366	–	157,909	–

As at 31 December 2005	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP A						
Trade and bill payables	111,195	111,195	111,195	–	–	–
Other payables and accruals	236,295	236,295	236,295	–	–	–
Amounts due a fellow subsidiary	2,739	2,739	2,739	–	–	–
Amounts due related companies	62,632	62,632	62,632	–	–	–
Amounts due to minority investor	4,136	4,136	4,136	–	–	–
Borrowings	591,260	591,260	495,000	–	96,260	–
Long term payables	21,176	21,176	21,176	–	–	–
	1,029,433	1,029,433	933,173	–	96,260	–
COMPANY A						
Amount due to ultimate holding company	–	–	–	–	–	–
Loans from ultimate holding company	–	–	–	–	–	–
	–	–	–	–	–	–

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Target Group A's financial assets and liabilities as recognised at the balance sheet dates of the Relevant Periods may also be categorised as follows. See notes 3.11 and 3.16 for explanations about how the category of instruments affects their subsequent measurement.

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets:			
Non-current assets			
Available-for-sale financial assets	161,020	–	–
– Pledged bank deposits	–	1,003	–
Current assets			
Available-for-sale financial assets	200	400	400
Loans and receivables:			
– Trade and bill receivables	82,312	117,079	195,574
– Deposits and other receivables	9,411	257,955	58,049
– Amounts due from a related party/related companies	731,184	418,863	222,267
– Amounts due from ultimate holding company	525	–	18,581
– Amounts due from minority investor	–	–	449,273
Pledged bank deposits	54,534	11,808	30,545
Cash and cash equivalents	13,176	53,295	16,514
	1,052,362	860,403	991,203
Financial liabilities – Financial liabilities at amortised cost:			
Current liabilities			
– Trade and bill payables	111,195	85,645	85,262
– Other payables and accruals	236,295	81,701	139,513
– Amounts due to related companies	62,632	38,687	70,652
– Amounts due to minority investor	4,136	–	–
– Amounts due to a fellow subsidiary	2,739	–	4,432
– Amounts due to ultimate holding company	–	14,216	–
– Borrowings	495,000	261,688	64,325
Non-current liabilities			
– Long term payables	21,176	21,980	16,603
– Borrowings	96,260	73,198	48,130
– Loans from ultimate holding company	–	157,909	147,589
	1,029,433	735,024	576,506

40. CAPITAL MANAGEMENT

The Target Group A's objectives when managing capital are:

(a) To safeguard the Target Group A's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Target Group A's ability and growth; and

(c) To provide capital for the purpose of strengthening the Target Group A's risk management capability.

The Target Group A actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Target Group A and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Target Group A currently does not adopt any formal dividend policy. Management regards total equity as capital and its reserves, for capital management purpose.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared for the Target Group A in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

The following is the text of an accountant's report of the Target Group B received from the independent reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong, for inclusion in this circular.

Grant Thornton
均富

Member of Grant Thornton International Ltd

25 June 2008

The Directors
Fushan International Energy Group Limited
12th Floor, Kwan Chart Tower
No. 6 Tonnochy Road, Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the combined financial information of Worldman Industrial Limited ("Company B") and its subsidiary (hereinafter collectively referred to as the "Target Group B"), including the combined balance sheets and Company B's balance sheets as at 31 December 2005, 2006 and 2007, the combined income statements, the combined cash flow statements and the combined statements of changes in equity for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods") and notes thereto, prepared for inclusion in the circular (the "Circular") dated 25 June 2008 issued by Fushan International Energy Group Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of Company B (the "Very Substantial Acquisition").

Company B was incorporated in the British Virgin Islands (the "BVI") as a limited liability under the International Business Companies Act (Cap. 291) of the BVI on 5 January 2005 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Its registered office is P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands and its principal place of business is located at Suite 2801, Two Exchange Square, Central, Hong Kong. The principal activity of Company B during the Relevant Periods was investment holding.

As at the date of this report, Company B has direct interests in the following subsidiary:

Name of subsidiary	Registered capital	Date and place of establishment	Principal place of operation	Direct attributable equity interest	Principal activities
Shanxi Liulin Jinjiazhuang Coal Company Limited ("PRC Subsidiary B")# 山西柳林金家莊煤業有限責任公司	RMB374,000,000	10 May 2001, The People's Republic of China (the "PRC")	The PRC	65%	Production and sale of coal

\# *The unofficial English translation is for identification purpose only.*

All companies now comprising the Target Group B have adopted 31 December as their financial year-end date.

No audited financial statements have been prepared for Company B since its date of incorporation as there are no statutory audit requirements in the country of its jurisdiction. We have not acted as auditors of the Target Group B for each of the Relevant Periods referred to in this report.

The financial statements of PRC Subsidiary B were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC. The financial statements of PRC Subsidiary B for the years ended 31 December 2005 and 2006 were audited by 山西元源會計師事務所 ("Shanxi Yuanyuan Accountant Office") (for identification purpose only) and those for the year ended 31 December 2007 were audited by 山西萬通會計師事務所 ("Shanxi Wan Tong Public Accountants") (for identification purpose only), which are firms of certified public accountants registered in the PRC.

For the purpose of this report, the directors of Company B have prepared the combined financial statements (the "Underlying Financial Statements") of the Target Group B for the Relevant Periods, in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements of Company B for the Relevant Periods, in accordance with Hong Kong Standards on Auditing issued by the HKICPA except as described in the paragraph immediate below.

As at 31 December 2005, carrying amount of spare parts and consumables of PRC Subsidiary B were stated at RMB13,168,000. PRC Subsidiary B did not perform physical count on these spare parts and consumables until 30 June 2006 when a full physical count was performed. Based on the results of this physical count, although only a discrepancy of RMB529,000 (stock gain and stock loss being RMB2,110,000 and RMB1,581,000 respectively) was identified, there were significant weaknesses in recording the movements of the spare parts and consumables until the recording systems were properly rectified through its new computerised system which was in place after physical count on 30 June 2006. Under these circumstances, we were unable to carry out audit procedures necessary to obtain adequate assurance regarding the existence and valuation of these spare parts and consumables. There are no other satisfactory audit procedures that we could perform to satisfy ourselves as to the existence and carrying amounts of the spare parts and consumables as at 31 December 2005. We are unable to determine whether any adjustments might be necessary to the carrying amounts of the spare parts and consumables as at 31 December 2005. Any adjustments considered necessary to the carrying amounts of these spare parts and consumables would have consequential effects on the results of the Target Group B for the years ended 31 December 2005 and 2006, and the state of affairs of the Target Group B as at 31 December 2005.

The financial information and the notes thereto for the Relevant Periods (the "Financial Information") as set out in this report have been prepared by the directors of Company B based on the Underlying Financial Statements and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Company B are responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the existence and valuation of the spare parts and consumables as at 31 December 2005 which would have consequential effects on the results for the years ended 31 December 2005 and 2006 and the state of affairs of the Target Group B as at 31 December 2005, in our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Group B and Company B as at 31 December 2005, 2006 and 2007 and of the combined results and combined cash flows of the Target Group B for each of the Relevant Periods.

Emphasis of matter – material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to note 3.1 to the Financial Information concerning the adoption of the going concern basis on which the Financial Information has been prepared. As at 31 December 2007, the Target Group B and Company B had net current liabilities of RMB170,473,000 and RMB5,603,000 respectively. This condition, along with other matters as disclosed in note 3.1 to the Financial Information, indicate the existence of a material uncertainty which may cast doubt about the Target Group B's and Company B's ability to continue as a going concern.

I. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	539,211	367,456	534,088
Cost of sales		(194,881)	(99,971)	(162,359)
Gross profit		344,330	267,485	371,729
Other income	*6*	6,103	1,559	1,281
Selling expenses		(13,484)	(7,540)	(7,749)
Administrative expenses		(75,678)	(40,948)	(36,621)
Other operating expenses		(34,756)	(3,547)	(5,308)
Operating profit		226,515	217,009	323,332
Finance costs	*7*	(63,018)	(32,650)	(36,296)
Share of profit of associate	*17*	45,442	89,656	119,406
Discount on acquisition of minority shares	*37*	22,997	–	–
Loss on deemed disposal of diluting interests in subsidiary	*38*	(35,027)	–	–
Profit before income tax	*8*	196,909	274,015	406,442
Income tax expense	*9*	(61,193)	(30,978)	–
Profit for the year		135,716	243,037	406,442
Attributable to:				
Equity holders of Company B	*10*	88,216	150,271	254,357
Minority interests		47,500	92,766	152,085
		135,716	243,037	406,442

COMBINED BALANCE SHEETS

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*13*	148,936	205,782	273,110
Prepaid lease payments	*15*	–	10,273	10,300
Mining rights	*16*	52,934	529,824	524,930
Interests in associate	*17*	168,136	241,792	194,065
Pledged bank deposits	*24*	–	1,003	–
		370,006	988,674	1,002,405
Current assets				
Inventories	*18*	13,172	12,886	20,519
Trade and bill receivables	*19*	1,520	156,972	334,311
Deposits, prepayments and other receivables	*20*	22,495	32,542	26,769
Amounts due from a related party/related companies	*21*	11,071	156,633	310,988
Amounts due from a director	*22*	16,576	16,000	16,000
Amounts due from associate	*17*	4,136	–	–
Amounts due from minority investor	*23*	319,737	–	28,553
Pledged bank deposits	*24*	–	13,500	14,503
Cash and cash equivalents	*25*	123	1,355	738
		388,830	389,888	752,381
Current liabilities				
Trade and bill payables	*26*	28,362	87,263	100,895
Other payables and accruals	*27*	208,939	185,656	138,408
Amounts due to related companies	*21*	53,062	116	2,363
Amounts due to associate	*17*	–	–	449,273
Amounts due to a fellow subsidiary	*23*	–	–	101,941
Amounts due to minority investor	*23*	–	89,645	–
Amounts due to ultimate holding company	*28*	–	21,550	5,609
Borrowings	*29*	–	59,000	46,003
Provision for tax		68,426	78,792	78,362
		358,789	522,022	922,854

COMBINED BALANCE SHEETS *(Continued)*

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Net current assets/(liabilities)		30,041	(132,134)	(170,473)
Total assets less current liabilities		400,047	856,540	831,932
Non-current liabilities				
Borrowings	*29*	31,000	1,003	–
Loans from ultimate holding company	*30*	–	236,864	221,381
		31,000	237,867	221,381
Net assets		369,047	618,673	610,551
EQUITY				
Equity attributable to the equity holders of Company B				
Share capital	*31*	–	–	–
Reserves	*32*	149,028	305,888	576,088
		149,028	305,888	576,088
Minority interests		220,019	312,785	34,463
Total equity		369,047	618,673	610,551

BALANCE SHEETS

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Interests in subsidiary	*14*	–	236,864	221,381
Current asset				
Cash and cash equivalents	*25*	1	–	6
Current liability				
Amounts due to ultimate holding company	*28*	–	21,550	5,609
Net current assets/(liabilities)		1	(21,550)	(5,603)
Total assets less current liabilities		1	215,314	215,778
Non-current liability				
Loans from ultimate holding company	*30*	–	236,864	221,381
Net assets/(liabilities)		1	(21,550)	(5,603)
EQUITY				
Share capital	*31*	–	–	–
Reserves	*32*	1	(21,550)	(5,603)
Total equity/(Capital deficiency)		1	(21,550)	(5,603)

COMBINED CASH FLOW STATEMENTS

		Year ended 31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Profit before income tax		196,909	274,015	406,442
Adjustments for:				
Amortisation of prepaid lease payments		2,016	52	211
Amortisation of mining rights		5,610	3,899	4,894
Discount on acquisition of minority shares	*37*	(22,997)	–	–
Loss on deemed disposal of diluting interests in subsidiary	*38*	35,027	–	–
Share of profit of associate		(45,442)	(89,656)	(119,406)
Depreciation of property, plant and equipment		20,183	10,632	13,759
Finance costs		63,018	32,650	36,296
Interest income		(582)	(500)	(184)
Loss/(Gain) on disposals of property, plant and equipment		904	(37)	658
Provision for impairment loss on prepayments and other receivables		5,520	10,633	9,208
Operating profit before working capital changes		260,166	241,688	351,878
(Increase)/Decrease in inventories		(6,791)	286	(7,633)
Increase in trade and bill receivables		(3,974)	(155,452)	(177,339)
Increase in deposits, prepayments and other receivables		(325,177)	(20,680)	(3,435)
Decrease/(Increase) in amounts due from a related party/related companies		281,163	(145,562)	(154,355)
(Increase)/Decrease in amounts due from a director		(16,576)	576	–
Decrease in amounts due from associate		35,513	4,136	–
(Increase)/Decrease in amounts due from minority investor	*39(b)*	(364,737)	319,737	(458,960)
(Decrease)/Increase in trade and bill payables		(38,561)	58,901	13,632
Increase/(Decrease) in other payables and accruals		49,541	(23,283)	(47,248)
Increase/(Decrease) in amounts due to related companies		112,826	(52,946)	2,247
Increase in amounts due to associate	*39(a)*	–	–	616,406
Increase in amounts due to a fellow subsidiary		2,740	–	101,941
Increase/(Decrease) in amounts due to minority investor		–	89,645	(89,645)
Increase/(Decrease) in amounts due to ultimate holding company		4,136	21,550	(15,941)

COMBINED CASH FLOW STATEMENTS *(Continued)*

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash (used in)/generated from operations		(9,731)	338,596	131,548
Interest paid		(4,804)	(1,372)	(332)
Income tax paid		(240)	(20,612)	(430)
Net cash (used in)/generated from operating activities		(14,775)	316,612	130,786
Cash flows from investing activities				
Purchases of property, plant and equipment		(159,539)	(67,593)	(82,232)
Proceeds from disposals of property, plant and equipment		2,131	152	487
Purchases of mining rights		(224,327)	(480,789)	–
Acquisition of minority shares	*37*	(13,595)	–	–
Payments for prepaid lease payments		–	(10,325)	(238)
Deemed disposal of diluting interests in subsidiary	*38*	(129,501)	–	–
Interest received		582	500	184
Dividend received from associate	*17*	–	16,000	–
Net cash used in investing activities		(524,249)	(542,055)	(81,799)
Cash flows from financing activities				
Decrease/(Increase) in pledged bank deposits		73,489	(14,503)	–
Increase in long term payables		362,426	–	–
Interest paid		(58,214)	(31,278)	(35,964)
Proceeds from capital contributions by minority investor		126,000	–	–
Proceeds from new borrowings		47,060	60,003	45,000
Repayments of borrowings		(42,127)	(31,000)	(59,000)
Proceeds from loans from ultimate holding company		–	236,864	–
Net cash generated from/(used in) financing activities		508,634	220,086	(49,964)
Net decrease in cash and cash equivalents		(30,390)	(5,357)	(977)
Cash and cash equivalents at beginning of year		30,513	123	1,355
Effect of foreign exchange rates changes		–	6,589	360
Cash and cash equivalents at end of year	*25*	123	1,355	738

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of Company B						Minority interests	Total equity
	Share capital	Statutory reserves	Exchange reserve	Merger reserve	Retained profits	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	–	–	–	97,404	–	97,404	46,519	143,923
Profit for the year	–	–	–	–	88,216	88,216	47,500	135,716
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**88,216**	**88,216**	**47,500**	**135,716**
Capital contributions by minority investor	–	–	–	–	–	–	126,000	126,000
Acquisition of additional interests of subsidiary	–	–	–	–	(36,592)	(36,592)	–	(36,592)
Release on disposals of subsidiary	–	–	–	(5,909)	5,909	–	–	–
Appropriations	–	18,823	–	–	(18,823)	–	–	–
At 31 December 2005	**–**	**18,823**	**–**	**91,495**	**38,710**	**149,028**	**220,019**	**369,047**
At 1 January 2006	**–**	**18,823**	**–**	**91,495**	**38,710**	**149,028**	**220,019**	**369,047**
Currency translation differences (Net income recognised directly in equity)	–	–	6,589	–	–	6,589	–	6,589
Profit for the year	–	–	–	–	150,271	150,271	92,766	243,037
Total recognised income and expense for the year	**–**	**–**	**6,589**	–	**150,271**	**156,860**	**92,766**	**249,626**
Appropriations	–	22,350	–	–	(22,350)	–	–	–
At 31 December 2006	**–**	**41,173**	**6,589**	**91,495**	**166,631**	**305,888**	**312,785**	**618,673**
At 1 January 2007	**–**	**41,173**	**6,589**	**91,495**	**166,631**	**305,888**	**312,785**	**618,673**
Currency translation differences (Net income recognised directly in equity)	–	–	15,843	–	–	15,843	–	15,843
Profit for the year	–	–	–	–	254,357	254,357	152,085	406,442
Total recognised income and expense for the year	**–**	**–**	**15,843**	–	**254,357**	**270,200**	**152,085**	**422,285**
Dividends paid to minority investor of subsidiary	–	–	–	–	–	–	(430,407)	(430,407)
Appropriations	–	34,091	–	–	(34,091)	–	–	–
At 31 December 2007	**–**	**75,264**	**22,432**	**91,495**	**386,897**	**576,088**	**34,463**	**610,551**

II. NOTES TO THE FINANCIAL INFORMATION

1. BACKGROUND INFORMATION AND BASIS OF PRESENTATION

Company B was incorporated in the BVI as an exempted company with limited liability on 5 January 2005 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office is P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, the BVI and its principal place of business is located at Suite 2801, Two Exchange Square, Central, Hong Kong. The principal activity of Company B during the Relevant Periods was investment holding. Comany B is wholly owned by Fortune Dragon Group Limited ("Fortune Dragon"), a company incorporated in the BVI. In the opinion of the directors, the ultimate holding company is Fortune Dragon.

PRC Subsidiary B is the only subsidiary of Company B and is 65% and 35% beneficially owned by Company B and Shanxi Luensang Energy Investment Limited ("Luensang B or the minority investor"), a company incorporated in the PRC, respectively.

As Company B and PRC Subsidiary B are ultimately controlled by the same ultimate group of parties, who also owns Fortune Dragon, before and after Company B has become the immediate holding company of PRC Subsidiary B in September 2005, there is a continuation of the risks and benefits to the ultimate group of parties that existed before Company B had become the immediate holding company of PRC Subsidiary B. Company B is regarded as a continuing entity and consequently the reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. Accordingly, the Financial Information has been prepared on the basis of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA under which Company B is considered as the holding company of the Target Group B during the Relevant Periods. The results and cash flows of the Target Group B for the Relevant Periods include the results and cash flows of Company B and the PRC Subsidiary B, from 1 January 2005, or since Company B's and the PRC Subsidiary B's respective date of incorporation/establishment whichever is shorter, as if the current group structure had been in existence throughout the Relevant Periods. The combined balance sheet as at the respective balance sheet dates of the Relevant Periods is a combination of the balance sheets of Company B and the PRC Subsidiary B at each balance sheet date.

The Financial Information sets out in this report has been prepared in accordance with HKFRSs, which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretation ("INT") issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF NEW AND AMENDED HKFRSs

The Target Group B has adopted all the new and amended HKFRSs which are relevant to and effective for the accounting periods beginning on 1 January 2007, issued by the HKICPA in the preparation of the Financial Information throughout the Relevant Periods. HKFRS 1 "First-time Adoption of HKFRS" has been applied in preparing the Financial Information. The Financial Information is the first set of financial statements prepared in accordance with HKFRSs by the Target Group B.

The accounting policies set out below have been applied consistently by the Target Group B to the Relevant Periods in the Financial Information and in preparing the opening HKFRS balance sheet at 1 January 2005 for the purpose of the first set of HKFRSs financial statements.

At the date of this report, the following HKFRSs have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amended)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
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
5 Effective for annual periods beginning on or after 1 July 2009

The Target Group B has not early adopted these HKFRSs in the preparation of the Financial Information.

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Financial Information. This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Target Group B but will give rise to additional disclosures. The directors of the Company B are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Financial Information.

The functional currency of Company B is US Dollars ("US$"). The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the primary economic environment in which PRC Subsidiary B operates.

The significant accounting policies that have been used in the preparation of the Financial Information are summarised below. These policies have been consistently applied to the Relevant Periods unless otherwise stated. The Financial Information has been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are described in note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation

As at 31 December 2007, the Target Group B and Company B had net current liabilities of approximately RMB170,473,000 and RMB5,603,000 respectively. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that the Target Group B and Company B will continue to operate as a going concern. The going concern basis has been adopted on the basis that:

(i) the ultimate beneficiary owner of the Target Group B and Company B, Mr. Xing Libin ("Mr. Xing), will continue to provide financial support to the Target Group B and Company B to meet the Target Group B's and Company B's liabilities and commitments as and when it falls due from the date of this report up to 31 December 2008 or the date of completion of the Very Substantial Acquisition whichever is shorter; and

(ii) the Target Group B's ultimate holding company and associate, being Fortune Dragon and Shanxi Liulin Xingwu Coalmine Company Limited ("PRC Subsidiary A"), respectively have undertaken not to demand repayment of debts due from the Target Group B and Company B until such time when repayment will not affect the Target Group B's and Company B's ability to repay other creditors in the normal course of business.

The Financial Information does not include any adjustments that would result from a failure of the Target Group B and Company B to operate as a going concern. Should the Target Group B and Company B be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. These adjustments have not been reflected in the Financial Information.

3.2 Basis of combination and subsidiaries

A subsidiary is an entity (including special purpose entity) over which the Target Group B has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group B controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group B. They are excluded from consolidation from the date that control ceases.

The Financial Information incorporates the financial statements of Company B and its subsidiary after elimination of intra-group transactions, balances and unrelaised gains on transactions, unless the transactions provide evidence of an impairment of the asset transferred, within the Target Group B. As explained in note 1 above, the Financial Information has been prepared using the merger method of accounting.

The merger method of accounting involves measuring the cost of acquisition at the historical carrying value of the assets and liabilities of the merging entities. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. The combined income statement includes the results of each of the combining entities from the date of incorporation/establishment or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Minority interests represent the portion of the profit or loss and net assets of the subsidiary attributable to equity interests that are not owned by the Target Group B and are not the Target Group B's financial liabilities.

Minority interests are presented in the combined balance sheets within equity, separately from the equity attributable to the equity holders of Company B. Profit or loss attributable to the minority interests are presented separately in the combined income statements as an allocation of the Target Group B's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interests to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Target Group B's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interests only after the minority's share of losses previously absorbed by the Target Group B has been recovered.

In Company B's balance sheet, a subsidiary is carried at cost less impairment loss. The results of the subsidiary are accounted for by Company B on the basis of dividends received and receivables at the balance sheet date.

3.3 Associate

Associates are those entities over which the Target Group B is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In the Financial Information, investment in associate is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Target Group B's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Target Group B's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale. The combined income statement includes the Target Group B's share of the post-acquisition, post-tax results of the associate for the Relevant Periods, including any impairment loss on goodwill relating to the investment in associate recognised for the Relevant Periods.

When the Target Group B's share of losses in an associate equals or exceeds its interest in the associate, the Target Group B does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Target Group B's interest in the associate is the carrying amount of the investment under the equity method together with the Target Group B's long-term interests that in substance form part of the Target Group B's net investment in the associate.

Unrealised gains on transactions between the Target Group B and its associate are eliminated to the extent of the Target Group B's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.4 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any identified impairment.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group B and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the Relevant Periods in which they are incurred.

Other than mining structures, depreciation is provided to write off the cost less their estimated residual values over their estimated useful lives, using the straight-line method, as follows:

Buildings	20 years
Mining machinery and equipment	10 years
Office equipment and motor vehicles	5 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation on mining structures is provided to write off the cost of the mining structures using the units-of-production method utilising only proved and probable coal reserves as the depletion base.

CIP represents property, plant and equipment in the course of construction for production or for its own use purpose and is stated at cost less any recognised impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects and is reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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

3.5 Foreign currency translation

In the individual financial statements of the combined entity, foreign currency transactions are translated into its functional currency using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet dates retranslation of monetary assets and liabilities are recognised in the combined income statements.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Target Group B's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the balance sheet date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.

3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of applicable valued-added tax, rebates and discounts. Provided it is probable that the economic benefits will flow to the Target Group B and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

3.7 Borrowing costs

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

3.8 Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire long term interests in the usage of the land on which various mining plants and buildings are situated. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the lease term, i.e. 50 years.

3.9 Mining rights

Mining rights are stated at cost less accumulated amortisation and are amortised on a straight line basis over the shorter of their useful lives estimated based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

3.10 Impairment of non-financial assets

Prepaid lease payments, mining rights, property, plant and equipment, interests in subsidiary and associate are subject to impairment testing. All individual assets are tested for impairment whenever there are indications that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group B determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease as the lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group B are classified as operating leases.

In addition to the prepaid lease payments as described in note 3.8 above, when the Target Group B has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.12 Financial assets

Recognition and measurement

The Target Group B's financial assets include trade and bill receivables, deposits and other receivables, amounts due from a related party/related companies, a director, associate and minority investor. These are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Target Group B becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on settlement date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Derecognition

Derecognition of financial assets occurs when the rights to receive cash flows from the receivables expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

A provision for impairment of loans and receivables is established when there is objective evidence that the Target Group B will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement in the period in which the reversal occurs.

3.13 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling prices in the ordinary course of business less any applicable selling expenses.

3.14 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet dates. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand.

3.16 Retirement benefit costs and short term employee benefits

PRC central pension scheme

Retirement benefits to employees are provided through defined contribution plans. A defined contribution plan is a pension plan under which the Target Group B pays fixed contributions into a separate entity.

The Target Group B's only subsidiary, PRC Subsidiary B, operates in the PRC and is required to participate in a central pension scheme operated by the local municipal government. PRC Subsidiary B is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.17 Financial liabilities

The Target Group B's financial liabilities include borrowings, trade and bill payables, other payables and accruals, amounts due to related companies, associate, a fellow subsidiary, minority investor and ultimate holding company.

Financial liabilities are recognised when the Target Group B becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in "finance costs' in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Bank and other loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Bank and other loans classified as current liabilities unless the Target Group B has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and bill payables, other payables and accruals, amounts due to related companies, associate, a fellow subsidiary, minority investor and ultimate holding company

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3.18 Financial guarantee issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transactions costs that are directly attributable to the acquisition or issuance of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Target Group B measures the financial guarantee contract at higher of: (i) the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, accumulated amortisation recognised in accordance with HKAS 18 "Revenue".

3.19 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Target Group B has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.20 Related parties

A party is considered to be related to the Target Group B if:

(i) the party, directly, or indirectly through one or more intermediaries:

- controls, is controlled by, or is under common control with the Target Group B;
- has an interest in the Target Group B that gives it significant influence over the Target Group B; or
- has joint control over the Target Group B;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

(iv) the party is a member of the key management personnel of the Target Group B or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Target Group B, or of any entity that is a related party of the Target Group B.

3.21 Government subsidies

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group B will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Target Group B makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of receivables

Allowances for impairment of receivables are determined by management of the Target Group B based on the repayment history of its debtors and the current market conditions. It could change significantly as a result of changes in the financial position of the debtors. Management would reassess the amount of impairment allowances of receivables, if any, at each balance sheet date.

(ii) Depreciation

The Target Group B depreciates its property, plant and equipment using the straight-line method over their estimated useful lives. The estimated useful lives reflect the directors' estimate of the period that the Target Group B will derive future economic benefits from the use of the Target Group B's property, plant and equipment.

(iii) Amortisation of mining rights

Mining rights are amortised over the estimated reserves of the coal mines using units-of-production method. The Target Group B assesses annually the estimated reserve of the coal mine. However, the licence period of the mining rights held by the Target Group B is ranging from three to five years which is shorter than the estimated useful lives of the coal mine estimated by the Target Group B. Management of the Target Group B is of the opinion that the Target Group B will be able to renew the licence of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the depreciation and the amortisation charged in the year in which such estimate is changed.

5. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the Target Group B's sole business is the exploitation of coal. The Target Group B's revenue, expenses, results, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is the PRC.

6. REVENUE AND OTHER INCOME

Revenue, which is also the Target Group B's turnover, comprises total invoiced value of goods supplied, net of applicable valued-added tax in the PRC. Revenue and other income recognised during the Relevant Periods are as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Sales of coal	539,211	367,456	534,088
Other income			
Gain on disposals of property, plant and equipment	–	37	–
Government grants*	–	1,000	–
Interest income	582	500	184
Sales of tools	5,518	–	–
Others	3	22	1,097
	6,103	1,559	1,281

* These represented grants received from the government in relation to the Target Group B's efforts in constructing of water supply system.

7. FINANCE COSTS

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Interests charged on:			
– bank borrowings repayable within five years	7,022	252	3,554
– other borrowings wholly repayable within five years	51,192	9,022	4,320
– loans from ultimate holding company repayable within five years	–	22,004	28,090
Interest on early redemption of bill receivables	4,804	1,372	332
Total finance costs	63,018	32,650	36,296

8. PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax is arrived at after charging:			
Cost of inventories recognised as expenses	117,665	26,963	30,577
Amortisation of:			
– prepaid lease payments	2,016	52	211
– mining rights	5,610	3,899	4,894
Auditors' remuneration	–	944	585
Depreciation of property, plant and equipment	20,183	10,632	13,759
Employee benefit expenses (including directors' emoluments) *(note 11)*	63,203	36,285	43,515
Provision for impairment loss on prepayments and other receivables	5,520	10,633	9,208
Loss on disposals of property, plant and equipment	904	–	658
Operating lease charges	2,194	1,989	3,496

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Target Group B had no assessable profit arising in Hong Kong during the Relevant Periods. Prior to May 2006, provision for income tax in the PRC is based on the statutory rate of 33% of the assessable profit of PRC Subsidiary B as determined in accordance with the relevant income tax rules and regulations of the PRC for the Relevant Periods.

From September 2005, as PRC Subsidiary B became a Sino-foreign equity joint venture company and received preferential income tax treatment, PRC Subsidiary B is entitled to full exemption on the income tax in the PRC for the period from 1 May 2006 to 31 December 2007 and a 50% deduction of income tax in the PRC for the three subsequent years ending 31 December 2010.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, effective from 1 January 2008, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%. Pursuant to the announcement (the "Announcement") on the traditional preferential policy issued by State Tax Bureau on 29 December 2007, "2-years full exemption and 3-years half exemption" tax policy (the "Tax Holiday") is still effective under new tax policy. For those enterprises not yet got assessable profits, the preferential period is no longer delayed. The calendar year of 2008 shall be counted as the first preferential year of preferential period and lasts for five years up to year 2012.

As PRC Subsidiary B had assessable profit in 2006, its preferential period arising from the Tax Holiday started in 2006. The Announcement had no impact on PRC Subsidiary B for 2006 and 2007. However, the enterprise income tax rate for the calendar years from 2008 to 2010 will be changed from 16.5% to 12.5%. From the calendar year of 2011 onwards, PRC Subsidiary B's enterprise income tax rate shall become 25% without any exemption.

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current tax – the PRC	61,193	30,978	–

No deferred tax has been provided for the Relevant Periods as there are no material temporary differences.

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	196,909	274,015	406,442
Less: Adjustment:			
– Share of profit of associate	(45,442)	(89,656)	(119,406)
	151,467	184,359	287,036
Tax calculated at the rates applicable to the tax jurisdiction concerned	49,983	64,250	99,075
Tax effect of non-deductible expenses	11,825	7,894	8,326
Tax effect of non-taxable revenue	(615)	(41,166)	(107,401)
Income tax expense	61,193	30,978	–

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF COMPANY B

Profit attributable to equity holders of Company B includes a profit of RMB1,000, a loss of RMB22,004,000 and a profit of RMB15,033,000 for the period/years ended 31 December 2005, 2006 and 2007 (note 32) respectively which have been dealt with in the financial statements of Company B.

11. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Directors' emoluments *(note 12)*	193	113	376
Salaries, wages and allowances	54,192	30,195	38,478
Bonus	2,165	534	–
Staff welfare	6,653	5,443	4,661
	63,203	36,285	43,515

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Directors' fee	Salaries, wages and allowances	Staff welfare	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2005				
Executive directors				
Wang Dayong	–	–	–	–
Mr. Xing	28	104	23	155
Zhang Fengping	–	32	6	38
Ting Yin Wang	–	–	–	–
Ding Shumiao	–	–	–	–
Total	28	136	29	193
Year ended 31 December 2006				
Executive directors				
Wang Dayong	–	–	–	–
Mr. Xing	96	–	17	113
Zhang Fengping	–	–	–	–
Ting Yin Wang	–	–	–	–
Ding Shumiao	–	–	–	–
Total	96	–	17	113
Year ended 31 December 2007				
Executive directors				
Wang Dayong	–	–	–	–
Mr. Xing	320	–	56	376
Zhang Fengping	–	–	–	–
Ting Yin Wang	–	–	–	–
Ding Shumiao	–	–	–	–
Total	320	–	56	376

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) The five individuals whose emoluments were the highest in the Target Group B for the Relevant Periods included nil directors in 2005 and 2006 and one director in 2007. The emoluments payable to the remaining five, five and four highest paid individuals during the three years ended 31 December 2005, 2006 and 2007 respectively are as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and allowances	1,584	1,109	1,050
Staff welfare	278	193	183
	1,862	1,302	1,233

The number of the remaining highest paid individuals fell within the following emolument band:

	Year ended 31 December		
	2005	**2006**	**2007**
Emolument band:			
Nil to RMB1,000,000	5	5	4

During the Relevant Periods, no emoluments were paid by the Target Group B to the five highest paid individuals and the directors, as an inducement to join or upon joining the Target Group B or as compensation for loss of office.

13. PROPERTY, PLANT AND EQUIPMENT – TARGET GROUP B

	Buildings	**CIP**	**Mining structures**	**Mining machinery and equipment**	**Office equipment**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005							
Cost	48,033	212,286	84,193	90,883	1,346	24,479	461,220
Accumulated depreciation	(9,877)	–	(13,399)	(18,090)	(87)	(8,737)	(50,190)
Net book amount	38,156	212,286	70,794	72,793	1,259	15,742	411,030
Year ended 31 December 2005							
Opening net book amount	38,156	212,286	70,794	72,793	1,259	15,742	411,030
Deemed disposal of subsidiary *(note 38)*	(61,532)	(161,855)	(68,683)	(92,299)	(1,660)	(12,386)	(398,415)
Additions	26,496	51,798	1,471	77,544	1,329	901	159,539
Transfer from CIP	22,458	(58,588)	36,130	–	–	–	–
Disposals	–	–	–	(2,975)	(16)	(44)	(3,035)
Depreciation	(2,428)	–	(852)	(14,163)	(583)	(2,157)	(20,183)
Closing net book amount	23,150	43,641	38,860	40,900	329	2,056	148,936
At 31 December 2005							
Cost	23,991	43,641	54,998	46,195	370	3,905	173,100
Accumulated depreciation	(841)	–	(16,138)	(5,295)	(41)	(1,849)	(24,164)
Net book amount	23,150	43,641	38,860	40,900	329	2,056	148,936

13. PROPERTY, PLANT AND EQUIPMENT – TARGET GROUP B *(Continued)*

	Buildings	CIP	Mining structures	Mining machinery and equipment	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006							
Opening net book amount	23,150	43,641	38,860	40,900	329	2,056	148,936
Additions	347	46,923	475	18,547	339	962	67,593
Transfer from CIP	18,605	(41,341)	22,736	–	–	–	–
Disposals	–	–	–	–	–	(115)	(115)
Depreciation	(1,377)	–	(3,291)	(4,809)	(42)	(1,113)	(10,632)
Closing net book amount	40,725	49,223	58,780	54,638	626	1,790	205,782
At 31 December 2006							
Cost	42,943	49,223	78,209	64,742	709	4,044	239,870
Accumulated depreciation	(2,218)	–	(19,429)	(10,104)	(83)	(2,254)	(34,088)
Net book amount	40,725	49,223	58,780	54,638	626	1,790	205,782
Year ended 31 December 2007							
Opening net book amount	40,725	49,223	58,780	54,638	626	1,790	205,782
Additions	–	45,334	1,459	29,896	2,350	3,193	82,232
Transfer from CIP	14,130	(19,683)	5,358	–	195	–	–
Disposal	–	–	–	(1,115)	–	(30)	(1,145)
Depreciation	(2,427)	–	(2,997)	(7,178)	(296)	(861)	(13,759)
Closing net book amount	52,428	74,874	62,600	76,241	2,875	4,092	273,110
At 31 December 2007							
Cost	57,072	74,874	68,888	92,725	3,254	7,114	303,927
Accumulated depreciation	(4,644)	–	(6,288)	(16,484)	(379)	(3,022)	(30,817)
Net book amount	52,428	74,874	62,600	76,241	2,875	4,092	273,110

The carrying amounts of property, plant and equipment amounting to RMB23,953,000 and RMB22,704,000 as at 31 December 2006 and 2007 respectively have been pledged to the banks as securities of the banking borrowings of the Target Group B (note 29) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group B, in relation to the issuance of US$160,000,000 floating rate notes due in 2011. No property, plant and equipment was pledged to the banks as securities as at 31 December 2005.

14. INTERESTS IN SUBSIDIARY – COMPANY B

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity interest, at cost	–	236,864	221,381

15. PREPAID LEASE PAYMENTS – TARGET GROUP B

The Target Group B's interests in prepaid lease payments and their net book value are analysed as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Opening net carrying amount	35,964	–	10,273
Additions	–	10,325	238
Annual charges of prepaid operating lease payments	(2,016)	(52)	(211)
Disposal to a related company	(2,028)	–	–
Deemed disposal of subsidiary *(note 38)*	(31,920)	–	–
Closing net carrying amount	–	10,273	10,300

All prepaid lease payments were made on the land in the PRC with a medium term of 50 years.

Prepaid lease payments for the land with carrying amounts of RMB10,273,000 and RMB10,300,000 as at 31 December 2006 and 2007 respectively (note 29) have been pledged to the banks as a securities of the bank borrowings of the Target Group B (note 29) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group B, in relation to the issuance of US$160,000,000 floating rate notes due in 2011.

In September 2005, a piece of residential land held by its then subsidiary was transferred to a related company, Shanxi Luensheng Energy Limited ("Luensang A"), at its carrying amount of RMB2,028,000.

16. MINING RIGHTS – TARGET GROUP B

	RMB'000
Year ended 31 December 2005	
Acquisition of mining rights	224,327
Amortisation charge	(5,610)
Deemed disposal of subsidiary *(note 38)*	(165,783)
Carrying amount at 31 December 2005	52,934
At 31 December 2005	
Gross carrying amount	55,547
Accumulated amortisation	(2,613)
Carrying amount at 31 December 2005	52,934
Year ended 31 December 2006	
Carrying amount at 1 January 2006	52,934
Additions	480,789
Amortisation charge	(3,899)
Carrying amount at 31 December 2006	529,824
At 31 December 2006	
Gross carrying amount	536,336
Accumulated amortisation	(6,512)
Carrying amount at 31 December 2006	529,824
Year ended 31 December 2007	
Carrying amount at 1 January 2007	529,824
Amortisation charge	(4,894)
Carrying amount at 31 December 2007	524,930
At 31 December 2007	
Gross carrying amount	536,336
Accumulated amortisation	(11,406)
Carrying amount at 31 December 2007	524,930

Having become a limited liability company in 2005, PRC Subsidiary B and PRC Subsidiary A, the then subsidiary of PRC Subsidiary B, acquired mining rights from the Bureau of Land and Resources, a government authority, at a cost of RMB55,547,000 and RMB168,780,000 respectively. The consideration is based on the coal reserve and multiplication of the coal price of the nature of coal.

In December 2006, PRC Subsidiary B acquired two mining rights from its minority investor, Luensang A, for RMB225,000,000 and RMB255,789,000 respectively which were based on the valuation of the coal mines carried out by a PRC recognised valuer with reference to the future income stream for a period of 10.05 and 12.21 years respectively. The directors are of the opinion that there are no impairments on these mining rights.

As at 31 December 2006 and 2007, mining rights with carrying amounts of RMB529,824,000 and RMB524,930,000 respectively have been pledged to the banks as securities of the banking borrowings of the Target Group B (note 29) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group B, in relation to the issuance of US$160,000,000 floating rate notes due in 2011.

17. INTERESTS IN ASSOCIATE – TARGET GROUP B

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	–	168,136	241,792
Balance transferred upon deemed disposal of diluting interests in subsidiary *(note 38)*	122,694	–	–
Share of profit of associate	45,442	89,656	119,406
Other equity movement*	–	(16,000)	(167,133)
Share of net assets	168,136	241,792	194,065
Amounts due from/(to) associate	4,136	–	(449,273)

* *Other equity movement of RMB167,133,000 represented dividend income, attributable to the year ended 31 December 2006, received from PRC Subsidiary A.*

Amounts due from/(to) associate are interest-free, unsecured and have no fixed terms of repayment.

PRC Subsidiary A became PRC Subsidiary B's subsidiary when PRC Subsidiary B acquired 76.8% equity interests from Liulin County Jinjiazhuang Coalmine Company Limited for RMB45,000,000 in June 2004.

On 5 September 2005, PRC Subsidiary B entered into an equity transfer agreement with Mr. Xing and Mr. Zhang Fengpin to acquire the remaining 21.5% and 1.7% equity interests in PRC Subsidiary A held by Mr. Xing and Mr. Zhang Fengpin respectively for a total sum of RMB13,595,000. Upon this, PRC Subsidiary A was 100% owned by PRC Subsidiary B. The impact of this transaction on the combined income statements of Company B is set out in note 37 to the Financial Information.

On the same date, pursuant to a capital subscription agreement and an equity joint venture agreement entered into between Thechoice Finance Limited ("Company A") (which is also a wholly owned subsidiary of Fortune Dragon) and PRC Subsidiary B such that Company A agreed to invest RMB162,000,000, representing a 65% equity interest in PRC Subsidiary A after Company A's capital injection, thus diluting PRC Subsidiary B's interest in PRC Subsidiary A to 35% (RMB88,000,000). Accordingly, PRC Subsidiary A became PRC Subsidiary B's associate. The impact of this deemed disposal of diluting interests in the PRC Subsidiary A is set out in note 38 to the Financial Information. Particulars of the associate at 31 December 2005, 2006 and 2007 are as follows:

Name	**Place of incorporation**	**Registered capital**	**Effective percentage held by the Target Group B**	**Effective percentage held by PRC Subsidiary B**	**Principal activities and place of operations**
PRC Subsidiary A	The PRC	RMB250,000,000	22.75%	35%	Sales of coal in the PRC

The summarised financial information of PRC Subsidiary A extracted from its financial statements is as follows:

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	556,280	567,305	705,531
Profit after income tax	128,321	256,160	341,160
Assets	1,519,590	1,387,218	1,515,010
Liabilities	(1,232,035)	(697,653)	(704,442)

18. INVENTORIES – TARGET GROUP B

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Coal	4	–	4
Spare parts and consumables	13,168	12,886	20,515
	13,172	12,886	20,519

No physical count on spare parts and consumables had been carried out until 30 June 2006. The balance of spare parts and consumables, amounting to RMB13,168,000 as at 31 December 2005, was based on the manual perpetual inventory recording system as accounted for in the books of the Target Group B.

Based on the results of the physical count on spare parts and consumables held on 30 June 2006, a total net stock gain amounting to RMB529,000 (stock gain and stock loss being RMB2,110,000 and RMB1,581,000 respectively) was identified. As most of the delivery notes prior to the physical count on 30 June 2006 had been misplaced and there were no other reliable records being kept in place, management of the Target Group B was unable to verify with reasonable certainty that the existence and valuation of spares parts and consumables as at 31 December 2004 and 2005 and was of the opinion that there were misstatements in the balance of spare parts and consumables as at 31 December 2005. The misstatement might have consequential impact on the results of the Target Group B for the years ended 31 December 2005 and 2006.

19. TRADE AND BILL RECEIVABLES – TARGET GROUP B

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Trade and bill receivables	8,949	164,401	341,740
Less: Provision for impairment loss	(7,429)	(7,429)	(7,429)
	1,520	156,972	334,311

The Target Group B bills to its customers according to the terms of the relevant agreements generally 90 days. All trade and bill receivables are denominated in RMB.

The carrying amount of trade and bill receivables is considered a reasonable approximate of fair value at this financial asset, which is measured at amortised cost, is expected to be paid within a short timescale, such that the time value of money impact is not significant.

At each balance sheet date, the trade and bill receivables are individually determined to be impaired. The individually impaired receivables, if any, are recognised, based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision is recognised. The Target Group B does not hold any collaterals over these balances.

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Target Group B is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bill receivables directly.

19. TRADE AND BILL RECEIVABLES – TARGET GROUP B *(Continued)*

As at 31 December 2005, 2006 and 2007, ageing analysis of the net trade and bill receivables, based on the invoice dates, are as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	1,500	140,536	164,035
91 – 180 days	20	16,436	65,843
181 – 365 days	–	–	79,567
over 365 days	–	–	24,866
	1,520	156,972	334,311

As at 31 December 2005, 2006 and 2007, ageing analysis of trade and bill receivables that are not impaired is as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	1,500	140,536	164,035
1 – 90 days past due	20	16,436	65,843
91 – 180 days past due	–	–	79,567
Over 180 days past due	–	–	24,866
	20	16,436	170,276
	1,520	156,972	334,311

Trade and bill receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of credit.

Trade and bill receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Target Group B. Based on past experience, management believes that no additional impairment allowance is necessary in respect of these balances as there had not been a significant change in credit quality and the balances are considered fully recoverable.

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES – TARGET GROUP B

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	3,832	14,702	13,450
Less: Provision for impairment loss	(904)	(3,795)	(8,629)
Other receivables – net	2,928	10,907	4,821
Deposits paid to suppliers	7,940	20,210	26,623
Less: Provision for impairment loss	–	(7,742)	(12,116)
Deposits paid to suppliers – net	7,940	12,468	14,507
Utility deposits and prepayments	11,627	9,167	7,441
	22,495	32,542	26,769

21. AMOUNTS DUE FROM/(TO) A RELATED PARTY/RELATED COMPANIES – TARGET GROUP B

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from:			
Liulin Xian Liansheng Duozhong Jingying Company Limited ("LSDJ")# 柳林縣聯盛多種經營有限責任公司	10,206	138,431	222,933
Shanxi Liulin Guojiashan Meiye Company Limited ("Guojiashan Meiye")# 山西柳林郭家山煤業有限公司	–	–	37
Liulin Xian Shiweigou Meiye Company Limited ("Shiweigou Meiye")# 柳林縣獅尾溝煤業有限公司	–	–	53,000
Liulin Xian Chenjiawanxiang Baicaoer Meikuang ("Baicaoer Meikuang")# 柳林縣陳家灣鄉白草耳煤礦	–	–	1,006
Shanxi Fortune Dragon Coalification Company Limited ("Shanxi Fortune Dragon")# 山西福龍煤化有限公司	–	–	17,322
Shanxi Panlong Gongcheng Jixie Company Limited ("Panlong Gongcheng")# 山西盤龍工程機械有限公司	–	–	950
Liulin Xian Yongsheng Xuanmeichang ("Yongsheng Xuanmeichang")# 柳林縣永勝選煤廠	–	17,337	14,875
Mr. Xing Yanbin	865	865	865
	11,071	156,633	310,988

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Maximum balance outstanding during the year:			
LSDJ	12,462	139,079	224,880
Guojiashan Meiye	922	–	37
Shiweigou Meiye	–	116	53,000
Baicaoer Meikuang	–	–	1,006
Shanxi Fortune Dragon	–	–	17,322
Panlong Gongcheng	–	–	950
Yongsheng Xuanmeichang	–	17,338	17,338
Mr. Xing Yanbin	865	865	865

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to:			
Shanxi Liulin Shizigou Meiye Company Limited ("Shizigou Meiye") (previously known as Liulin Xian Shiweigou Cunban Meikuang)# 山西柳林獅子溝煤業有限公司 (previously known as 柳林縣獅尾溝村辦煤礦)	11,099	–	–
Shiweigou Meiye	41,860	116	–
Liulin Xian Zhuangshang Zhen Nangou Meikuang ("Nangou Meikuang")# 柳林縣莊上鎮南溝煤礦#	103	–	–
Liulin Xian Hejiashe Meikuang# ("Hejiashe Meikuang") 柳林縣賀加社煤礦	–	–	2,363
	53,062	116	2,363

\# *The unofficial English translation is for identification purpose only.*

Amounts due are all unsecured, interest-free and repayable on demand. Mr. Xing Yanbin is a brother of Mr. Xing. Except for Yongsheng Xuanmeichang and Panlong Gongcheng, all related companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, the beneficial owners of the Target Group B. Yongsheng Xuanmeichang was set up on 12 December 2005 and is owned by Mr. Xing Yanbin whilst Panlong Gongcheng is connected to Mr. Xing Yanbin who obtained the financial benefits from the construction work conducted by Panlong Gongcheng.

22. AMOUNTS DUE FROM A DIRECTOR – TARGET GROUP B

The balance due is unsecured, interest-free and repayable on demand and is due from Mr. Xing, who was appointed as the director of PRC Subsidiary B on 16 September 2005. The maximum outstanding amounts during the years ended 31 December 2005, 2006 and 2007 were RMB16,576,000, RMB16,576,000 and RMB16,000,000 respectively.

23. AMOUNTS DUE FROM/(TO) MINORITY INVESTOR/A FELLOW SUBSIDIARY – TARGET GROUP B

Amounts due are unsecured, interest-free and repayable on demand.

24. PLEDGED BANK DEPOSITS – TARGET GROUP B

As at 31 December 2006 and 2007, bank deposits amounted to US$125,000 (equivalent to RMB1,003,000) were pledged to the banks as a security of the bank borrowings of the Target Group B (note 29) which are repayable on 31 July 2008 and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group B, in relation to the issuance of US$160,000,000 floating rate notes due in 2011. All current portion of the bank deposits as at 31 December 2006 and 2007 are pledged as securities for the bank borrowings.

25. CASH AND CASH EQUIVALENTS

	TARGET GROUP B			COMPANY B		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks and in hand	123	1,355	738	1	–	6

All cash and bank balances of the Target Group B as at 31 December 2005, 2006 and 2007 were denominated in US$ or RMB and deposited with the banks in Hong Kong and in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Target Group B is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

26. TRADE AND BILL PAYABLES – TARGET GROUP B

The Target Group B was granted by its suppliers the credit periods ranging between 30 and 180 days during the Relevant Periods. Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2005, 2006 and 2007 are as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	9,370	11,914	80,810
91 – 180 days	9,554	13,268	3,339
181 – 365 days	5,513	4,911	5,014
Over 365 days	3,925	57,170	11,732
	28,362	87,263	100,895

27. OTHER PAYABLES AND ACCRUALS – TARGET GROUP B

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Advances from customers	132,562	112,958	38,068
Other payables	62,915	52,735	62,520
Accruals	13,462	19,963	37,820
	208,939	185,656	138,408

Other payables at the balance sheet dates mainly related to the outstanding balances due to construction contractors.

28. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY – TARGET GROUP B AND COMPANY B

Amounts due are unsecured, interest-free and repayable on demand.

29. BORROWINGS – TARGET GROUP B

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Non-current:			
Secured bank borrowings due in the second year	–	1,003	–
Other borrowings due in the second to fifth year	31,000	–	–
	31,000	1,003	–
Current:			
Secured bank borrowings	–	45,000	46,003
Other borrowings	–	14,000	–
	–	59,000	46,003
Total borrowings	31,000	60,003	46,003

The carrying amounts of the borrowings approximate to their fair value.

As at 31 December 2005, 2006 and 2007, borrowings of RMB31,000,000, RMB59,000,000 and RMB45,000,000 respectively were denominated in RMB and as at 31 December 2006 and 2007, bank borrowings of RMB1,003,000 were denominated in US$ and repayable in July 2008. These borrowings were interest-bearing at the rates ranging between 5.8% and LIBOR+6.8% per annum during the Relevant Periods. Other borrowings of RMB31,000,000 as at 31 December 2005 was secured by a third party. As at 31 December 2006, other borrowings of RMB14,000,000 were denominated in RMB and interest-bearing at fixed rate of 7.2% per annum and guaranteed by a third party. The balance was repaid in 2007.

Bank borrowings of RMB45,000,000 as at 31 December 2006 and 2007 were secured by a personal guarantee from a director and his spouse, a corporate guarantee from a third party and the remaining bank borrowings amount of RMB1,003,000 as at 31 December 2006 and 2007 was guaranteed by the Target Group B's land use rights, mining rights, buildings, machinery and bank deposits of US$125,000.

30. LOANS FROM ULTIMATE HOLDING COMPANY – TARGET GROUP B AND COMPANY B

The loans are secured, interest-bearing at a rate of 12% per annum and repayable in 2011.

31. SHARE CAPITAL

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Authorised:			
50,000 ordinary shares of US$1 each	400	400	400
Issued and fully paid:			
1 ordinary share of US$1	RMB8	RMB8	RMB8

Company B was incorporated in the BVI on 5 January 2005 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. 1 subscriber share of US$1 was allotted and issued for cash on 12 January 2005.

32. RESERVES

TARGET GROUP B

The amounts of the Target Group B's reserves and the movements therein for the Relevant Periods are presented in the combined statements of changes in equity on page II-10 of the Financial Information.

Statutory reserves

In accordance with the relevant laws and regulations of the PRC, PRC Subsidiary B is required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

Prior to the revised Company Law of PRC which came into effect in late 2005, 5% to 10% of the net profits was required to be appropriated to the statutory common welfare fund, which was used for the collective welfare of the staff and workers of PRC Subsidiary B. Pursuant to the revised Company Law, the remaining balance of this fund at 1 January 2006 has been transferred to the statutory reserve fund in accordance with the regulations promulgated by the Ministry of Finance of the PRC.

Merger reserve

The merger reserve of the Target Group B arose as a result of the reorganization which was completed on 5 September 2005 and represented the difference between the consideration under the reorganization and the net assets value of PRC Subsidiary B then acquired.

COMPANY B

	Exchange reserve	(Accumulated losses)/ Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*
At date of incorporation	–	–	–
Result for the period	–	1	1
At 31 December 2005	–	1	1
At 1 January 2006	–	1	1
Currency translation differences	453	–	453
Loss for the year	–	(22,004)	(22,004)
Total recognised income and expense for the year	453	(22,004)	(21,551)
At 31 December 2006	453	(22,003)	(21,550)
At 1 January 2007	453	(22,003)	(21,550)
Currency translation differences	914	–	914
Profit for the year	–	15,033	15,033
Total recognised income and expense for the year	914	15,033	15,947
At 31 December 2007	1,367	(6,970)	5,603

33. OPERATING LEASE COMMITMENTS

At the respective balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable by the Target Group B as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,323	1,323	1,323
In the second to fifth years, inclusive	5,291	5,291	5,291
Over five years	33,114	31,791	30,027
	39,728	38,405	36,641

The Target Group B leases a number of properties under operating leases. The leases run for an initial period of 10-30 years, without an option to renew the leases and renegotiated the terms at the expiry date or at dates as mutually agreed between the Target Group B and respective lessors. None of the leases include contingent rental.

COMPANY B

At the respective balance sheet dates, Company B did not have any operating lease commitments.

34. CAPITAL COMMITMENTS

	TARGET GROUP B As at 31 December			COMPANY B As at 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP B						
Contracted but not provided for:						
– acquisition of property, plant and equipment	30,085	40,365	57,682	–	–	–
– investment in associate	29,405	–	–	–	–	–
– investment in subsidiary	–	–	–	243,000	–	–
	59,490	40,365	57,682	243,000	–	–

35. RELATED PARTY TRANSACTIONS – TARGET GROUP B

Except as disclosed elsewhere in this report, the following transactions were carried out with related parties:

(a) During the Relevant Periods, the Target Group B had the following transactions carried out with its fellow subsidiary and related companies:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Sales of coal to associate	462	1,675	2,117
Sales of coal to related companies	–	15,343	38,465
Purchases of coal from a fellow subsidiary	105	307	–
Purchases of coal from related companies	13,760	–	–
Sales of consumables to a fellow subsidiary	111	–	–
Sales of consumables to related companies	2,118	1,563	1,440
Purchases of consumables from related companies	23,299	17,997	14,027
Interests charged on loans from ultimate holding company repayable within five years	–	22,004	28,090
Electricity income charged to related companies	–	2,000	–
Subcontracting charge paid to related companies	–	–	950

The above related party transactions were conducted in the normal course of business at prices and terms agreed between the parties. All related companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, the beneficial owners of the Target Group B except for Yongsheng Xuanmeichang which is owned by Mr. Xing Yanbin. During the years ended 31 December 2006 and 2007, sales of coal to Yongsheng Xuanmeichang were amounted to RMB15,343,000 and RMB1,360,000 respectively.

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the directors of Company B, is as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other employee benefits	193	113	376

(c) On 10 September 2005, the Target Group B assigned short-term loans and other payables at book values amounting to RMB40,000,000 and RMB36,000,000 respectively to minority investor, Shanxi Luensheng Energy Limited ("Luensang A").

(d) On 30 December 2006, the Target Group B acquired two mining rights at a cost of RMB480,789,000 from minority investor, Luensang A (note 16).

36. FINANCIAL GUARANTEE CONTRACTS – TARGET GROUP B

As at 31 December 2007, PRC Subsidiary B executed guarantees amounting to approximately RMB50,000,000 with respect to the bank loan to an independent third party, under which PRC Subsidiary B is liable to pay the bank if the bank is unable to recover the loan from this third party. At the balance sheet date, no provision for the Target Group B's obligation under the guarantee contract has been made as the directors consider that it is not probable that the repayment of the loan will be in default.

37. ACQUISITION OF MINORITY INTERESTS' SHARES – TARGET GROUP B

As described in note 17 to the Financial Information, on 5 September 2005, PRC Subsidiary B acquired the remaining 23.2% equity interests in PRC Subsidiary A from the two minority investors for a total sum of RMB13,595,000. The fair value of the net assets acquired at the date of acquisition were RMB36,592,000 resulting in a negative goodwill (i.e. discount on acquisition) of RMB22,997,000, which has been released to the combined income statement. Therefrom, PRC Subsidiary A was 100% owned by PRC Subsidiary B.

38. LOSS ON DEEMED DISPOSAL OF DILUTING INTERESTS IN SUBSIDIARY - TARGET GROUP B

As described in note 17 to the Financial Information, on 5 September 2005, in addition to the transaction as described above, PRC Subsidiary B entered into an equity joint venture agreement with Company A where PRC Subsidiary B's equity interests in PRC Subsidiary A was diluted from 100% to 35%. The impact of this deemed disposal of diluting interest in the PRC Subsidiary A is set out below:

	Year ended 31 December 2005 *RMB'000*
Net assets disposed of comprise:	
Property, plant and equipment *(note 13)*	398,415
Prepaid lease payments *(note 15)*	31,920
Available-for-sale financial assets	163,219
Mining rights *(note 16)*	165,783
Inventories	23,337
Trade and bill receivables	84,297
Deposits, prepayments and other receivables	515,737
Amounts due from a related party/related companies	232,937
Cash and cash equivalents	129,501
Trade and bill payables	(84,714)
Other payables and accruals	(417,791)
Amounts due to immediate holding company	(4,136)
Amounts due to a fellow subsidiary	(2,739)
Amounts due to a related party/related companies	(61,565)
Borrowings	(479,610)
Provision for tax	(33,697)
Borrowings – non-current portion	(125,004)
Long term payables	(378,169)
	157,721
Less: Interests in associate retained *(note 17)*	(122,694)
Loss on deemed disposal of diluting interests in subsidiary	35,027
Analysis of net outflow of cash and cash equivalents in connection with the deemed disposal of diluting interests in subsidiary	
Cash and cash equivalents disposed of	129,501

39. NOTES TO THE COMBINED CASH FLOW STATEMENTS

Major non-cash transaction

(a) As set out in note 17, 35% of equity interests in PRC Subsidiary A are held by PRC Subsidiary B. During the year ended 31 December 2007, total dividend of RMB167,133,000 (including the portion of dividend amounted to RMB90,026,000 waived by the other equity holder of PRC Subsidiary A), attributable to the year ended 31 December 2006, was received from PRC Subsidiary A through the current account under "amounts due to associate" in October 2007.

(b) Pursuant to resolutions passed on 22 March 2007, 7 August 2007, 16 September 2007 and 27 September 2007, dividends of RMB23,277,000, RMB1,895,000, RMB18,500,000 and RMB430,407,000 attributable to the year ended 31 December 2006 were proposed by PRC Subsidiary B, where RMB23,277,000, RMB1,895,000 and RMB18,500,000 were paid by to its equity holder in cash in March 2007, August 2007 and September 2007 respectively. The remaining RMB430,407,000 was paid through current account under "amounts due from minority investor" in October 2007.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group B is exposed to a variety of financial risks which results from both its operating and investing activities. The Target Group B does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate measures to manage the Target Group B's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Target Group B employs a conservative strategy regarding its risk management. As the directors consider that the Target Group B's exposure to market risk is kept at a minimum level, the Target Group B has not used any derivatives or other instruments for hedging purposes. The Target Group B does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Target Group B is exposed are described below.

(a) Foreign currency risk

PRC Subsidiary B mainly operates in the PRC with most of the transactions settled in RMB, its functional currency, while the functional currency of Company B is US$. The exposure in exchange rate risks mainly arises from fluctuations on US$ against the functional currency of the Target Group B. The Target Group B does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely.

Based on the market conditions as at 31 December 2005, 2006 and 2007, the Target Group B determined that it is reasonably possible for RMB to strengthen/weaken by 5% against US$ in the coming twelve months. If RMB had strengthen/weakened by 5% against US$ with all other variables held constant as at 31 December 2005, 2006 and 2007, the Target Group B's exchange reserve and Company B's retained earnings would increase/(decrease) by approximately RMBNil, RMB12,921,000 and RMB11,349,000 respectively, as a result of foreign exchange gains/losses on conversion of US$ denominated monetary items.

(b) Credit risk

The Target Group B's credit risk is primarily attributable to trade and bill receivables and other receivables. Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Target Group B thereby suffers financial loss. The carrying amounts of trade and bill receivables, other receivables, amounts due from group companies and related parties and cash and cash equivalents included in the balance sheet represent the Target Group B's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk. The exposures to these are actively monitored by management to avoid significant concentrations of credit risk. The Target Group B also monitors the trade and bill receivables on an ongoing basis and only trades with creditworthy third parties. All cash and cash equivalents are deposited with the major banks located in the PRC. No other financial assets carry a significant exposure to credit risk. Accordingly, the Target Group B has no significant concentrations of credit risk.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Interest rate risk

The Target Group B's income and operating cash flows are substantially independent of changes in market interest rates and the Target Group B has no significant interest-bearing assets. The Target Group B's exposure to changes in interest rates is mainly attributable to its borrowings. The Target Group B has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

In managing interest rate risk, the Target Group B aims to reduce the impact of short-term fluctuation and long-term permanent changes on the Target Group B's profitability. As at 31 December 2005, 2006 and 2007, it is estimated that a general increase of one percentage point in interest rates would increase the Target Group B's profit after income tax by approximately RMB309,000, RMB2,810,000, and RMB2,676,000 respectively, so far as the effect on interest-bearing secured bank borrowings and other borrowings are concerned.

(d) Fair values

At the balance sheet dates, the fair values of the Target Group B's following current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity: trade and bill receivables, deposits and other receivables, amounts due from/to a related party/related companies and a director, amounts due to associate, amounts due to a fellow subsidiary, amounts due from/to minority investor, cash and cash equivalents, trade payables, other payables and accruals, amounts due to ultimate holding company and borrowings. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair values as at the balance sheet dates.

(e) Liquidity risk

The Target Group B's and Company B's policies are to maintain sufficient cash and cash equivalents and have available funding to meet their working capital requirements. As mentioned in note 3.1, the Target Group B's and Company B's liquidity is dependent upon the continuing financial support from their ultimate beneficiary owner, Mr. Xing, to provide financial support to the Target Group B and Company B to meet the Target Group B's and Company B's liabilities and commitments as and when It falls due and the ultimate holding company and associate of the Target Group B, being Fortune Dragon and PRC Subsidiary A, have undertaken not to demand repayment of debts due from the Target Group B and Company B until such time when repayment will not affect the Target Group B's and Company B's ability to repay other creditors in the normal course of business. Management of the Target Group B and Company B are satisfied that the Target Group B and Company B will be able to meet in full their financial obligations as and when they fall due in the foreseeable future.

The Target Group B manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified on a monthly basis.

The Target Group B maintains mainly cash to meet its liquidity requirements for up to 30-day periods, funding for long-term liquidity needs will be considered when there is any potential investment identified.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The following table details the remaining contractual maturities at the balance sheet dates of non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating, based on rates current at the balance sheet date) and the earliest date the Target Group B can be required to pay:

As at 31 December 2007	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP B						
Trade and bill payables	100,895	100,895	100,895	–	–	–
Other payables and accruals	100,340	100,340	100,340	–	–	–
Amounts due to related companies	2,363	2,363	2,363	–	–	–
Amounts due to associate	449,273	449,273	449,273	–	–	–
Amounts due to a fellow subsidiary	101,941	101,941	101,941	–	–	–
Amounts due to ultimate holding company	5,609	5,609	5,609	–	–	–
Borrowings	46,003	46,003	46,003	–	–	–
Loans from ultimate holding company	221,381	221,381	–	–	221,381	–
	1,027,805	1,027,805	806,424	–	221,381	–
COMPANY B						
Amounts due to ultimate holding company	5,609	5,609	5,609	–	–	–
Loans from ultimate holding company	221,381	221,381	–	–	221,381	–
	226,990	226,990	5,609	–	221,381	–

40. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

As at 31 December 2006	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP B						
Trade and bill payables	87,263	87,263	87,263	–	–	–
Other payables and accruals	72,698	72,698	72,698	–	–	–
Amounts due to related companies	116	116	116	–	–	–
Amounts due to minority investor	89,645	89,645	89,645	–	–	–
Amounts due to ultimate holding company	21,550	21,550	21,550	–	–	–
Borrowings	60,003	60,003	59,000	1,003	–	–
Loans from ultimate holding company	236,864	236,864	–	–	236,864	–
	568,139	568,137	330,272	1,003	236,864	–
COMPANY B						
Amounts due to ultimate holding company	21,550	21,550	21,550	–	–	–
Loans from ultimate holding company	236,864	236,864	–	–	236,864	–
	258,414	258,414	21,550	–	236,864	–

As at 31 December 2005	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP B						
Trade and bill payables	28,362	28,362	28,362	–	–	–
Other payables and accruals	76,377	76,377	76,377	–	–	–
Amounts due to related companies	53,062	53,062	53,062	–	–	–
Borrowings	31,000	31,000	–	31,000	–	–
	188,801	188,801	157,801	31,000	–	–
COMPANY B						
Amounts due to ultimate holding company	–	–	–	–	–	–
Loans from ultimate holding company	–	–	–	–	–	–
	–	–	–	–	–	–

40. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Target Group B's financial assets and liabilities as recognised at the balance sheet dates of the Relevant Periods may also be categorised as follows. See notes 3.12 and 3.17 for explanations about how the category of instruments affects their subsequent measurement.

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets:			
Non-current assets			
Pledged bank deposits	–	1,003	–
Current assets			
Loans and receivables:			
– Trade and bill receivables	1,520	156,972	334,311
– Deposits and other receivables	10,868	23,375	19,328
– Amounts due from a related party/ related companies	11,071	156,633	310,988
– Amounts due from a director	16,576	16,000	16,000
– Amounts due from associate	4,136	–	–
– Amounts due from minority investor	319,737	–	28,553
– Pledged bank deposits	–	13,500	14,503
– Cash and cash equivalents	123	1,355	738
	364,031	368,838	724,421
Financial liabilities – Financial liabilities at amortised cost:			
Current liabilities			
– Trade and bill payables	28,362	87,263	100,895
– Other payables and accruals	76,377	72,698	100,340
– Amounts due to related companies	53,062	116	2,363
– Amounts due to associate	–	–	449,273
– Amounts due to a fellow subsidiary	–	–	101,941
– Amounts due to minority investor	–	89,645	–
– Amounts due to ultimate holding company	–	21,550	5,609
– Borrowings	–	59,000	46,003
Non-current liabilities			
– Borrowings	31,000	1,003	–
– Loans from ultimate holding company	–	236,864	221,381
	188,801	568,139	1,027,805

41. CAPITAL MANAGEMENT

The Target Group B's objectives when managing capital are:

(a) To safeguard the Target Group B's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Target Group B's ability and growth; and

(c) To provide capital for the purpose of strengthening the Target Group B's risk management capability.

The Target Group B actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Target Group B and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Target Group B currently does not adopt any formal dividend policy. Management regards total equity and its reserves as capital, for capital management purpose.

42. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared for the Target Group B in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

The following is the text of an accountant's report of the Target Group C received from the independent reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong, for inclusion in this circular.

Grant Thornton
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Member of Grant Thornton International Ltd

25 June 2008

The Directors
Fushan International Energy Group Limited
12th Floor, Kwan Chart Tower
No. 6 Tonnochy Road, Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the combined financial information of Gumpert Industries Limited ("Company C") and its subsidiary (hereinafter collectively referred to as the "Target Group C"), including the combined balance sheets and Company C's balance sheets as at 31 December 2005, 2006 and 2007, the combined income statements, the combined cash flow statements and the combined statements of changes in equity for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods") and notes thereto, prepared for inclusion in the circular (the "Circular") dated 25 June 2008 issued by Fushan International Energy Group Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of Company C (the "Acquisition").

Company C was incorporated in the British Virgin Islands (the "BVI") as a limited liability company under the International Business Companies Act (Cap. 291) of the BVI on 6 January 2005 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Its registered office is P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands and its principal place of business is located at Suite 2801, Two Exchange Square, Central, Hong Kong. The principal activity of Company C during the Relevant Periods was investment holding.

As at the date of this report, Company C has the direct interests in the following subsidiary:

Name of subsidiary	Registered capital	Date and place of establishment	Principal place of operation	Direct attributable equity interest	Principal activities
Shanxi Liulin Zhaiyadi Coalmine Company Limited ("PRC Subsidiary C")# 山西柳林寨崖底煤業有限公司	RMB800,000,000	11 March 2000, The People's Republic of China (the "PRC")	The PRC	95%	Production and sale of coal

The unofficial English translation is for identification purpose only.

All companies now comprising the Target Group C have adopted 31 December as their financial year-end date.

No audited financial statements have been prepared for Company C since its date of incorporation as there are no statutory audit requirements in the country of its jurisdiction. We have not acted as auditors of the Target Group C for each of the Relevant Periods referred to in this report.

The financial statements of PRC Subsidiary C were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC. The financial statements of PRC Subsidiary C for the years ended 31 December 2005, 2006 and 2007 were audited by 山西元源會計師事務所 ("Shanxi Yuanyuan Accountant Office") (for identification purpose only), a firm of certified public accountants registered in the PRC.

For the purpose of this report, the directors of Company C have prepared the combined financial statements (the "Underlying Financial Statements") of the Target Group C for the Relevant Periods, in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKCPA"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements of Company C for the Relevant Periods, in accordance with Hong Kong Standards on Auditing issued by the HKICPA, except as described in the paragraph immediate below.

As at 31 December 2005, carrying amounts of spare parts and consumables of PRC Subsidiary C were stated at RMB7,028,000. PRC Subsidiary C did not perform physical count on these spare parts and consumables until 30 June 2006 when a full physical count was performed. Based on the results of this physical count, although only a discrepancy of RMB1,030,000 (stock gain and stock loss being RMB1,992,000 and RMB3,022,000 respectively) was identified, there were significant weaknesses in recording the movements of the spare parts and consumables until the recording systems were properly rectified through its new computerised system which was in place after physical count on 30 June 2006. Under these circumstances, we were unable to carry out audit procedures necessary to obtain adequate assurance regarding the existence and valuation of these spare parts and consumables. There are no other satisfactory audit procedure that we could perform to satisfy ourselves as to the existence and carrying amounts of the spare parts and consumables as at 31 December 2005. We are unable to determine whether any adjustments might be necessary to the carrying amounts of the spare parts and consumables as at 31 December 2005. Any adjustments considered necessary to the carrying amounts of these spare parts and consumables would have consequential effects on the results of the Target Group C for the years ended 31 December 2005 and 2006, and the state of affairs of the Target Group C as at 31 December 2005.

The financial information and the notes thereto for the Relevant Periods (the "Financial Information") as set out in this report have been prepared by the directors of Company C based on the Underlying Financial Statements and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Company C are responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the existence and valuation of the spare parts and consumables as at 31 December 2005 which would have consequential effects on the results for the years ended 31 December 2005 and 2006 and the state of affairs of the Target Group C as at 31 December 2005, in our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Group C and Company C as at 31 December 2005, 2006 and 2007 and of the combined results and combined cash flows of the Target Group C for each of the Relevant Periods.

Emphasis of matter – material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to note 3.1 to the Financial Information concerning the adoption of the going concern basis on which the Financial Information has been prepared. As at 31 December 2007, the Target Group C and Company C had net current liabilities of RMB171,387,000 and RMB552,952,000 respectively. This condition, along with other matters as disclosed in note 3.1 to the Financial Information, indicate the existence of a material uncertainty which may cast doubt about the Target Group C's and Company C's ability to continue as a going concern.

I. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	92,840	309,527	520,869
Cost of sales		(54,367)	(74,801)	(132,199)
Gross profit		38,473	234,726	388,670
Other income	*6*	260	5,669	2,594
Selling expenses		(2,966)	(8,961)	(11,450)
Administrative expenses		(13,916)	(19,959)	(27,891)
Other operating expenses		(7,252)	(2,747)	(3,825)
Operating profit		14,599	208,728	348,098
Finance costs	*7*	(219)	(11,509)	(16,298)
Profit before income tax	*8*	14,380	197,219	331,800
Income tax expense	*9*	(5,077)	(23,189)	–
Profit for the year		9,303	174,030	331,800
Attributable to:				
Equity holders of Company C	*10*	8,838	164,812	314,552
Minority interests		465	9,218	17,248
		9,303	174,030	331,800

COMBINED BALANCE SHEETS

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*13*	116,102	150,759	206,880
Prepaid lease payments	*15*	–	4,191	4,204
Mining rights	*16*	26,593	682,329	678,899
Pledged bank deposits	*23*	–	1,003	–
		142,695	838,282	889,983
Current assets				
Inventories	*17*	7,078	12,382	19,512
Trade and bill receivables	*18*	13,261	106,850	75,450
Deposits, prepayments and other receivables	*19*	10,342	29,153	20,872
Amounts due from a related party/related companies	*20*	–	27,471	42,804
Amounts due from fellow subsidiaries	*21*	2,739	–	106,373
Amounts due from minority investor	*21*	–	–	350,503
Pledged bank deposits	*23*	–	–	1,003
Cash and cash equivalents	*24*	647	211,152	13,098
		34,067	387,008	629,615
Current liabilities				
Trade payables	*25*	15,454	28,202	33,162
Other payables and accruals	*26*	52,355	92,692	191,059
Amounts due to related companies	*20*	24,326	2,576	486
Amounts due to minority investor	*21*	8,242	66,891	–
Amounts due to ultimate holding company	*22*	–	641,373	552,962
Borrowings	*27*	3,822	3,140	4,776
Provision for tax		8,063	23,957	18,557
		112,262	858,831	801,002
Net current liabilities		(78,195)	(471,823)	(171,387)
Total assets less current liabilities		64,500	366,459	718,596

COMBINED BALANCE SHEETS *(Continued)*

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Borrowings	*27*	10,388	9,151	6,355
Loans from ultimate holding company	*28*	–	111,123	103,858
		10,388	120,274	110,213
Net assets		54,112	246,185	608,383
EQUITY				
Equity attributable to the equity holders of Company C				
Share capital	*29*	–	–	–
Reserves	*30*	13,404	196,259	558,026
		13,404	196,259	558,026
Minority interests		40,708	44,926	50,357
Total equity		54,112	246,185	608,383

BALANCE SHEETS

	Notes	As at 31 December 2005 RMB'000	2006 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Interests in subsidiary	*14*	–	742,385	693,858
Current assets				
Cash and cash equivalents	*24*	–	–	10
Current liability				
Amounts due to ultimate holding company	*22*	–	641,373	552,962
Net current liabilities		–	(641,373)	(552,952)
Total assets less current liabilities		–	101,012	140,906
Non-current liability				
Loans from ultimate holding company	*28*	–	111,123	103,858
Net (liabilities)/assets		–	(10,111)	37,048
EQUITY				
Share capital	*29*	–	–	–
Reserves	*30*	–	(10,111)	37,048
(Capital deficiency)/Total equity		–	(10,111)	37,048

COMBINED CASH FLOW STATEMENTS

	Notes	2005	2006	2007
		Year ended 31 December		
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Profit before income tax		14,380	197,219	331,800
Adjustments for:				
Amortisation of prepaid lease payments		–	21	86
Amortisation of mining rights		610	3,421	3,430
Depreciation of property, plant and equipment		3,330	8,609	13,608
Finance costs		219	11,509	16,298
Interest income		(260)	(5,669)	(2,594)
Provision for impairment loss on prepayments and other receivables		–	1,745	3,071
Loss on disposals of property, plant and equipment		1,550	–	–
Operating profit before working capital changes		19,829	216,855	365,699
Increase in inventories		(1,834)	(5,304)	(7,130)
(Increase)/Decrease in trade and bill receivables		(13,261)	(93,589)	31,400
Decrease/(Increase) in deposits, prepayments and other receivables		7,304	(20,556)	5,210
Decrease/(Increase) in amounts due from a related party/related companies		6	(27,471)	(15,333)
(Increase)/Decrease in amounts due from fellow subsidiaries		(2,739)	2,739	(106,373)
Decrease in amounts due from a former equity holder of PRC Subsidiary C		314	–	–
Increase in amounts due from minority investor	*35*	–	–	(367,320)
Increase in trade payables		12,431	12,748	4,960
Increase in other payables and accruals		37,721	40,337	98,367
Increase/(Decrease) in amounts due to ultimate holding company		–	641,373	(88,411)
Increase/(Decrease) in amounts due to minority investor		8,242	58,649	(66,891)
Increase/(Decrease) in amounts due to related companies		12,362	(21,750)	(2,090)
Cash generated from/(used in) operations		80,375	804,031	(147,912)
Interest/paid		(49)	(1,004)	(2,770)
Income tax refund/(paid)		31	(7,295)	(5,400)
Net cash generated from/(used in) operating activities		80,357	795,732	(156,082)

COMBINED CASH FLOW STATEMENTS *(Continued)*

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities				
Purchases of property, plant and equipment		(71,435)	(43,266)	(78,674)
Proceeds from disposals of property, plant and equipment		19	–	8,945
Payments for prepaid lease payments		–	(4,212)	(99)
Purchases of mining rights		(27,203)	(659,157)	–
Interest received		260	5,669	2,594
Net cash used in investing activities		(98,359)	(700,966)	(67,234)
Cash flows from financing activities				
Increase in pledged bank deposits		–	(1,003)	–
Interest paid		(170)	(10,505)	(13,528)
Proceeds from capital contributions by minority investor		36,000	–	–
Proceeds from borrowings		15,210	1,003	–
Repayments of borrowings		(31,500)	–	–
Repayments of finance lease liabilities		(1,000)	(2,922)	(1,160)
Proceeds from loans from ultimate holding company		–	111,123	–
Net cash generated from/(used in) financing activities		18,540	97,696	(14,688)
Net increase/(decrease) in cash and cash equivalents		538	192,462	(238,004)
Cash and cash equivalents at beginning of year		109	647	211,152
Effect of foreign exchange rate changes		–	18,043	39,950
Cash and cash equivalents at end of year	*24*	647	211,152	13,098

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of Company C						Minority Interests	Total equity
	Share capital	Statutory reserves	Exchange reserve	Merger reserve	Retained profits	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	–	–	–	5,566	–	5,566	3,243	8,809
Profit for the year	–	–	–		8,838	8,838	465	9,303
Total recognised income and expense for the year	–	–	–	–	8,838	8,838	465	9,303
Capital contributions made by minority investor by transfer of retained profits	–	–	–	–	(1,000)	(1,000)	1,000	–
Capital contributions by Shanxi Luensang Energy Limited ("Luensang A") and Mr. Xing Libin ("Mr. Xing")	–	–	–	–	–	–	36,000	36,000
Appropriations	–	1,747	–	–	(1,747)	–	–	–
At 31 December 2005	–	1,747	–	5,566	6,091	13,404	40,708	54,112
At 1 January 2006	–	1,747	–	5,566	6,091	13,404	40,708	54,112
Currency translation differences (Net income recognised directly in equity)	–	–	18,043	–	–	18,043	–	18,043
Profit for the year	–	–	–	–	164,812	164,812	9,218	174,030
Total recognised income and expense for the year	–	–	18,043	–	164,812	182,855	9,218	192,073
Appropriations	–	17,421	–	–	(17,421)	–	–	–
At 31 December 2006	–	19,168	18,043	5,566	153,482	196,259	49,926	246,185
At 1 January 2007	–	19,168	18,043	5,566	153,482	196,259	49,926	246,185
Currency translation differences (Net income recognised directly in equity)	–	–	47,215	–	–	47,215	–	47,215
Profit for the year	–	–	–	–	314,552	314,552	17,248	331,800
Total recognised income and expense for the year	–	–	47,215	–	314,552	361,767	17,248	379,015
Dividends paid to minority investor of subsidiary	–	–	–	–	–	–	(16,817)	(16,817)
Appropriations	–	32,128	–	–	(32,128)	–	–	–
At 31 December 2007	–	51,296	65,258	5,566	435,906	558,026	50,357	608,383

II. NOTES TO THE FINANCIAL INFORMATION

1. BACKGROUND INFORMATION AND BASIS OF PRESENTATION

Company C was incorporated in the BVI as an exempted company with limited liability on 6 January 2005 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office is P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, the BVI and its principal place of business is located at Suite 2801, Two Exchange Square, Central, Hong Kong. The principal activity of Company C during the Relevant Periods was investment holding. Company C is wholly owned by Fortune Dragon Group Limited ("Fortune Dragon"), a company incorporated in the BVI. In the opinion of the directors, the ultimate holding company is Fortune Dragon.

PRC Subsidiary C is the only subsidiary of Company C and is 95% and 5% beneficially owned by Company C and Luensang A or the minority investor, a company incorporated in the PRC, respectively.

As Company C and PRC Subsidiary C are ultimately controlled by the same ultimate group of parties, who also owns Fortune Dragon, before and after Company C had become the immediate holding company of PRC Subsidiary C in September 2005, there is a continuation of the risks and benefits to the ultimate group of parties that existed before Company C had become the immediate holding company of PRC Subsidiary C. Company C is regarded as a continuing entity and consequently the reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. Accordingly, the Financial Information has been prepared on the basis of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, under which Company C is considered as the holding company of the Target Group C during the Relevant Periods. The results and cash flows of the Target Group C for the Relevant Periods include the results and cash flows of Company C and PRC Subsidiary C, from 1 January 2005, or since Company C's and the PRC Subsidiary C's respective date of incorporation/establishment whichever is shorter, as if the current group structure had been in existence throughout the Relevant Periods. The combined balance sheet as at the respective balance sheet dates of the Relevant Periods is a combination of the balance sheets of Company C and the PRC Subsidiary C at each balance sheet date.

The Financial Information sets out in this report have been prepared in accordance with HKFRSs, which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretation ("INT") issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF NEW AND AMENDED HKFRSs

The Target Group C has adopted all the new and amended HKFRSs which are relevant to and effective for the accounting periods beginning on 1 January 2007, issued by the HKICPA in the preparation of the Financial Information throughout the Relevant Periods. HKFRS 1 "First-time Adoption of HKFRS" has been applied in preparing the Financial Information. The Financial Information is the first set of financial statements prepared in accordance with HKFRSs by the Target Group C.

The accounting policies set out below have been applied consistently by the Target Group C to the Relevant Periods in the Financial Information and in preparing the opening HKFRS balance sheet at 1 January 2005 for the purpose of the first set of HKFRSs financial statements.

At the date of this report, the following HKFRSs have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [5]
HKFRS 2 (Amended)	Share-based Payment – Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [5]
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
[5] Effective for annual periods beginning on or after 1 July 2009

The Target Group C has not early adopted these HKFRSs in the preparation of the Financial Information.

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Financial Information. This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Target Group C but will give rise to additional disclosures. The directors of the Company C are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Financial Information.

The functional currency of Company C is US Dollars ("US$"). The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the primary economic environment in which PRC Subsidiary C operates.

The significant accounting policies that have been used in the preparation of the Financial Information are summarised below. These policies have been consistently applied to the Relevant Periods unless otherwise stated. The Financial Information has been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are described in note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation

As at 31 December 2007, the Target Group C and Company C had net current liabilities of approximately RMB171,387,000 and RMB552,952,000 respectively. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that the Target Group C and Company C will continue to operate as a going concern. The going concern basis has been adopted on the basis that:

(i) the ultimate beneficiary owner of the Target Group C and Company C, Mr. Xing, will continue to provide financial support to the Target Group C and Company C to meet the Target Group C and Company C liabilities and commitments as and when they fall due from the date of this report up to 31 December 2008 or the date of completion of the Acquisition whichever is shorter; and

(ii) the ultimate holding company have undertaken not to demand repayment of debts due from the Target Group C and Company C until such time when repayment will not affect the Target Group C's and Company C's ability to repay other creditors in the normal course of business.

The Financial Information does not include any adjustments that would result from a failure of the Target Group C and Company C to operate as a going concern. Should the Target Group C and Company C be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. These adjustments have not been reflected in the Financial Information.

3.2 Basis of combination and subsidiaries

A subsidiary is an entity (including special purpose entity) over which the Target Group C has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group C controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group C. They are excluded from consolidation from the date that control ceases.

The Financial Information incorporates the financial statements of Company C and its subsidiary after elimination of intra-group transactions, balances and unrealised gains on transactions, unless the transactions provide evidence of an impairment of the asset transferred, within the Target Group C. As explained in note 1 above, the Financial Information has been prepared using the merger method of accounting.

The merger method of accounting involves measuring the cost of acquisition at the historical carrying value of the assets and liabilities of the merging entities. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. The combined income statements include the results of each of the combining entities from the date of incorporation/establishment or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Minority interests represent the portion of the profit or loss and net assets of the subsidiary attributable to equity interests that are not owned by the Target Group C and are not the Target Group C's financial liabilities.

Minority interests are presented in the combined balance sheets within equity, separately from the equity attributable to the equity holders of Company C. Profit or loss attributable to the minority interests are presented separately in the combined income statements as an allocation of the Target Group C's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interests to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Target Group C's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interests only after the minority's share of losses previously absorbed by the Target Group C has been recovered.

In case of the changes in ownership in a subsidiary after control is obtained that do not result in a loss of control, an excess of the cost of the further acquisition over the carrying amounts of the net assets acquired is recognised as goodwill in the combined balance sheet. A surplus of the carrying amounts of the net assets acquired over the cost of the further acquisition is recognised in the combined income statement as the discount on acquisition of minority shares.

In Company C's balance sheet, a subsidiary is carried at cost less impairment loss. The results of the subsidiary are accounted for by Company C on the basis of dividends received and receivables at the balance sheet date.

3.3 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any identified impairment.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group C and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the Relevant Periods in which they are incurred.

Other than mining structures, depreciation is provided to write off the cost less their estimated residual values over their estimated useful lives, using the straight-line method, as follows:

Buildings	20 years
Mining machinery and equipment	10 years
Office equipment and motor vehicles	5 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation on mining structures is provided to write off the cost of the mining structures using the units-of-production method utilising only proved and probable coal reserves as the depletion base.

CIP represents property, plant and equipment in the course of construction for production or for its own use purpose and is stated at cost less any recognised impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects and is reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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

3.4 Foreign currency translation

In the individual financial statements of the combined entity, foreign currency translations are translated into its functional currency using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet dates retranslation of monetary assets and liabilities are recognised in the combined income statements.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Target Group C's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the balance sheet date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of applicable value-added tax, rebates and discounts. Provided it is probable that the economic benefits will flow to the Target Group C and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

3.6 Borrowing costs

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

3.7 Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire long term interests in the usage of the land on which various mining plants and buildings are situated. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the lease term, i.e. 50 years.

3.8 Mining rights

Mining rights are stated at cost less accumulated amortisation and are amortised on a straight line basis over the shorter of their useful lives estimated based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

3.9 Impairment of non-financial assets

Prepaid lease payments, mining rights, property, plant and equipment and interests in subsidiary are subject to impairment testing. All individual assets are tested for impairment whenever there are indications that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group C determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets acquired under finance leases

Where the Target Group C acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating lease as the lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group C are classified as operating leases.

In addition to the prepaid lease payments as described in note 3.7 above, when the Target Group C has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.11 Financial assets

Recognition and measurement

The Target Group C's financial assets include trade and bill receivables, deposits and other receivables, amounts due from a related party/related companies, fellow subsidiaries and minority investor. These are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Target Group C becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on settlement date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Derecognition

Derecognition of financial assets occurs when the rights to receive cash flows from the receivables expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

A provision for impairment of loans and receivables is established when there is objective evidence that the Target Group C will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement in the period in which the reversal occurs.

3.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling prices in the ordinary course of business less any applicable selling expenses.

3.13 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet dates. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with bank and other financial institutions with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.15 Retirement benefit costs and short term employee benefits

PRC central pension scheme

Retirement benefits to employees are provided through defined contribution plans. A defined contribution plan is a pension plan under which the Target Group C pays fixed contributions into a separate entity.

The Target Group C operates in the PRC and is required to participate in a central pension scheme operated by the local municipal government. The Target Group C is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.16 Financial liabilities

The Target Group C's financial liabilities include bank borrowings, finance lease liabilities, trade payables, other payables and accruals, amounts due to related companies, ultimate holding company and minority investor.

Financial liabilities are recognised when the Target Group C becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in "finance costs" in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank and other loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Bank and other loans classified as current liabilities unless the Target Group C has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Trade payables, other payables and accruals, amounts due to related companies, ultimate holding company and minority investor

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3.17 Financial guarantee issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transactions costs that are directly attributable to the acquisition or issuance of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Target Group C measures the financial guarantee contract at higher of: (i) the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, accumulated amortisation recognised in accordance with HKAS 18 "Revenue".

3.18 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Target Group C has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.19 Related parties

A party is considered to be related to the Target Group C if:

(i) the party, directly, or indirectly through one or more intermediaries:

- controls, is controlled by, or is under common control with the Target Group C;
- has an interest in the Target Group C that gives it significant influence over the Target Group C; or
- has joint control over the Target Group C;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

(iv) the party is a member of the key management personnel of the Target Group C or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Target Group C, or of any entity that is a related party of the Target Group C.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Target Group C makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of receivables

Allowances for impairment of receivables are determined by management of the Target Group C based on the repayment history of its debtors and the current market conditions. It could change significantly as a result of changes in the financial position of the debtors. Management would reassess the amount of impairment allowances of receivables, if any, at each balance sheet date.

(ii) Depreciation

The Target Group C depreciates its property, plant and equipment using the straight-line method over their estimated useful lives. The estimated useful lives reflect the directors' estimate of the period that the Target Group C will derive future economic benefits from the use of the Target Group C's property, plant and equipment.

(iii) Amortisation of mining rights

Mining rights are amortised over the estimated reserves of the coal mines using units-of-production method. The Target Group C assesses annually the estimated reserve of the coal mine. However, the licence period of the mining rights held by the Target Group C is ranging from three to five years which is shorter than the estimated useful lives of the coal mine estimated by the Target Group C. Management of the Target Group C is of the opinion that the Target Group C will be able to renew the licence of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the depreciation and the amortisation charged in the year in which such estimate is changed.

5. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the Target Group C's sole business is the exploitation of coal. The Target Group C's revenue, expenses, results, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is the PRC.

6. REVENUE AND OTHER INCOME

Revenue, which is also the Target Group C's turnover, comprises total invoiced value of goods supplied, net of applicable value-added tax in the PRC. Revenue and other income recognised during the Relevant Periods are as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Sales of coal	92,840	309,527	520,869
Other income			
Interest income	260	5,669	2,594

7. FINANCE COSTS

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Interests charged on:			
– bank borrowings repayable within five years	–	64	120
– loans from ultimate holding company repayable within five years	–	10,323	13,178
– finance charges on finance leases	170	118	230
– early redemption of bill receivables	49	1,004	2,770
Total finance costs	219	11,509	16,298

8. PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax is arrived at after charging:			
Cost of inventories recognised as expenses	15,417	18,553	26,816
Amortisation of:			
– prepaid lease payments	–	21	86
– mining rights	610	3,421	3,430
Auditors' remuneration	126	127	127
Depreciation of property, plant and equipment	3,330	7,164	12,229
Depreciation of assets held under finance lease	–	1,445	139
Employee benefit expenses (including directors' emoluments) *(note 11)*	23,138	30,207	38,221
Provision for impairment loss on prepayments and other receivables	–	1,745	3,071
Loss on disposals of property, plant and equipment	1,550	–	–
Operating lease charges	635	318	664

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Target Group C had no assessable profit arising in Hong Kong during the Relevant Periods. Prior to May 2006, provision for income tax in the PRC is based on the statutory rate of 33% of the assessable profit of PRC Subsidiary C as determined in accordance with the relevant income tax rules and regulations of the PRC for the Relevant Periods.

From September 2005, as PRC Subsidiary C became a Sino-foreign equity joint venture company and received preferential income tax treatment, PRC Subsidiary C is entitled to full exemption on the income tax in the PRC for the period from 1 May 2006 to 31 December 2007 and a 50% deduction of income tax in the PRC for the three subsequent years ending 31 December 2010.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, effective from 1 January 2008, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%. Pursuant to the announcement (the "Announcement") on the traditional preferential policy issued by State Tax Bureau on 29 December 2007, "2-years full exemption and 3-years half exemption" tax policy (the "Tax Holiday") is still effective under new tax policy. For those enterprises not yet got assessable profits, the preferential period is no longer delayed. The calendar year of 2008 shall be counted as the first preferential year of preferential period and lasts for five years up to year 2012.

As PRC Subsidiary C had assessable profit in 2006, its preferential period arising from the Tax Holiday started in 2006. The Announcement had no impact on PRC Subsidiary C for 2006 and 2007. However, the enterprise income tax rate for the calendar years from 2008 to 2010 will be changed from 16.5% to 12.5%. From the calendar year of 2011 onwards, PRC Subsidiary C's enterprise income tax rate shall become 25% without any exemption.

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current tax – the PRC	5,077	23,189	–

No deferred tax has been provided for the Relevant Periods as there are no material temporary differences.

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	14,380	197,219	331,800
Tax calculated at the rates applicable to the tax jurisdiction concerned	4,745	66,682	111,536
Tax effect of non-deductible expenses	332	2,678	3,768
Tax effect of non-taxable revenue	–	(46,171)	(115,304)
Income tax expense	5,077	23,189	–

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF COMPANY C

Profit attributable to the equity holders of Company C includes a nil, a loss of RMB10,323,000 and a profit of RMB48,081,000 for the period/years ended 31 December 2005, 2006 and 2007 (note 30) respectively which have been dealt with in the financial statements of Company C.

11. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Directors' emoluments *(note 12)*	113	112	376
Salaries, wages and allowances	17,806	25,262	32,764
Bonus	2,623	677	–
Staff welfare	2,596	4,156	5,081
	23,138	30,207	38,221

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Directors' fees	Salaries, wages and allowances	welfare	Staff Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2005				
Executive directors				
Wang Dayong	–	–	–	–
Mr. Xing	28	68	17	113
Zhang Fengping	–	–	–	–
Ting Yin Wang	–	–	–	–
Ding Shumiao	–	–	–	–
Total	28	68	17	113
Year ended 31 December 2006				
Executive directors				
Wang Dayong	–	–	–	–
Mr. Xing	96	–	16	112
Zhang Fengping	–	–	–	–
Ting Yin Wang	–	–	–	–
Ding Shumiao	–	–	–	–
Total	96	–	16	112
Year ended 31 December 2007				
Executive directors				
Wang Dayong	–	–	–	–
Mr. Xing	320	–	56	376
Zhang Fengping	–	–	–	–
Ting Yin Wang	–	–	–	–
Ding Shumiao	–	–	–	–
Total	320	–	56	376

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(b) The five individuals whose emoluments were the highest in the Target Group C for the Relevant Periods included one director in 2005, nil in 2006 and one director in 2007. The emoluments payable to the remaining four, five and four highest paid individuals during the three years ended 31 December 2005, 2006 and 2007 respectively are as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and allowances	574	985	1,144
Staff welfare	101	173	200
	675	1,158	1,344

The number of the remaining highest paid individuals fell within the following emolument band:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Emolument band:			
Nil to RMB1,000,000	4	5	4

During the Relevant Periods, no emoluments were paid by the Target Group C to the five highest paid individuals and the directors, as an inducement to join or upon joining the Target Group C or as compensation for loss of office.

13. PROPERTY, PLANT AND EQUIPMENT – TARGET GROUP C

	Buildings	CIP	Mining structures	Mining machinery and equipment	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005							
Cost	1,085	38,022	2,890	9,284	910	178	52,369
Accumulated depreciation	(214)	–	(1,867)	(650)	(37)	(35)	(2,803)
Net book amount	871	38,022	1,023	8,634	873	143	49,566
Year ended 31 December 2005							
Opening net book amount	871	38,022	1,023	8,634	873	143	49,566
Additions	14,976	26,184	–	29,845	430	–	71,435
Transfer from CIP	26,395	(46,480)	10,587	9,498	–	–	–
Disposals	(307)	–	(297)	(965)	–	–	(1,569)
Depreciation	(330)	–	(211)	(2,651)	(104)	(34)	(3,330)
Closing net book amount	41,605	17,726	11,102	44,361	1,199	109	116,102
At 31 December 2005							
Cost	42,010	17,726	12,396	47,330	1,340	178	120,980
Accumulated depreciation	(405)	–	(1,294)	(2,969)	(141)	(69)	(4,878)
Net book amount	41,605	17,726	11,102	44,361	1,199	109	116,102
Year ended 31 December 2006							
Opening net book amount	41,605	17,726	11,102	44,361	1,199	109	116,102
Additions	326	26,115	225	13,956	1,959	685	43,266
Transfer from CIP	15,486	(32,519)	17,033	–	–	–	–
Depreciation	(2,683)	–	(621)	(5,062)	(181)	(62)	(8,609)
Closing net book amount	54,734	11,322	27,739	53,255	2,977	732	150,759
At 31 December 2006							
Cost	57,822	11,322	29,654	61,286	3,299	863	164,246
Accumulated depreciation	(3,088)	–	(1,915)	(8,031)	(322)	(131)	(13,487)
Net book amount	54,734	11,322	27,739	53,255	2,977	732	150,759
Year ended 31 December 2007							
Opening net book amount	54,734	11,322	27,739	53,255	2,977	732	150,759
Additions	–	24,491	–	48,446	1,381	4,356	78,674
Transfer from CIP	2,152	(14,811)	11,572	–	1,087	–	–
Disposals	–	–	–	(8,935)	(10)	–	(8,945)
Depreciation	(3,306)	–	(1,578)	(7,873)	(554)	(297)	(13,608)
Closing net book amount	53,580	21,002	37,733	84,893	4,881	4,791	206,880
At 31 December 2007							
Cost	59,974	21,002	41,226	98,435	5,754	5,219	231,610
Accumulated depreciation	(6,394)	–	(3,493)	(13,542)	(873)	(428)	(24,730)
Net book amount	53,580	21,002	37,733	84,893	4,881	4,791	206,880

The carrying amounts of property, plant and equipment amounting to RMB35,336,000 and RMB26,337,000 as at 31 December 2006 and 2007 respectively have been pledged to the banks as securities of the banking borrowings of the Target Group C (note 27) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group C, in relation to the issuance of US$160,000,000 floating rate notes due in 2011. No property, plant and equipment was pledged to the banks as securities as at 31 December 2005.

The carrying amounts of property, plant and equipment amounting to RMB15,210,000, RMB13,765,000 and RMB12,396,000 are assets held under finance leases as at 31 December 2005, 2006 and 2007 respectively.

14. INTERESTS IN SUBSIDIARY – COMPANY C

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity interest, at cost	–	742,385	693,858

15. PREPAID LEASE PAYMENTS – TARGET GROUP C

The Target Group C's interests in prepaid lease payments and their net book value are analysed as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Opening net carrying amount	–	–	4,191
Additions	–	4,212	99
Annual charges of prepaid operating lease payments	–	(21)	(86)
Closing net carrying amount	–	4,191	4,204

All prepaid lease payments were made on the land in the PRC with a medium term of 50 years.

Prepaid lease payments for the land with the carrying amounts of RMB4,191,000 and RMB4,204,000 as at 31 December 2006 and 2007 respectively have been pledged to the banks as securities of the bank borrowings of the Target Group C (note 27) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group C, in relation to the issuance of US$160,000,000 floating rate notes due in 2011.

16. MINING RIGHTS – TARGET GROUP C

	RMB'000
Year ended 31 December 2005	
Acquisition of mining rights	27,203
Amortisation charge	(610)
Carrying amount at 31 December 2005	26,593
At 31 December 2005	
Gross carrying amount	27,203
Accumulated amortisation	(610)
Carrying amount at 31 December 2005	26,593
Year ended 31 December 2006	
Carrying amount at 1 January 2006	26,593
Acquisition of mining rights	659,157
Amortisation charge	(3,421)
Carrying amount at 31 December 2006	682,329
At 31 December 2006	
Gross carrying amount	686,360
Accumulated amortisation	(4,031)
Carrying amount at 31 December 2006	682,329
Year ended 31 December 2007	
Carrying amount at 1 January 2007	682,329
Amortisation charge	(3,430)
Carrying amount at 31 December 2007	678,899
At 31 December 2007	
Gross carrying amount	686,360
Accumulated amortisation	(7,461)
Carrying amount at 31 December 2007	678,899

Having become a limited liability company in 2005, PRC Subsidiary C acquired mining rights from the Bureau of Land and Resources, the government authority, at a cost of RMB27,203,000. The consideration is based on the coal reserve and multiplication of the coal price of the nature of coal.

In December 2006, PRC Subsidiary C acquired two mining rights from its minority investor, Luensang A for RMB395,913,000 and RMB263,244,000 respectively which were based on the valuation of the coal mines carried out by a PRC recognised valuer with reference to the future income stream for a period of 15.56 and 19.40 years respectively. The directors are of the opinion that there are no impairments on these mining rights.

As at 31 December 2006 and 2007, mining rights with carrying amounts of RMB682,329,000 and RMB678,899,000 respectively have been pledged to the banks as securities of the banking borrowings of the Target Group C (note 27) and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group C, in relation to the issuance of US$160,000,000 floating rate notes due in 2011.

17. INVENTORIES – TARGET GROUP C

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Coal	50	1,203	1
Spare parts and consumables	7,028	11,179	19,511
	7,078	12,382	19,512

No physical count on spare parts and consumables had been carried out until 30 June 2006. The balance of spare parts and consumables, amounting to RMB7,028,000 as at 31 December 2005, is based on the manual perpetual inventory recording system as accounted for in the books of the Target Group C.

Based on the results of the physical count on spare parts and consumables held on 30 June 2006, a total net stock loss amounting to RMB1,030,000 (stock gain and stock loss being RMB1,992,000 and RMB3,022,000 respectively) was identified. As most of the delivery notes prior to the physical count on 30 June 2006 had been misplaced and there were no other reliable records being kept in place, management of the Target Group C was unable to verify with reasonable certainty that the existence and valuation of spare parts and consumables as at 31 December 2004 and 2005 and was of the opinion that there were misstatement in the balance of spare parts and consumables as at 31 December 2005. The misstatement might have consequential impact on the results of the Target Group C for the years ended 31 December 2005 and 2006.

18. TRADE AND BILL RECEIVABLES – TARGET GROUP C

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bill receivables	13,261	106,850	75,450

The Target Group C bills to its customers according to the terms of the relevant agreements generally 90 days. All trade and bill receivables are denominated in RMB.

The carrying amount of trade and bill receivables is considered a reasonable approximate of fair value at this financial asset, which is measured at amortised cost and is expected to be paid within a short timescale, such that the time value of money impact is not significant.

At each balance sheet date, the trade and bill receivables are individually determined to be impaired. The individually impaired receivables, if any, are recognised, based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision is recognised. The Target Group C does not hold any collaterals over these balances.

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Target Group C is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bill receivables directly.

As at 31 December 2005, 2006 and 2007, ageing analysis of the net trade and bill receivables, based on the invoice dates, are as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	–	83,866	12,052
91 – 180 days	7,583	13,475	–
181 – 365 days	5,678	9,509	63,398
	13,261	106,850	75,450

As at 31 December 2005, 2006 and 2007, the ageing analysis of trade and bill receivables that are not impaired is as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	–	83,866	12,052
1 – 90 days past due	7,583	13,475	–
91 – 180 days past due	5,678	9,509	63,398
	13,261	22,984	63,398
	13,261	106,850	75,450

Trade and bill receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of credit.

Trade and bill receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Target Group C. Based on past experience, management believes that no additional impairment allowance is necessary in respect of these balances as there had not been a significant change in credit quality and the balances are considered fully recoverable.

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES – TARGET GROUP C

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	3,432	6,564	10,330
Less: Provision for impairment loss	–	(631)	(3,147)
Other receivables – net	3,432	5,933	7,183
Deposits paid to suppliers	4,692	22,420	13,047
Less: Provision for impairment loss	–	(1,114)	(1,669)
Deposits paid to suppliers – net	4,692	21,306	11,378
Utility deposits and prepayments	2,218	1,914	2,311
	10,342	29,153	20,872

20. AMOUNT(S) DUE FROM/(TO) A RELATED PARTY/RELATED COMPANIES – TARGET GROUP C

	As at 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from:			
Liulin Xian Chenjiawanxiang Shipanshang Lianying Meikuang ("Shipanshang Meikuang")# 柳林縣陳家灣鄉石盤上聯營煤礦	–	5,103	5,103
Liulin Xian Liansheng Duozhong Jingying Company Limited ("LSDJ")# 柳林縣聯盛多種經營有限責任公司	–	18,508	–
Liulin Xian Chenjiawanxiang Baicaoer Meikuang ("Baicaoer Meikuang")# 柳林縣陳家灣鄉白草耳煤礦	–	2,051	–
Liulin Xian Chejiagou Meikuang ("Chejiagou Meikuang")# 柳林縣車家溝煤礦	–	2	–
Liulin Xian Shiweigou Meiye Company Limited ("Shiweigou Meiye")# 柳林縣獅尾溝煤業有限公司	–	–	1,540
Shanxi Liulin Xiasitou Meiye Company Limited ("Xiasitou Meiye") (previously known as Liulin Xian Chenjiawanxiang Meikuang)# 山西柳林下寺頭煤業有限公司 (previously known as 柳林縣陳家灣鄉煤礦)	–	28	–
Liulin Xian Hejiashe Meikuang ("Hejiashe Meikuang")# 柳林縣賀加社煤礦	–	8	–
Shanxi Liulin Guojiashan Meiye (previously known as Liulin Xian Guojiashan Meikuang)# 山西柳林郭家山煤業有限公司 (previously known as 柳林縣郭家山煤礦)	–	1	–
Liulin Xian Zhuangshang Zhen Nangou Meikuang ("Nangou Meikuang")# 柳林縣莊上鎮南溝煤礦	–	8	–
Shanxi Fortune Dragon Coalification Company Limited ("Shanxi Fortune Dragon")# 山西福龍煤化有限公司	–	–	15,014
Liulin Xian Yongsheng Xuanmeichang ("Yongsheng Xuanmeichang")# 柳林縣永勝選煤廠	–	1,759	19,442
Mr. Xing Yanbin	–	3	1,705
	–	27,471	42,804

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Maximum balance outstanding during the year:			
Shipanshang Meikuang	–	5,103	5,103
LSDJ	–	18,508	86,950
Baicaoer Meikuang	–	2,051	2,051
Chejiagou Meikuang	–	2	2
Shiweigou Meiye	–	47	1,540
Xiasitou Meiye	–	28	28
Hejiashe Meikuang	–	126	8
Guojiashan Meiye	–	1	1
Nangou Meikuang	–	8	8
Shanxi Fortune Dragon	–	–	22,604
Yongsheng Xuanmeichang	–	1,759	19,442
Mr. Xing Yanbin	–	3	1,705

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to:			
Nangou Meikuang	111	–	–
LSDJ	11,724	–	486
Shiweigou Meiye	9,915	–	–
Shizigou Meiye (previously known as Liulin Xian Shiweigou Cunban Meikuang)# 山西柳林獅子溝煤業有限公司(previously known as 柳林縣獅尾溝村辦煤礦)	2,576	2,576	–
	24,326	2,576	486

The unofficial English translation is for identification purpose only.

Amounts due are all unsecured, interest-free and repayable on demand. Mr. Xing Yanbin is a brother of Mr. Xing. Except for Yongsheng Xuanmeichang, all related companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, the beneficial owners of the Target Group C. Yongsheng Xuanmeichang was set up on 12 December 2005 and is owned by Mr. Xing Yanbin.

21. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES/MINORITY INVESTOR – TARGET GROUP C

Amounts due are unsecured, interest-free and repayable on demand.

22. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY – TARGET GROUP C AND COMPANY C

Amounts due are unsecured, interest-free and repayable on demand.

23. PLEDGED BANK DEPOSITS – TARGET GROUP C

As at 31 December 2006 and 2007, bank deposits amounted to US$125,000 (equivalent to RMB1,003,000) have been pledged to the banks as a security of the bank borrowings of the Target Group C (note 27) which are repayable on 31 July 2008 and the bank borrowings of Fortune Dragon, ultimate holding company of the Target Group C, in relation to the issuance of US$160,000,000 floating rate notes due in 2011.

24. CASH AND CASH EQUIVALENTS

	TARGET GROUP C As at 31 December			COMPANY C As at 31 December		
	2005	2006	2007	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks and in hand	647	5,635	13,098	–	–	10
Short-term bank deposits	–	205,517	–	–	–	–
	647	211,152	13,098	–	–	10

The effective interest rate of short-term bank deposits ranged between 1% and 5.45% per annum. The deposits had a maturity of 3 months and were generally made for the periods ranging between one day and three months depending on the immediate cash requirement of the Target Group C, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

All cash and bank balances of the Target Group C as at 31 December 2005, 2006 and 2007 were denominated in US$ or RMB and deposited with the banks in Hong Kong and in the PRC . RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Target Group C is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

25. TRADE PAYABLES – TARGET GROUP C

The Target Group C was granted by its suppliers the credit periods ranging between 30 and 180 days during the Relevant Periods. Based on the invoice dates, ageing analyses of trade payables as at 31 December 2005, 2006 and 2007 are as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	7,202	17,440	20,510
91 – 180 days	4,878	3,752	2,206
181 – 365 days	1,934	2,318	5,268
Over 365 days	1,440	4,692	5,178
	15,454	28,202	33,162

26. OTHER PAYABLES AND ACCRUALS – TARGET GROUP C

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Advances from customers	9,645	17,429	90,380
Other payables	33,411	58,745	55,364
Accruals	9,299	16,518	45,315
	52,355	92,692	191,059

In view of stronger demands of the Target Group C's products and with the view of expanding its customer base, more new customers were approached to the Target Group C and placed the order to the Target Group C in 2007. To strengthen better controls over the new customers, these customers are required to place deposits before deliveries are made. Accordingly, there was a substantial increase in advances from customers during year ended 31 December 2007.

27. BORROWINGS – TARGET GROUP C

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Non-current:			
Secured bank borrowings due in the second year	–	1,003	–
Finance lease liabilities	10,388	8,148	6,355
	10,388	9,151	6,355
Current:			
Secured bank borrowings	–	–	1,003
Finance lease liabilities	3,822	3,140	3,773
	3,822	3,140	4,776
Total borrowings	14,210	12,291	11,131

The carrying amounts of the borrowings approximate to their fair value.

As at 31 December 2006 and 2007, bank borrowings of RMB1,003,000 were denominated in US$ and interest-bearing at rates ranging between 4.78% and LIBOR+6.8% per annum during the years ended 31 December 2006 and 2007, repayable in July 2008 and are secured by the Target Group C's land use rights, mining rights, buildings, machinery and bank deposits of US$125,000.

The analysis of the obligations under finance leases is as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Total minimum lease payments			
Due within one year	3,940	3,370	4,055
Due in the second to fifth years	8,694	8,299	8,299
Due after fifth year	4,150	2,075	–
	16,784	13,744	12,354
Future finance charges on finance leases	(2,574)	(2,456)	(2,226)
Present value of finance lease liabilities	14,210	11,288	10,128

The present value of finance lease liabilities is as follows:

Due within one year	3,822	3,140	3,773
Due in the second to fifth years	7,365	1,475	6,355
Due after fifth year	3,023	6,673	–
	14,210	11,288	10,128
Less: Due within one year included under current liabilities	(3,822)	(3,140)	(3,773)
Non-current portion included under non-current liabilities	10,388	8,148	6,355

28. LOANS FROM ULTIMATE HOLDING COMPANY – TARGET GROUP C AND COMPANY C

The loans are secured, interest-bearing at a rate of 12% per annum and repayable in 2011.

29. SHARE CAPITAL

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Authorised:			
50,000 ordinary shares of US$1 each	400	400	400
Issued and fully paid:			
1 ordinary share of US$1	RMB 8	RMB 8	RMB 8

Company C was incorporated in the BVI on 6 January 2005 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. 1 subscriber share of US$1 was allotted and issued for cash on 12 January 2005.

30. RESERVES

TARGET GROUP C

The amounts of the Target Group C's reserves and the movements therein for the Relevant Periods are presented in the combined statements of changes in equity on page III-10 of the Financial Information.

Statutory reserves

In accordance with the relevant laws and regulations of the PRC, PRC Subsidiary C is required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

Prior to the revised Company Law of PRC which came into effect in late 2005, 5% to 10% of the net profits was required to be appropriated to the statutory common welfare fund, which was used for the collective welfare of the staff and workers of PRC Subsidiary C. Pursuant to the revised Company Law, the remaining balance of this fund at 1 January 2006 has been transferred to the statutory reserve fund in accordance with the regulations promulgated by the Ministry of Finance of the PRC.

Merger reserve

The merger reserve of the Target Group C arose as a result of the reorganisation which was completed on 3 September 2005 and represented the difference between the consideration under the reorganisation and the net assets value of PRC Subsidiary C then acquired.

COMPANY C

	Other reserve *RMB'000*	**Exchange reserve** *RMB'000*	**(Accumulated losses)/ Retained profits** *RMB'000*	**Total** *RMB'000*
At date of incorporation	–	–	–	–
Result for the period	–	–	–	–
Total recognised income and expense for the period	–	–	–	–
At 31 December 2005	–	–	–	–
At 1 January 2006	–	–	–	–
Currency translation differences	–	428	–	428
Loss for the year	–	–	(10,323)	(10,323)
Total recognised income and expense for the year	–	428	(10,323)	(9,895)
Expenses incurred on capital contribution to subsidiary	(216)	–	–	(216)
At 31 December 2006	(216)	428	(10,323)	(10,111)
At 1 January 2007	(216)	428	(10,323)	(10,111)
Currency translation differences	–	(922)	–	(922)
Profit for the year	–	–	48,081	48,081
Total recognised income and expense for the year	(216)	(922)	48,081	47,159
At 31 December 2007	(216)	(494)	37,758	37,048

31. OPERATING LEASE COMMITMENTS

TARGET GROUP C

At the respective balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable by the Target Group C as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	686	686	686
In the second to fifth years, inclusive	2,744	2,744	2,744
Over five years	15,092	14,406	13,720
	18,522	17,836	17,150

The Target Group C leases a number of properties under operating leases. The leases run for an initial period of 30 years, without an option to renew the leases and renegotiated the terms at the expiry date or at dates as mutually agreed between the Target Group C and respective lessors. None of the leases include contingent rental.

COMPANY C

At the respective balance sheet dates, Company C did not have any operating lease commitments.

32. CAPITAL COMMITMENTS

	TARGET GROUP C As at 31 December			COMPANY C As at 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for:						
– acquisition of property, plant and equipment	24,708	31,758	44,666	–	–	–
– investment in subsidiary	–	–	–	760,000	–	–
	24,708	31,758	44,666	760,000	–	–

33. RELATED PARTY TRANSACTIONS – TARGET GROUP C

Except as disclosed elsewhere in this report, the following transactions were carried out with related parties:

(a) During the Relevant Periods, the Target Group C had the following transactions carried out with its fellow subsidiaries and related companies:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Sales of coal to fellow subsidiaries	13,112	4,601	35,964
Sales of coal to related companies	22	1,730	50,251
Electricity expenses charged by a fellow subsidiary	812	–	–
Interests charged on loans from ultimate holding company repayable within five years	–	10,323	13,178

The above related party transactions were conducted in the normal course of business at prices and terms agreed between the parties. All related companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, the beneficial owners of the Target Group C except for Yongsheng Xuanmeichang which is owned by Mr. Xing Yanbin. During the years ended 31 December 2006 and 2007, sales of coal to Yongsheng Xuanmeichang were amounted to RMB1,556,000 and RMB20,074,000 respectively.

(b) **Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the directors of Company C, is as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other employee benefits	460	511	944

(c) On 10 September 2005, the Target Group C transferred prepayments and other receivables at book value, amounting to RMB2,036,000 to a minority investor, Luensang A.

(d) On 30 December 2006, the Target Group C acquired two mining rights at a cost of RMB659,157,000 from minority investor, Luensang A (note 16).

34. FINANCIAL GUARANTEE CONTRACTS – TARGET GROUP C

As at 31 December 2007, PRC Subsidiary C executed guarantees amounting to approximately RMB100,000,000 with respect to the bank loan to an independent third party, under which PRC Subsidiary C is liable to pay the bank if the bank is unable to recover the loan from this third party. At the balance sheet date, no provision for the Target Group C's obligation under the guarantee contract has been made as the directors consider that it is not probable that the repayment of the loan will be in default.

35. NOTES TO THE COMBINED CASH FLOW STATEMENTS

Major non-cash transaction

Pursuant to resolutions passed on 22 March, 7 August, 16 September and 27 September 2007, dividends of RMB20,929,000, RMB3,790,000, RMB36,919,000 and RMB16,817,000 attributable to the year ended 31 December 2006 were proposed, where RMB20,929,000, RMB3,790,000 and RMB36,919,000 were paid by PRC Subsidiary C to its equity holders in cash in March, August and September 2007 respectively. The remaining RMB16,817,000 was paid through the current account under "amounts due from minority investor" in October 2007.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group C is exposed to a variety of financial risks which results from both its operating and investing activities. The Target Group C does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate measures to manage the Target Group C's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Target Group C employs a conservative strategy regarding its risk management. As the directors consider that the Target Group C's exposure to market risk is kept at a minimum level, the Target Group C has not used any derivatives or other instruments for hedging purposes. The Target Group C does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Target Group C is exposed to are described below.

(a) Foreign currency risk

PRC Subsidiary C mainly operates in the PRC with most of the transactions settled in RMB, its functional currency, while the functional currency of Company C is US$. The exposure in exchange rate risks mainly arises from fluctuations on US$ against the functional currency of the Target Group C. The Target Group C does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely.

Based on the market conditions as at 31 December 2005, 2006 and 2007, the Target Group C determined that it is reasonably possible for RMB to strengthen/weaken by 5% against US$ in the coming twelve months. If RMB had strengthen/weakened by 5% against US$ with all other variables held constant as at 31 December 2005, 2006 and 2007, the Target Group C's exchange reserve and Company C's retained earnings would increase/(decrease) by approximately RMBNil, RMB5,556,000 and RMB5,192,000 respectively, as a result of foreign exchange gains/losses on conversion of US$ denominated monetary items.

(b) Credit risk

The Target Group C's credit risk is primarily attributable to trade and bill receivables and other receivables. Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Target Group C thereby suffers financial loss. The carrying amounts of trade and bill receivables, other receivables, amounts due from group companies and related parties and cash and cash equivalents included in the balance sheet represent the Target Group C's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk. The exposures to these are actively monitored by management to avoid significant concentrations of credit risk. The Target Group C also monitors the trade and bill receivables on an ongoing basis and only trades with creditworthy third parties. All cash and cash equivalents are deposited with the major banks located in the PRC. No other financial assets carry a significant exposure to credit risk. Accordingly, the Target Group C has no significant concentrations of credit risk.

(c) Interest rate risk

The Target Group C's income and operating cash flows are substantially independent of changes in market interest rates and the Target Group C has no significant interest-bearing assets. The Target Group C's exposure to changes in interest rates is mainly attributable to its borrowings. The Target Group C has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

In managing interest rate and foreign currency risks, the Target Group C aims to reduce the impact of short-term fluctuation and long-term permanent changes on the Target Group C's profitability. As at 31 December 2005, 2006 and 2007, it is estimated that a general increase of one percentage point in interest rates would increase the Target Group C's profit after income tax by approximately RMB136,000, RMB888,000, and RMB1,081,000 respectively, so far as the effect on interest-bearing secured bank borrowings and finance lease liabilities are concerned.

(d) Fair values

At the balance sheet dates, the fair values of the Target Group C's following current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity: trade and bill receivables, deposits and other receivables, amounts due from/to a related party, related companies, amounts due from fellow subsidiaries, amounts due from/to minority investor, cash and cash equivalents, trade payables, other payables and accruals and amounts due to ultimate holding company. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair values as at the balance sheet dates.

(e) Liquidity risk

The Target Group C's and Company C's policies are to maintain sufficient cash and cash equivalents and have available funding to meet their working capital requirements. As mentioned in note 3.1, the Target Group C's and Company C's liquidity is dependent upon the continuing financial support from their ultimate beneficiary owner, Mr. Xing, to provide financial support to the Target Group C and Company C to meet the Target Group C's and Company C's liabilities and commitments as and when It falls due and the ultimate holding company of the Target Group C, Fortune Dragon, have undertaken not to demand repayment of debts due from the Target Group C and Company C until such time when repayment will not affect the Target Group C's and Company C's ability to repay other creditors in the normal course of business. Management of the Target Group C and Company C are satisfied that the Target Group C and Company C will be able to meet in full their financial obligations as and when they fall due in the foreseeable future.

The Target Group C manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long term liquidity needs for a 360-day lookout period are identified on a monthly basis.

The Target Group C maintains mainly cash to meet its liquidity requirements for up to 30-day periods, funding for long-term liquidity needs will be considered when there is any potential investment identified.

The following table details the remaining contractual maturities at the balance sheet dates of non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating, based on rates current at the balance sheet date) and the earliest date the Target Group C can be required to pay:

As at 31 December 2007	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP C						
Trade payables	33,162	33,162	33,162	–	–	–
Other payables and accruals	100,679	100,679	100,679	–	–	–
Amounts due to related companies	486	486	486	–	–	–
Amounts due to ultimate holding company	552,962	552,962	552,962	–	–	–
Borrowings	11,131	11,131	4,776	1,707	4,648	–
Loans from ultimate holding company	103,858	103,858	–	–	103,858	–
	802,278	802,278	692,065	1,707	108,506	–
COMPANY C						
Amounts due to ultimate holding company	552,962	552,962	552,962	–	–	–
Loans from ultimate holding company	103,858	103,858	–	–	103,858	–
	656,820	656,820	552,962	–	103,858	–

As at 31 December 2006	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP C						
Trade payables	28,202	28,202	28,202	–	–	–
Other payables and accruals	75,263	75,263	75,263	–	–	–
Amounts due to minority investor	66,891	66,891	66,891	–	–	–
Amounts due to related companies	2,576	2,576	2,576	–	–	–
Amounts due to ultimate holding company	641,373	641,373	641,373	–	–	–
Borrowings	12,291	12,291	3,140	2,795	4,881	1,475
Loans from ultimate holding company	111,123	111,123	–	–	111,123	–
	937,719	937,719	817,445	2,795	116,004	1,475
COMPANY C						
Amounts due to ultimate holding company	641,373	641,373	641,373	–	–	–
Loans from ultimate holding company	111,123	111,123	–	–	111,123	–
	752,496	752,496	641,373	–	111,123	–

As at 31 December 2005	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TARGET GROUP C						
Trade payables	15,454	15,454	15,454	–	–	–
Other payables and accruals	42,710	42,710	42,710	–	–	–
Amounts due to minority investor	8,242	8,242	8,242	–	–	–
Amounts due to related companies	24,326	24,326	24,326	–	–	–
Borrowings	14,210	14,210	3,822	2,240	5,124	3,024
	104,942	104,942	94,554	2,240	5,124	3,024
COMPANY C						
Amounts due to ultimate holding company	–	–	–	–	–	–
Loans from holding company	–	–	–	–	–	–
	–	–	–	–	–	–

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Target Group C's financial assets and liabilities as recognised at the balance sheet dates of the Relevant Periods may also be categorised as follows. See notes 3.11 and 3.16 for explanations about how the category of financial instruments affects their subsequent measurement.

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Non-current assets			
Pledged bank deposits	–	1,003	–
Current assets			
Loans and receivables			
– Trade and bill receivables	13,261	106,850	75,450
– Deposits and other receivables	8,124	27,239	18,561
– Amounts due from a related party/related companies	–	27,471	42,804
– Amounts due from fellow subsidiaries	2,739	–	106,373
– Amounts due from minority investor	–	–	350,503
Pledged bank deposits	–	–	1,003
Cash and cash equivalents	647	211,152	13,098
	24,771	373,715	607,792
Financial liabilities – Financial liabilities at amortised cost:			
Current liabilities			
– Trade payables	15,454	28,202	33,162
– Other payables and accruals	42,710	75,263	100,679
– Amounts due to minority investor	8,242	66,891	–
– Amounts due to related companies	24,326	2,576	486
– Amounts due to ultimate holding company	–	641,373	552,962
– Borrowings	3,822	3,140	4,776
Non-current liabilities			
– Borrowings	10,388	9,151	6,355
– Loans from ultimate holding company	–	111,123	103,858
	104,942	937,719	802,278

37. CAPITAL MANAGEMENT

The Target Group C's objectives when managing capital are:

(a) To safeguard the Target Group C's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Target Group C's stability and growth; and

(c) To provide capital for the purpose of strengthening the Target Group C's risk management capability.

The Target Group C actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Target Group C and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Target Group C currently does not adopt any formal dividend policy. Management regards total equity as capital and its reserves, for capital management purpose.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared for the Target Group C in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and assets and liabilities of the Group for each of the three years ended 31 December 2007 as extracted from the respective published audited financial statements:

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	15,056	10,535	10,232
Cost of sales	(13,206)	(8,601)	(9,246)
Gross profit	1,850	1,934	986
Other operating income	15,142	275	335
Administrative expenses	(42,094)	(35,282)	(16,852)
Other operating expenses	(17,469)	(3,013)	(2,579)
Operating loss	(42,571)	(36,086)	(18,110)
Finance costs	(22,482)	(9,028)	(202)
Fair value loss on derivative liability of convertible notes	(21,038)	–	(1,366)
Loss before income tax	(86,091)	(45,114)	(19,678)
Income tax expense	–	–	–
Loss for the year	(86,091)	(45,114)	(19,678)
Attributable to:			
Equity holders of the Company	(77,948)	(30,988)	(14,020)
Minority interests	(8,143)	(14,126)	(5,658)
Loss for the year	(86,091)	(45,114)	(19,678)
Loss per share for loss attributable to the equity holders of the Company during the year			
– Basic	HK(3.42cents)	HK(1.49cents)	HK(0.6cents)
– Diluted	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

	As at 31 December		
	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	376,349	255,276	223,064
Leasehold land and land use rights	17,799	17,164	17,088
Goodwill	15,703	–	–
Interests in associate	–	–	–
Available-for-sale financial assets	7,597	–	–
Prepayments and deposits	389,437	227,934	120,624
	806,885	500,374	360,776
Current assets			
Inventories	–	–	–
Trade receivables	7,232	3	6,853
Prepayments, deposits and other receivables	20,429	6,154	5,583
Cash and cash equivalents	460,538	10,573	10,587
	488,199	16,730	23,023
Current liabilities			
Trade payables	2,294	–	6,326
Other payables	125,997	29,812	24,370
Bank loans	54,265	49,963	22,898
Other loans	130,323	89,882	1,633
Amounts due to related companies	25,907	–	–
Amounts due to minority equity holders of subsidiaries	85,589	1,998	1,633
Amount due to ultimate holding company	–	10,000	1,920
Derivative liabilities of convertible notes	10,916	–	–
	435,291	181,655	57,147
Net current assets/(liabilities)	52,908	(164,925)	(34,124)
Total assets less current liabilities	859,793	335,449	326,652
Non-current liabilities			
Other loans	–	141,995	116,015
Amount due to ultimate holding company	–	–	10,000
Amounts due to related companies	–	25,820	15,271
Amounts due to minority equity holders of subsidiaries	33,769	68,054	57,905
Convertible notes	34,014	–	–
	67,783	235,869	199,191
Net assets	792,010	99,580	127,461

	As at 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	242,239	208,080	208,080
Reserves	491,492	(150,534)	(134,895)
	733,731	57,546	73,185
Minority interests	58,279	42,034	54,276
Total equity	792,010	99,580	127,461

AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2007

Set out below are the audited financial statements of the Group as extracted from the annual report of the Group for the year ended 31 December 2007:

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Revenue	*5*	15,056	10,535
Cost of sales		(13,206)	(8,601)
Gross profit		1,850	1,934
Other operating income	*7*	15,142	275
Administrative expenses		(42,094)	(35,282)
Other operating expenses		(17,469)	(3,013)
Operating loss		(42,571)	(36,086)
Finance costs	*8*	(22,482)	(9,028)
Fair value loss on derivative liability of convertible notes	*32*	(21,038)	–
Loss before income tax	*9*	(86,091)	(45,114)
Income tax expense	*10*	–	–
Loss for the year		(86,091)	(45,114)
Attributable to:			
Equity holders of the Company	*11*	(77,948)	(30,988)
Minority interests		(8,143)	(14,126)
Loss for the year		(86,091)	(45,114)
Loss per share for loss attributable to the equity holders of the Company during the year	*12*		
– Basic		HK(3.42cents)	HK(1.49cents)
– Diluted		N/A	N/A

Consolidated Balance Sheet
As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	376,349	255,276
Leasehold land and land use rights	16	17,799	17,164
Goodwill	17	15,703	–
Interests in associate	20	–	–
Available-for-sale financial assets	21	7,597	–
Prepayments and deposits	22	389,437	227,934
		806,885	500,374
Current assets			
Inventories	23	–	–
Trade receivables	24	7,232	3
Prepayments, deposits and other receivables		20,429	6,154
Cash and cash equivalents	25	460,538	10,573
		488,199	16,730
Current liabilities			
Trade payables	26	2,294	–
Other payables		125,997	29,812
Bank loans	27	54,265	49,963
Other loans	28	130,323	89,882
Amounts due to related companies	29	25,907	–
Amounts due to minority equity holders of subsidiaries	30	85,589	1,998
Amount due to ultimate holding company	31	–	10,000
Derivative liabilities of convertible notes	32	10,916	–
		435,291	181,655
Net current assets/(liabilities)		52,908	(164,925)
Total assets less current liabilities		859,793	335,449
Non-current liabilities			
Other loans	28	–	141,995
Amounts due to related companies	29	–	25,820
Amounts due to minority equity holders of subsidiaries	30	33,769	68,054
Convertible notes	32	34,014	–
		67,783	235,869
Net assets		792,010	99,580

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	33	242,239	208,080
Reserves	35	491,492	(150,534)
		733,731	57,546
Minority interests		58,279	42,034
Total equity		792,010	99,580

Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	42	61
Interests in subsidiaries	*18*	–	–
Loans to subsidiaries	*19*	126,598	–
Interests in associate	*20*	–	–
		126,640	61
Current assets			
Inventories	*23*	–	–
Trade receivables	*24*	–	3
Amounts due from subsidiaries	*19*	661,059	82,006
Prepayments, deposits and other receivables		29	24
Cash and cash equivalents	*25*	7,542	3,299
		668,630	85,332
Current liabilities			
Other payables		5,765	876
Amount due to ultimate holding company	*31*	–	10,000
		5,765	10,876
Net current assets		662,865	74,456
Net assets		789,505	74,517
EQUITY			
Share capital	*33*	242,239	208,080
Reserves	*35*	547,266	(133,563)
Total equity		789,505	74,517

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Loss before income tax		(86,091)	(45,114)
Adjustments for:			
Depreciation of property, plant and equipment		2,755	2,643
Amortisation of operating lease prepayments		450	430
Finance costs		22,482	9,028
Fair value loss on derivative liability of convertible notes		21,038	–
Interest income		(15,142)	(275)
Share-based compensation expense		19,429	12,953
Operating loss before working capital changes		(35,079)	(20,335)
(Increase)/Decrease in trade receivables		(7,229)	7,129
Increase in prepayments, deposits and other receivables		(13,752)	(83)
Increase/(Decrease) in trade payables		2,294	(6,584)
Increase in other payables		7,424	4,362
Net cash used in operating activities		(46,342)	(15,511)
Cash flows from investing activities			
Purchase of property, plant and equipment		(57,737)	(12,893)
Prepayments for purchases of property, plant and equipment, and potential mining project		(99,948)	(102,391)
Capital investment in an available-for-sale financial assets		(7,597)	–
Interest received		15,142	275
Net cash used in investing activities		(150,140)	(115,009)
Cash flows from financing activities			
Net proceeds from issue of new shares upon placement		443,530	–
Net proceeds from issue of convertible notes		289,522	–
Proceeds from new bank loans		54,265	49,963
Repayment of bank loans		(50,819)	(23,832)
Proceeds from new other loans		–	102,672
Repayment of other loans		(101,555)	–
Repayment to ultimate holding company		(10,000)	–
(Repayment to)/Advances from related companies		(2,281)	8,994
Advances from minority equity holders of subsidiaries		30,509	4,196
Finance costs paid		(7,293)	(10,940)
Net cash generated from financing activities		645,878	131,053
Net increase in cash and cash equivalents		449,396	533
Cash and cash equivalents at 1 January		10,573	10,587
Effect of foreign exchange rate changes		569	(547)
Cash and cash equivalents at 31 December	*25*	460,538	10,573

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

	Equity attributable to equity holders of the Company						Minority interests	Total equity
	Share capital	Share premium	Accumulated losses	Share-based compensation reserve	Translation reserve	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	208,080	399,169	(566,219)	12,953	3,563	57,546	42,034	99,580
Net income directly recognised in equity – exchange difference arising from translating the financial statements of foreign entities	–	–	–	–	10,355	10,355	8,685	19,040
Loss for the year	–	–	(77,948)	–	–	(77,948)	(8,143)	(86,091)
Total recognised income and expense for the year	–	–	(77,948)	–	10,355	(67,593)	542	(67,051)
Further increase in shareholdings of non-wholly owned subsidiaries	–	–	–	–	–	–	15,703	15,703
Share-based compensation	–	–	–	19,429	–	19,429	–	19,429
Issue of new shares	23,000	420,530	–	–	–	443,530	–	443,530
Issue of new shares upon conversion of convertible notes	11,159	269,660	–	–	–	280,819	–	280,819
At 31 December 2007	242,239	1,089,359	(644,167)	32,382	13,918	733,731	58,279	792,010
At 1 January 2006	208,080	399,169	(535,231)	–	1,167	73,185	54,276	127,461
Net income directly recognised in equity – exchange difference arising from translating the financial statements of foreign entities	–	–	–	–	2,396	2,396	1,884	4,280
Loss for the year	–	–	(30,988)	–	–	(30,988)	(14,126)	(45,114)
Total recognised income and expense for the year	–	–	(30,988)	–	2,396	(28,592)	(12,242)	(40,834)
Share-based compensation	–	–	–	12,953	–	12,953	–	12,953
At 31 December 2006	208,080	399,169	(566,219)	12,953	3,563	57,546	42,034	99,580

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is located at 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The directors consider the ultimate holding company as at 31 December 2007 to be China Merit Limited, which is incorporated in the British Virgin Islands.

The principal activities of the Company and its subsidiaries (the "Group") comprise the production and sales of coking coal products and side products and sales of jewellery products. The principal places of the business are in Hong Kong and the People's Republic of China (the "PRC"). In 2006, the directors had ceased the business of jewellery due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery had been completed on 28 February 2007. The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

The financial statements on pages 19 to 65 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 14 April 2008.

2. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements beginning on 1 January 2007.

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

The adoption of these HKFRSs had no material effect on how the results and financial position for the current or prior periods have been prepared but HKAS 1 (Amendment) and HKFRS 7 resulted in additional disclosures on the Group's capital management policies and, significance of financial instruments and the nature and extent of risk arising from the financial instruments used. Accordingly, no prior period adjustment is required.

HKAS 1 (Amendment) – Capital Disclosures

In accordance with HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are set out in note 42.

HKFRS 7 – Financial Instruments: Disclosures

This is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 "Financial Instruments: Presentation and Disclosures" and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments; and

- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items. These disclosures are provided throughout these financial statements, and in particular, in note 41 to the financial statements.

New and amended HKFRSs that have been issued but not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) Int-11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) Int-12	Service Concession Arrangements[4]
HK(IFRIC) Int-13	Customer Loyalty Programmes[5]
HK(IFRIC) Int-14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

Note

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

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

3 Effective for annual periods beginning on or after 1 March 2007

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. These areas involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

(c) Subsidiaries and minority interests

Subsidiaries are entities over which the Group has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than those for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

(d) Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3 (k)) of the associate and its carrying amount.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investment in associates are stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(e) Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

(f) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax where applicable, rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of significant risks and rewards of ownership to the customers. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

(g) Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed.

(h) Goodwill

Goodwill represents the excess of the cost of a business combination or investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the Group's interest in the associate, and is assessed for the impairment as part of the investment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

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

(i) Construction in progress

Construction in progress ("CIP") represented assets under construction and is stated at cost less accumulated impairment losses. Cost includes direct costs incurred during the periods of construction, installation and testing plus interest charges arising from borrowings used to finance these assets during the construction period. No depreciation is provided on CIP until the relevant assets are completed and ready for use. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate category of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	The shorter of the lease terms and 5%
Plant and machinery	10%
Leasehold improvements	33 $^{1}/_{3}$%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	25%

The assets' estimated useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(k) Impairment of assets

Goodwill, property, plant and equipment, leasehold land and land use rights and interests in subsidiaries and associate are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment loss recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

An impairment loss on goodwill is not reversed in subsequent periods whilst an impairment loss on other assets is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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

Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line method over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statements as an integral part of the aggregate net lease payment made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

Land use rights or prepaid land lease payments are up-front payments to acquire the long term interests in usage of land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line method over the lease term.

(m) Financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of other categories of financial assets. For available-for-sales investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on trade and other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

(ii) Available-for-sale financial assets

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and comprises direct materials, direct labour and an appropriate proportion of overheads, based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(o) Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claim from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

(p) Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand, demand deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(q) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(r) Share-based compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees and its directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to share-based compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in equity will be transferred to retained earnings.

(s) Retirement benefits costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

In Hong Kong, the Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (“the MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all employees in Hong Kong. Contributions are made based on 5% of the employees’ basic salaries, subject to a cap of monthly relevant salaries of HK$20,000 and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF scheme.

According to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the “PRC RB Plan”) operated by the respective local municipal government in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan (“Employer contributions”). The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

Short term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(t) Financial liabilities

The Group’s financial liabilities include bank loans, other loans, convertible notes, amounts due to ultimate holding company, related companies, minority equity holders of subsidiaries and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Borrowings

Borrowings, which include bank loans and other loans, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs related to the issue of the convertible notes are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in income statement.

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest rate method.

If the note is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in income statement.

Other financial liabilities

Trade and other payables, amounts due to ultimate holding company, related companies and minority equity holders of subsidiaries are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

(u) Segment reporting

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

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, leasehold land land use rights, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(v) Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

(w) Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled, or is under common control with, the Company or Group; (2) has an interest in the Company that gives it significant influence over the Company or Group; or (3) has joint control over the Company or Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of assets

The Group assesses impairment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(ii) Valuation for convertible notes

On 20 April 2007, a wholly-owned subsidiary of the Company issued a zero coupon convertible notes with an aggregate principal amount of HK$300,000,000. The convertible notes were issued at the initial conversion price of HK$2.33 per share and will mature on 19 April 2012. The embedded derivatives consisting of the conversion and redemption options have been separated from the host debt contract and accounted for as derivative using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the issue date and balance sheet date. The valuation model requires the input of subjective assumptions, including the stock price, expected volatility and risk free rate. Changes in subjective input assumptions can materially affect the fair value estimate. For the year ended 31 December 2007, the fair value loss resulting from change in fair value of the derivative component of convertible notes was approximately HK$21,038,000, details of which are set out in note 32 to the financial statements.

(iii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and the current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

5. REVENUE

Revenue represents total invoiced value of goods supplied during the year and is analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Sales of coal products	14,256	9,534
Sales of jewellery products	800	1,001
	15,056	10,535

6. SEGMENT INFORMATION

(a) Primary reporting format – business segments

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

An analysis of the Group's revenue and segment results by principal activities is as follows:

	Revenue		Segment results	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Business segments:				
Sales of coal products	14,256	9,534	1,050	933
Production of coke products*	–	–	(12,668)	(17,732)
Sales of jewellery products	800	1,001	800	1,001
Unallocated expenses	–	–	(31,753)	(20,288)
	15,056	10,535	(42,571)	(36,086)
Finance costs			(22,482)	(9,028)
Fair value loss on derivative liability of convertible notes *(note 32)*			(21,038)	–
Loss for the year			(86,091)	(45,114)

There was no inter-segment sale and transfer during the year (2006: Nil).

An analysis of the Group's assets, liabilities and capital expenditure as at 31 December 2007 by principal activities is as follows:

	Assets		Liabilities		Capital expenditure	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Business segments:						
Sales of coal products	4,789	2,495	2,294	–	–	–
Production of coke products*	948,065	503,022	449,535	407,645	102,834	26,163
Sales of jewellery products	–	–	–	–	–	–
Unallocated	342,230	11,587	51,245	9,879	3	4
	1,295,084	517,104	503,074	417,524	102,837	26,167

An analysis of the Group's depreciation and amortisation charged for the year by principal activities is as follows:

	Depreciation		Amortisation	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Business segments:				
Sales of coal products	–	–	–	–
Production of coke products*	2,352	2,417	343	323
Sales of jewellery products	–	–	–	–
Unallocated	403	406	107	107
	2,755	2,823	450	430
Less: Depreciation capitalised in CIP *(note 15)*	–	(180)	–	–
	2,755	2,643	450	430

* *The Group has not yet commenced the commercial production of coke products during the years presented.*

(b) Secondary reporting format – geographical segments

An analysis of the Group's revenue, segment results for the year, the Group's assets as at 31 December 2007 and capital expenditure incurred for the year by geographical segments is as follows:

	Revenue		Segment results		Total assets		Capital expenditure	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Principal markets								
PRC	14,256	9,534	(11,618)	(17,022)	952,854	505,517	102,834	26,163
Hong Kong	800	1,001	(30,953)	(19,064)	342,230	11,587	3	4
	15,056	10,535	(42,571)	(36,086)	1,295,084	517,104	102,837	26,167

The business of jewellery ("the jewellery segment") was ceased in 2006 due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery was completed on 28 February 2007.

As at 31 December 2007 and 31 December 2006, other than the intra-group balances, there were no other assets and liabilities remained within the jewellery segment. As a result, there was no gain or loss arose on the cessation of the jewellery segment. During the year ended 31 December 2007, sales arising from the jewellery segment contributed operating cash inflows of HK$800,000 (2006: HK$1,001,000) and this segment had no cash flows arising from investing or financing activities in both 2007 and 2006.

7. OTHER OPERATING INCOME

	2007	2006
	HK$'000	*HK$'000*
Bank interest income on escrow account	7,042	–
Other bank interest income	8,100	275
	15,142	275

8. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest charges on:		
– Bank loans repayable within five years	3,765	3,295
– Other loans wholly repayable within five years	11,125	14,399
– Amounts due to related companies wholly repayable within five years	1,069	969
– Amounts due to minority equity holders of subsidiaries wholly repayable within five years	4,412	3,166
– Convertible notes wholly repayable within five years	15,189	–
Total borrowing costs	35,560	21,829
Less: interest capitalised in CIP*	(13,078)	(12,801)
	22,482	9,028

* *The borrowing costs have been capitalised at the rates ranging from 6.00% to 7.00% per annum (2006: 6.00% to 8.00% per annum).*

9. LOSS BEFORE INCOME TAX

	2007	2006
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	14,006	9,602
Less: Write back of provision upon sales	(800)	(1,001)
Cost of sales	13,206	8,601
Staff costs (including directors' remuneration and retirement benefits scheme contributions) *(note 13)*	31,323	21,007
Depreciation of property, plant and equipment	2,755	2,823
Less: Amount capitalised in CIP *(note 15)*	–	(180)
	2,755	2,643
Amortisation of operating lease prepayments	450	430
Auditors' remuneration		
– audit services	440	380
– other services	3,278	10
Operating leases charges in respect of land and buildings	905	659

10. INCOME TAX EXPENSE

(a) No provision for Hong Kong profits tax and the PRC income tax has been made in the financial statements in respect of the Company and its subsidiaries for the year (2006: Nil), as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for setting off against current year's assessable profits or did not generate any assessable profits in Hong Kong and the PRC for the year.

(b) Reconciliation between income tax expense and accounting loss at applicable tax rates is as follows:

	2007		**2006**	
	HK$'000	%	*HK$'000*	%
Loss before income tax	(86,091)		(45,114)	
Notional tax on loss before income tax, calculated at the rates applicable to the tax jurisdiction concerned	(18,330)	21.3	(11,804)	26.2
Tax effect of non-deductible expenses	18,410	(21.4)	10,467	(23.2)
Tax effect of non-taxable income	(1,771)	2.1	(332)	0.7
Tax effect of temporary differences not recognised	(28)	–	(19)	–
Tax effect of unused tax losses not recognised	1,719	(2)	1,688	(3.7)
Income tax expense	–	–	–	–

11. LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year attributable to the equity holders of the Company of HK$77,948,000 (2006: HK$30,988,000), a loss of HK$28,790,000 (2006: HK$18,773,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share attributable to the equity holders of the Company is based on the consolidated loss attributable to the equity holders of the Company of HK$77,948,000 (2006: HK$30,988,000) and the weighted average number of 2,277,844,621 (2006: 2,080,800,000) ordinary shares in issue during the year.

Subsequent to the balance sheet date and up to this date of these financial statements, the remaining principal amount of HK$40,000,000 of the convertible notes was converted into 17,167,381 fully paid up ordinary shares. As a result, the Company's issued ordinary shares have increased and potential ordinary shares have decreased accordingly after the balance sheet date.

Diluted loss per share for the years ended 31 December 2007 and 2006 was not presented because the impact of the exercise of the share options and the convertible notes was anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2007 *HK$'000*	2006 *HK$'000*
Wages and salaries	12,134	8,448
Share-based compensation expense *(note 34)*	19,429	12,953
Unutilised annual leave	90	25
Contributions to retirement benefits scheme	69	66
	31,722	21,492
Less: Wages and salaries capitalised in CIP	(399)	(485)
	31,323	21,007

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Executive directors and non-executive directors

	2007					2006				
	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contri-butions	Share based com-pensation expense	Total	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contri-butions	Share based com-pensation expense	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors										
Mr. Wong Lik Ping	–	1,671	12	517	2,200	–	1,395	12	345	1,752
Mr. So Kwok Hoo	–	1,352	12	1,681	3,045	–	1,118	12	1,121	2,251
Non-executive director										
Mr. Li King Luk	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors										
Mr. Kee Wah Sze	60	–	–	207	267	60	–	–	138	198
Mr. Choi Wai Yin	60	–	–	207	267	60	–	–	138	198
Mr. Chan Pat Lam	60	–	–	207	267	60	–	–	138	198
	180	3,023	24	2,819	6,046	180	2,513	24	1,880	4,597

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2006: Nil).

During the year ended 31 December 2007, no share options were granted to the directors in respect of their services to the Group. During the year ended 31 December 2006, share options of 2,000,000, 6,500,000, 800,000, 800,000 and 800,000 were granted to Wong Lik Ping, So Kwok Hoo, Kee Wah Sze, Choi Wai Yin and Chan Pat Lam in respect of their services to the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	1,429	1,157
Contributions to retirement benefits schemes	24	24
Share-based compensation expense	2,257	1,562
	3,710	2,743

The emoluments of the three (2006: three) individuals with the highest emoluments are within the following bands:

	2007	**2006**
Emolument bands	*Number of individuals*	*Number of individuals*
Nil – HK$1,000,000	–	2
HK$1,000,001 – HK$1,500,000	3	1

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2006: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	CIP	Buildings	Plant and machinery	Leasehold improve-ments	Office equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006								
Cost	209,550	7,735	4,131	696	496	96	7,590	230,294
Accumulated depreciation	–	(1,586)	(690)	(696)	(294)	(87)	(3,877)	(7,230)
Net carrying amount	209,550	6,149	3,441	–	202	9	3,713	223,064
Year ended 31 December 2006								
Opening net book amount	209,550	6,149	3,441	–	202	9	3,713	223,064
Exchange differences	8,545	97	130	–	4	–	92	8,868
Additions	24,607	–	1,532	–	23	5	–	26,167
Depreciation	–	(389)	(443)	–	(58)	(6)	(1,927)	(2,823)
Closing net carrying amount	242,702	5,857	4,660	–	171	8	1,878	255,276
At 31 December 2006								
Cost	242,702	7,850	5,831	696	527	101	7,876	265,583
Accumulated depreciation	–	(1,993)	(1,171)	(696)	(356)	(93)	(5,998)	(10,307)
Net carrying amount	242,702	5,857	4,660	–	171	8	1,878	255,276
Year ended 31 December 2007								
Opening net book amount	242,702	5,857	4,660	–	171	8	1,878	255,276
Exchange differences	20,900	202	371	–	7	–	65	21,545
Additions	99,027	389	1,411	–	276	–	1,180	102,283
Depreciation	–	(402)	(649)	–	(90)	(4)	(1,610)	(2,755)
Closing net carrying amount	362,629	6,046	5,793	–	364	4	1,513	376,349
At 31 December 2007								
Cost	362,629	8,490	7,744	696	820	101	9,688	390,168
Accumulated depreciation	–	(2,444)	(1,951)	(696)	(456)	(97)	(8,175)	(13,819)
Net carrying amount	362,629	6,046	5,793	–	364	4	1,513	376,349

During the year, no depreciation was capitalised in the CIP (2006 : HK$108,000).

Company

	Leasehold improvements *HK$'000*	**Office equipment** *HK$'000*	**Furniture and fixtures** *HK$'000*	**Total** *HK$'000*
At 1 January 2006				
Cost	696	318	91	1,105
Accumulated depreciation	(696)	(241)	(85)	(1,022)
Net carrying amount	–	77	6	83
Year ended 31 December 2006				
Opening net book amount	–	77	6	83
Additions	–	2	2	4
Depreciation	–	(22)	(4)	(26)
Closing net carrying amount	–	57	4	61
At 31 December 2006				
Cost	696	320	93	1,109
Accumulated depreciation	(696)	(263)	(89)	(1,048)
Net carrying amount	–	57	4	61
Year ended 31 December 2007				
Opening net book amount	–	57	4	61
Additions	–	3	–	3
Depreciation	–	(20)	(2)	(22)
Closing net carrying amount	–	40	2	42
At 31 December 2007				
Cost	696	323	93	1,112
Accumulated depreciation	(696)	(283)	(91)	(1,070)
Net carrying amount	–	40	2	42

16. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

The Group's interests in leasehold land and land use rights represent the prepaid land lease payments under operating leases. Their net book values are analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
In Hong Kong held on:		
– Leases of over 50 years	4,281	4,388
In the PRC held on:		
– Leases of between 10 to 50 years	13,518	12,776
	17,799	17,164
Opening net carrying amount	17,164	17,088
Exchange differences	1,085	506
Amortisation of prepaid lease prepayments	(450)	(430)
Closing net carrying amount	17,799	17,164

The balance as at 31 December 2007 includes certain land use rights in the PRC with a net book value of approximately HK$3,953,000 (2006: HK$3,764,000) of which the Group is still in the progress of applying the land use right certificates.

17. GOODWILL – GROUP

Goodwill as at 31 December 2007 arose from further acquisition of equity interest in Shanxi Yao Zin and Jinshan respectively whilst the balance carried forward from 31 December 2006 had been fully impaired in the previous years. The net carrying amount of goodwill is analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Cost		
At 1 January	2,010	2,010
Goodwill arose from further increase in equity interest in subsidiaries during the year	15,703	–
At 31 December	17,713	2,010
Accumulated impairment losses		
At 1 January and 31 December	(2,010)	(2,010)
Net carrying amount at 31 December	15,703	–

The carrying amount of goodwill has been allocated to the cash-generating units for impairment testing. The recoverable amount of the cash-generating unit was determined based on value-in-use calculations, covering a detailed five-year budget plan, followed by an extrapolation of discounted cash flows. The Group management's key assumptions have been determined based on its expectations for the market development. The discount rate used reflects specific risks relating to the business and the growth rate is adjusted for the industry benchmark.

The discount rate and growth rate used in cashflow projection are shown as below:

Growth rate	8%
Discount rate	12%

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2007 *HK$'000*	2006 *HK$'000*
Investments at cost		
Unlisted shares	22,256	22,256
Less: Provision for impairment	(22,256)	(22,256)
	–	–

Particulars of the subsidiaries at 31 December 2007 are as follows:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Percentage of issued capital held by the Group 2007	2006
Shanxi Jinshan Energy Limited ("Jinshan")*	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB400,000,000 *(Note a)*	91%	65%
Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng")*	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB30,000,000	64%#	46%#
Liulin Luenshan Coking Company Limited ("Luenshan")*	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB30,000,000	59%#	42%#
Fushan Energy Group Limited	British Virgin Islands, limited liability company	Investment holding in the PRC	1 ordinary share of US$1 each	100%	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Jewellery retailing and wholesaling in Hong Kong	2,000,000 ordinary shares of HK$1 each	100%	100%
Fu Hui Investments Limited	Hong Kong, limited liability company	Provision of financing arrangements in Hong Kong	100 ordinary shares of HK$1 each	100%	100%
Jumbo Hall International Limited	Hong Kong, limited liability company	Property holding in Hong Kong	2 ordinary shares of HK$1 each	100%	100%
New Honest Limited	British Virgin Islands, limited liability company	Investment holding in the PRC	1 ordinary share of US$1 each	100%	100%
Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin")	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB320,000,000 *(Note b)*	66%	51%
Maxease Limited ("Maxease")	British Virgin Islands, limited liability company	Vehicle for financing arrangement	1 ordinary share of US$1 each	100%	100%
Full Bright International Limited	New York, U.S.A., limited liability company	Dormant	US$183,750	100%	100%

* *These companies are indirectly held by the Company and are joint ventures incorporated in the PRC with limited liability.*

\# *These companies are subsidiaries of Jinshan as Jinshan holds more than half of the voting power of these companies and accordingly, are accounted for as subsidiaries of the Company.*

Note a: In November 2007, the Group and minority equity holders of Jinshan entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase Jinshan's registered capital from RMB100,000,000 to RMB400,000,000. The increase in registered capital amounted to RMB300,000,000 shall all be contributed by the Group. As a result of the change in equity interest, as at 31 December 2007, the Group's equity interest in Jinshan increased from 65% to 91.25% accordingly. As at 31 December 2007, the registered capital not yet contributed by the Group amounted to RMB206,034,000.

Note b: In July 2007, the Group and two minority equity holders of Shanxi Yao Zin entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase Shanxi Yao Zin's registered capital from RMB80,000,000 to RMB320,000,000. The increase in registered capital amounted to RMB240,000,000, of which an amount of RMB170,400,000 shall be contributed by the Group whilst the remaining amount of RMB69,600,000 shall be contributed by one of the minority equity holders of Shanxi Yao Zin. As a result of the change in equity interest, as at 31 December 2007, the Group's equity interest in Shanxi Yao Zin increased from 51% to 66% accordingly. As at 31 December 2007, the registered capital not yet contributed by the Group and other minority equity holders amounted to RMB30,400,000 and RMB89,200,000 respectively.

19. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2007	**2006**
	HK$'000	*HK$'000*
Amounts due from subsidiaries	811,713	232,660
Loans to subsidiaries	126,598	–
Less: Provision for impairment	(150,654)	(150,654)
	787,657	82,006
Less: Amounts due within one year included under current assets	(661,059)	(82,006)
Loans to subsidiaries under non-current assets	126,598	–

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Loans to subsidiaries are unsecured, interest bearing at 7.50% per annum and are repayable in April 2009. Included in the balance is interest receivable of HK$5,058,000 (2006: Nil) which is repayable together with the principal debts on the maturity date.

The directors consider that the carrying amounts of the balances approximate to their fair values.

20. INTERESTS IN ASSOCIATE

	Group		Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	–	–	4	4
Share of net assets	–	–	–	–
Amounts due from associate	3,739	3,739	3,739	3,739
	3,739	3,739	3,743	3,743
Less: Provision for impairment	(3,739)	(3,739)	(3,743)	(3,743)
	–	–	–	–

Amounts due from associate are unsecured, interest-free and not repayable within 12 months from the balance sheet date.

Particulars of the associate at 31 December 2007 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Assets	Liabilities	Revenue	Results	Percentage of interest held by the Group/ Company	
				HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	2007	2006
Real Wide Limited	Hong Kong	The PRC (in voluntary liquidation)	100 ordinary shares of HK$1 each	–	–	–	–	45%	45%

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS-GROUP

	2007	2006
	HK$'000	*HK$'000*
Unlisted investment, at cost	7,597	–

As at 31 December 2007, the Group had a 7% equity interest in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business at the balance sheet date and will be engaged in transportation industry. In the opinion of directors, no impairment in value is considered necessary.

22. PREPAYMENTS AND DEPOSITS-GROUP

	2007	2006
	HK$'000	*HK$'000*
Deposit for a potential mining project	152,896	144,138
Prepayments for the construction and installation of property, plant and equipment	152,663	83,796
Deposit paid to a minority equity holder of a subsidiary for the purchases of raw coal	32,559	–
Prepayments for land-use rights	51,319	–
	389,437	227,934

23. INVENTORIES

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials – Jewellery	–	89,122	–	89,122
Less: Provision for inventories	–	(89,122)	–	(89,122)
	–	–	–	–

Provision for inventories of HK$88,322,000 (2006: HK$78,503,000) was reversed against the inventory cost during the year. The remaining provision of HK$800,000 has been released to the cost of inventories as the related inventories were sold during the year.

24. TRADE RECEIVABLES

General credit terms of the Group and the Company range from 60 to 90 days. At 31 December 2007, all trade receivables of the Group and the Company are aged within 60 days (2006: 30 days).

The balances of the Group and the Company as at 31 December 2007 are denominated in Renminbi ("RMB") whilst those as at 31 December 2006 were denominated in HK$.

The carrying value of trade receivables is considered as reasonable approximation of fair value. Impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors and default or delinquency in payments are considered indicators that the trade receivables are impaired. The Group's receivables have been reviewed and none of them were found to have such indicators of impairment as at balance sheet date. The Group does not hold any collateral over these balances.

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. There were no receivables that were past due but not impaired at the balance sheet date. Based on past experience, the directors believe that no impairment allowance is necessary in respect of the balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at banks and on hand	165,617	8,573	7,542	1,299
Short term bank deposits*	294,921	2,000	–	2,000
	460,538	10,573	7,542	3,299

* *Short term bank deposits as at 31 December 2007 represents the net proceeds collected from the issue of the convertible notes on 20 April 2007 together with bank interest earned and the whole amount was placed at an escrow account until Conditions Subsequent as disclosed in note 32 to the financial statements were fulfilled. As all convertible notes have been converted into shares even though Conditions Subsequent was not fulfilled in January 2008, the deposits placed at the escrow account were transferred to the bank account of the Group.*

Cash at banks earn interest at floating rates based on the daily bank deposit rates. Short-term bank deposits are made for varying periods of one week to one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates ranging from 2.00% to 4.50% (2006: 0.54% to 4.26%) per annum.

As at 31 December 2007, included in cash and cash equivalents of the Group is HK$126,201,000 (2006: HK$7,265,000) of cash and bank balances denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency.

26. TRADE PAYABLES-GROUP

The Group was granted by its suppliers' credit periods ranging from 30 to 90 days. Based on the invoice dates, the Group's trade payables at the balance sheet date were all aged within 60 days. As at the balance sheet date, all trade payables of the Group were denominated in RMB.

27. BANK LOANS – GROUP

All bank loans at the balance sheet dates are due within one year and denominated in RMB. These loans are jointly and severally guaranteed by the Company's subsidiary and a minority equity holder of that subsidiary. All bank loans are interest bearing at a fixed rate of 8.54% (2006: 6.34%) per annum.

28. OTHER LOANS – GROUP

At 31 December 2007, other loans, obtained from a third party, were repayable as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Current portion – within 1 year	130,323	89,882
Non-current portion – between 1 and 2 years	–	141,995
	130,323	231,877

At 31 December 2007, other loans, denominated in RMB, are unsecured and interest bearing at fixed rates ranging from 5.49% to 12.00% per annum (2006: 5.49% to 12.00% per annum).

29. AMOUNTS DUE TO RELATED COMPANIES – GROUP

As at 31 December 2007, an amount of HK$9,253,000 (2006: Nil), denominated in RMB, was due to a related company in which a director of the Company is also a substantial equity holder. This balance is unsecured, interest free and repayable on demand.

The remaining balance amounting to HK$16,654,000 (2006: HK$25,820,000) is unsecured, interest bearing at 7.00% (2006: 7.00%) per annum and repayable on 31 December 2008.

30. AMOUNTS DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES – GROUP

As at 31 December 2007, an amount of HK$56,435,000 (2006: HK$1,998,000), denominated in RMB, is unsecured, interest-free and repayable on demand.

As at 31 December 2007, another amount of HK$29,154,000 (2006: HK$17,987,000), denominated in RMB is unsecured, interest-free and is due on 31 December 2008.

The remaining amount of HK$33,769,000 (2006: HK$43,439,000) is due one year after the related subsidiary has commenced its production. As at 31 December 2007, this subsidiary was still in its pre-operating period. The balance is unsecured and interest is charged on the outstanding amount at the rates ranging from 6.00% to 7.00% (2006: 6.00% to 7.00%) per annum.

31. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The balance was unsecured and interest-free. The balance has been fully repaid during the year.

32. CONVERTIBLE NOTES – GROUP

On 20 April 2007, the zero coupon convertible notes in the principal amount of HK$300,000,000 (the "Notes") were issued by Maxease, a wholly-owned subsidiary of the Group. The Notes are jointly and severally guaranteed by the Company and Mr. Wong Lik Ping who is a substantial shareholder and a director of the Company. The Notes, with the maturity date on 19 April 2012 (the "Maturity Date"), are convertible into shares of the Company with a par value of HK$0.10 at the initial conversion price of HK$2.33 (the "Conversion Price") per share at any time following the issue of the Notes until 10 business days prior to the Maturity Date.

The Conversion Price is to be adjusted on each of the first and second anniversaries of the issue date if the Company's weighted average trading price over the preceding calendar month (the "Reference Price") is less than 85% of the Conversion Price then in effect. The adjusted Conversion Price will be equal to the Reference Price, provided that any adjustment to the Conversion Price pursuant to the reset on a cumulative basis will be limited to 80% of the initial Conversion Price (i.e. HK$1.864). The conversion is also subject to dilutive effect adjustments.

On the date falling 12 months following the issue date of the Notes if, by such date, the Company has not either invested into greenfield coalmine with the appropriate and necessary mining rights, or purchased coal mine assets that are already in operation (the "Conditions Subsequent"), the Notes may be redeemed at the option of the noteholders at a price that is equivalent to a yield of 7.5% per annum on a semi-annual basis (the "Early Redemption Price"). The net proceeds of the Notes are currently deposited at the escrow account until the Conditions Subsequent are fulfilled. As at 31 December 2007, the Company has not yet fulfilled the Conditions Subsequent.

On the date falling 36 months following the issue date of the Notes, the Notes may be redeemed at the option of the noteholders at 124.7179% of their principal value which will enable the noteholders to obtain a yield of 7.5% per annum on a semi-annual basis. At any time after the 36th month of the issue date of the Notes, Maxease may redeem the Notes, in whole or in part at any time, at the Early Redemption Price; provided that the trading price of the Company's shares exceeds 140% of the Conversion Price for a consecutive period of not less than 30 trading days. If at least 90% of the Notes have been converted, redeemed, repurchased or cancelled, the Company is entitled to have clean-up call at the Early Redemption Price. Furthermore, the Notes may be redeemed at Maxease's option, in whole but not in part at any time, at the Early Redemption Price, in the event that Maxease or the Company would be required to pay the additional amounts in respect of the Notes as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong (or any other taxing jurisdiction to which Maxease or the Company becomes subject) in relation to taxes or any change in the official interpretation thereof.

Unless previously redeemed, converted or purchased and cancelled, the Notes shall be redeemed on the Maturity Date at 144.5044% of the principal value, which shall give the Notes a yield equal to 7.5% per annum on a semi-annual basis from the time of the issue on 20 April 2007.

The initial carrying amount of the liability component of the Notes is the amount after deducting the fair value of the derivative component. The derivative component is subsequently measured at fair value through profit or loss and the liability is subsequently carried at amortised cost.

The movements in the Notes during the year are analysed as follows:

	2007				2006
	Face value	Liability component	Derivative component	Total	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds of issue during the year	300,000	244,422	55,578	300,000	–
Transaction costs	–	(10,478)	–	(10,478)	–
Fair value loss on derivative component of the Notes	–	–	21,038	21,038	–
Interest expense	–	15,189	–	15,189	–
Conversion into ordinary shares	(260,000)	(215,119)	(65,700)	(280,819)	
At 31 December	40,000	34,014	10,916	44,930	–

The fair value of the derivative component of the Notes was calculated using the Monte Carlo Simulation Model with the major inputs as at 20 April 2007 and 31 December 2007 as follows:

	20 April 2007	31 December 2007
Stock price	HK$2.37	HK$5.03
Exercise price	HK$2.33	HK$2.33
Volatility	58.26%	61.51%
Risk free rate	4.05%	3.096%

As the Monte Carlo Simulation Model requires the input of highly subjective assumptions, including volatility of share price, change in subjective input assumptions can materially affect the fair value estimate.

During the year, as there was a significant increase in the share price of the Company, the fair value of derivative component of the Notes increased accordingly, resulting in a fair value loss of HK$21,038,000. Moreover, the Notes with face value of HK$260,000,000 were converted into 111,588,000 shares of the Company at a conversion price of HK$2.33 per share during the year.

Interest expense on the Notes is calculated using the effective interest method by applying the effective interest rate of 12.15% per annum to the liability component of the Notes.

33. SHARE CAPITAL

	Number of shares		Group and Company	
	2007	2006	2007	2006
	'000	*'000*	*HK$'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 December	5,000,000	5,000,000	500,000	500,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	2,080,800	2,080,800	208,080	208,080
Issue of new shares *(Note (a))*	230,000	–	23,000	–
Issue of new shares upon conversion of the Notes *(Note (b))*	111,588	–	11,159	–
At 31 December	2,422,388	2,080,800	242,239	208,080

Notes

(a) The Company and the placing agent entered into a placing agreement on 15 March 2007 pursuant to which the placing agent has conditionally agreed to procure the placees for a maximum of 230,000,000 new Shares (the "Placing Shares"), at a price of HK$2.00 per share, on a best effort basis. On 2 April 2007, 230,000,000 Placing Shares were issued under the general mandate granted to the directors at the Company's annual general meeting held on 16 June 2006. Details of the transactions are set out in the Company's announcements dated 20 March 2007 and 2 April 2007. The net proceeds of approximately HK$443,530,000 from the the Placing Shares were received.

(b) As described in note 32, the Notes with the principal amount of HK$300,000,000 were issued on 20 April 2007 and are convertible into shares of the Company at the Conversion Price (HK$2.33 per share) within certain periods and conditions. Up to the balance sheet date, the principal amount of HK$260,000,000 of the Notes has been converted into 111,588,000 shares of the Company at the Conversion Price.

34. SHARE OPTION SCHEME

At the Company's annual general meeting held on 20 June 2003, a new option scheme (the "Scheme") was approved which empowers the directors to implement and administer the Scheme with effect from the date of the resolution. The Scheme is designed to reward and provide incentives to, and strengthen the Group's business relationship with the prescribed classes of participants, including but not limited to eligible employees and directors of any member of the Group, who have contributed to the development of the Group. The Scheme is enforcable for a period of ten years ending on 19 June 2013, after which no further options are to be granted.

The exercise price of the options is to be determined by the directors and is at least the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, the average closing price of the shares as stated as Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant. No consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date as determined by the directors, but in any event not more than 10 years from the date of grant. Options granted to a substantial equity holder or any independent non-executives of the Company in excess of 0.1% of the issued capital of the Company and with an aggregate value in excess of HK$5 million must be approved in advance by the equity holders of the Company.

The total number of shares available for issue under the share option scheme as at 31 December 2007 was 104,080,000 (2006: 104,080,000) which represents 4% (2006: 5%) of the Company's issued shares at 31 December 2007. The number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

All share-based compensation is settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options. All share options granted are accounted for under HKFRS 2. Share options and exercise price for the year ended 31 December 2007 are as follows.

	2007		**2006**	
	Number	**Exercise price**	**Number**	**Exercise price**
	'000	*HK$*	*'000*	*HK$*
Outstanding at 1 January	104,000	1.5	–	–
Granted	–	–	104,000	1.5
Outstanding at 31 December	104,000	1.5	104,000	1.5

The exercise date of the outstanding options is on 26 April 2008. There were no options granted in 2007. The fair values of options granted in 2006 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included an expected volatility of 57.33%, estimated weighted average expected life of 2.1 years, risk-free interest rate of 4.27%, no dividend yield and estimated employees' turnover rate of 15%. The expected volatility was determined with reference to the historical volatility based on the Company's daily average closing price from 26 April 2004 to 25 April 2006. The expected volatility reflects the assumption that the historical volatility is indicative of future share market price trends, which may also not necessarily be the actual outcome. The risk-free interest rate was determined with reference to the corresponding period of Hong Kong Exchange Fund Notes interest rate at the date of options granted.

The fair value of the options granted in 2006, measured at the date of grant on 26 April 2006, totalled approximately HK$38,858,000. As the options vest after two years from the date of grant on 26 April 2006, the amount is recognised as a share-based compensation expense in the income statement over 2 years from 26 April 2006 to 25 April 2008. Thus, an amount of HK$19,429,000 (2006: HK$12,953,000) was recognised as an expense in the income statement with a corresponding credit in share-based compensation reserve during the year. No liabilities were recognised due to share-based payment transactions.

35. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

Company

	Share premium	Accumulated losses	Share-based compensation reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	399,169	(526,912)	–	(127,743)
Share-based compensation	–	–	12,953	12,953
Loss for the year	–	(18,773)	–	(18,773)
At 31 December 2006	399,169	(545,685)	12,953	(133,563)
At 1 January 2007	399,169	(545,685)	12,953	(133,563)
Share-based compensation	–	–	19,429	19,429
Issue of new shares at premium	420,530	–	–	420,530
Issue of new shares upon conversion of the convertible notes	269,660	–	–	269,660
Loss for the year	–	(28,790)	–	(28,790)
At 31 December 2007	1,089,359	(574,475)	32,382	547,266

36. DEFERRED TAX

As at 31 December 2007, there is no significant deferred tax liability (2006: Nil).

As at 31 December 2007, no deferred tax assets have been recognised (2006: Nil) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deductible temporary differences	6,164	7,196	395	409
Tax losses	199,940	191,822	159,540	151,866
	206,104	199,018	159,935	152,275

The Group has tax losses of approximately HK$6,109,000 (2006: HK$5,755,000) which shall expire in four to five years and tax losses of approximately HK$193,831,000 (2006: HK$186,067,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Company has tax losses arising in Hong Kong of approximately HK$159,540,000 (2006: HK$151,866,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

37. CAPITAL COMMITMENTS

The Group's capital commitments as at 31 December 2007 are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of property, plant and equipment	374,271	112,895
– Exploration and design fees for a potential mining project	8,118	7,604
	382,389	120,499

The Company does not have any capital commitments as at 31 December 2007 and 2006.

38. OPERATING LEASE COMMITMENTS

As at 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	716	659
In the second to fifth years	2,863	2,636
After five years	27,552	26,027
	31,131	29,322

The Group leases certain land and buildings under operating lease arrangements for terms ranging from 2 to 50 years, without option to renew the lease term at the expiry date. None of the lease includes contingent rentals.

The Company did not have any significant operating lease commitments as at 31 December 2007 (2006: Nil).

39. CONTINGENT LIABILITIES

At 31 December 2006, the Group borrowed an amount of RMB50,000,000 (equivalent to approximately HK$49,963,000) from a third party (the "Lender"), who in turn had borrowed the same amount from a financial institution. As a part of this funding arrangement, the Group and two subsidiaries of a minority equity holder of the Group have given joint and several guarantee for the amount borrowed by the Lender to the financial institution. At 31 December 2007, the relevant borrowing has been fully repaid.

40. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in these financial statements, the following transactions were carried out with related parties:

(a) China Merit Limited granted an advance of HK$10,000,000 to the Company on 11 August 2005 (note 31). This amount was fully repaid during the year ended 31 December 2007. Details of other borrowings from other related parties are disclosed in notes 29 and 30 to the financial statements respectively.

(b) During the year, the Notes (note 32) are jointly and severally guaranteed by the Company and Mr. Wong Lik Ping, being a substantial shareholder and a director of the Company at a nil consideration.

(c) During the year, Luenshan has drawn down a banking facility denominated in RMB amounting to HK$54,265,000 (2006: HK$49,963,000) from a financial institution. Jinshan, the immediate holding company of Luenshan, and a subsidiary of a minority equity holder of Luenshan have given joint and several guarantees to secure the banking facility.

(d) In December 2007, the Group entered into a coal supply contract with a subsidiary of a minority equity holder of Luenshan for the supply of raw coal for the period from 4 February 2008 to 31 December 2010. The transaction constitutes a continuing connected transaction of the Company and has been approved at the special general meeting held on 4 February 2008. Details of the transaction are set out in the Company's announcement on 31 December 2007 and its circular dated 18 January 2008.

(e) The compensation payable to key management personnel during the year have been disclosed in note 14 to the financial statements.

41. FINANCIAL INSTRUMENTS

41.1 Financial risk management objectives and policies

The Group is exposed a variety of financial risks such as credit risk, liquidity risk, currency risk, and interest rate risk, in the normal course of business. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks.

Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to market risk is kept to minimum, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Group is exposed are described below. A summary of the Group's financial assets and liabilities by category is set out in note 41.2.

(a) Interest rate risk

The Group borrows the loans where interest is charged at the fixed interest rates. The Group did not have exposure to the floating interest rate where there are unexpected adverse interest rate movements. The interest rates and repayment terms of bank loans, other loans, amounts due to related companies and amounts due to minority equity holders of subsidiaries are disclosed in notes 27, 28, 29 and 30 respectively.

Interest rate sensitivity analysis

The sensitivity analysis is determined by assuming that the change in interest rates had occurred and had been applied to variable-rate financial instruments at the balance sheet date. The 25 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the year ended 31 December 2006.

As at 31 December 2007, the Group was exposed to changes in interest rates through its cash and cash equivalents. It is estimated that a general increase of 25 basis points in interest rates, with all other variables held constant, will increase the Group's profit after income tax and decrease the accumulated loss by approximately HK$1,151,000 (2006: HK$26,000). There is no impact on other components of consolidated equity in response to the general increase in interest rates. A decrease of 25 basis points in interest rate will have had the equal but opposite effect.

(b) Credit risk

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 24.

The Group has deposited its cash with various banks. The credit risk on cash and bank balances is limited because most of the Group's bank deposits are deposited with major banks and financial institutions located in Hong Kong and the PRC.

(c) Foreign currency risk

The Group's exposure to currency exchange rates is minimal as the group companies hold majority of their financial assets/liabilities in their own functional currencies.

(d) Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their value.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(e) *Liquidity risk*

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

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

Group

	31 December 2007				
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	2,294	2,294	2,294	–	–
Other payables	125,997	125,997	125,997	–	–
Bank loans	54,265	56,582	56,582	–	–
Other loans	130,323	138,040	138,040	–	–
Amounts due to related companies	25,907	26,895	26,895	–	–
Amounts due to minority equity holders of subsidiaries	119,358	122,538	87,108	35,430	–
Convertible notes	34,014	57,802	–	–	57,802
	492,158	530,148	436,916	35,430	57,802

	31 December 2006				
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	29,812	29,812	29,812	–	–
Bank loans	49,963	50,569	50,569	–	–
Other loans	231,877	242,488	91,295	151,193	–
Amounts due to related companies	25,820	27,499	–	27,499	–
Amounts due to minority equity holders of subsidiaries	70,052	73,989	1,998	71,991	–
Amount due to ultimate holding company	10,000	10,000	10,000	–	–
	417,524	434,357	183,674	250,683	–

Company

	31 December 2007		
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
Other payables	5,765	5,765	5,765

	31 December 2006		
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
Other payables	876	876	876
Amount due to ultimate holding company	10,000	10,000	10,000
	10,876	10,876	10,876

41.2 Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at the balance sheet dates are categorised as follows. See notes 3(m) and 3(t) for explanations about how the categorisation of financial instruments affects their subsequent measurements.

(i) Financial assets

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Loans to subsidiaries	–	–	126,598	–
Current assets				
Loans and receivables:				
– Trade receivables	7,232	3	–	3
– Amounts due from subsidiaries	–	–	661,059	82,006
– Cash and cash equivalents	460,538	10,573	7,542	3,299
	467,770	10,576	668,601	85,308

(ii) Financial liabilities

	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Current liabilities				
Financial liabilities at amortised cost:				
– Trade payables	2,294	–	–	–
– Other payables	125,997	29,812	5,765	876
– Bank loans	54,265	49,963	–	–
– Other loans	130,323	89,882	–	–
– Amounts due to related companies	25,907	–	–	–
– Amounts due to minority equity holders of subsidiaries	85,589	1,998	–	–
– Amount due to ultimate holding company	–	10,000	–	10,000
Financial liability at fair value through profit or loss				
– Derivative liabilities of convertible notes	10,916	–	–	–
	435,291	181,655	5,765	10,876
Non-current liabilities				
Financial liabilities at amortised cost:				
– Other loans	–	141,995	–	–
– Amounts due to related companies	–	25,820	–	–
– Amounts due to minority equity holders of subsidiaries	33,769	68,054	–	–
– Convertible notes	34,014	–	–	–
	67,783	235,869	–	–
	503,074	417,524	5,765	10,876

42. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide adequate returns for shareholders in the long term and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may issue new shares to reduce debts. During the year, the Company issued new shares of 230,000,000 shares at a cash consideration of HK$2.0 per share with net proceeds of HK$443,530,000 to strengthen the equity base of the Company. As described in note 32, the Group issued the Notes with the principal amount of HK$300,000,000 during the year, of which HK$260,000,000 of the Notes has been converted into 111,588,000 shares of the Company at HK$2.33 per share to further strengthen the equity base of the Company.

Management regards total equity, convertible notes, unsecured bank loans and other borrowings presented on the face of the consolidated balance sheet as capital, for capital management purpose. The amount of capital as at 31 December 2007 was HK$1,166,793,000 (2006: HK$487,292,000).

43. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date in January 2008, the remaining principal amount of HK$40,000,000 of the Notes has been converted into 17,167,381 fully paid ordinary shares of the Company with a par value of HK$0.10 at the initial conversion price of HK$2.33 per share, resulting in an increase in the issued share capital of the Company after the balance sheet date accordingly.

(b) Subsequent to the balance sheet date in January 2008, Jinshan and a minority equity holder of Luenshan entered into the supplemental articles of association to increase the registered capital of Luenshan from RMB30,000,00 to RMB120,000,000. The registered capital of Luenshan will be increased by RMB90,000,000 million, of which RMB58,500,000 and RMB31,500,000 shall be contributed by Jinshan and the minority equity holder of Luenshan in accordance with their shareholdings respectively.

(c) The Company entered into the Memorandum of Understanding (the "MOU") with Fortune Dragon Energy Limited ("Fortune Dragon") relating to a possible very substantial acquisition (the "Proposed Acquisition") and connected transaction on 31 January 2008. Pursuant to the MOU, the Company and the Fortune Dragon shall use their best endeavours to negotiate and finalise a definitive formal agreement for the Proposed Acquisition by no later than 29 February 2008 (or such later date as the parties may agree). As disclosed in the announcement of the Company dated 3 March 2008, on 3 March 2008, the parties to the MOU mutually agreed to extend the time for the negotiation and finalization of the Exclusivity Undertaking under the MOU. On 31 March 2008, the parties to the MOU mutually agreed to further extend (i) the time for the negotiation and finalization of the definitive agreement for the Proposed Acquisition and (ii) the expiry date of the Exclusivity Undertaking under the MOU to 30 April 2008. Details of the MOU are set out in the Company's announcement dated 31 January 2008, 3 March 2008 and 31 March 2008 respectively.

INDEBTEDNESS

As at 30 April 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding indebtedness as follows:

Borrowing

As at 30 April 2008, the Enlarged Group had outstanding borrowings of approximately HK$348,324,000. The indebtedness comprised secured bank borrowings of approximately HK$153,336,000 which are secured by assets of the PRC Subsidiary A, the PRC Subsidiary B and PRC Subsidiary C, other unsecured borrowings of approximately HK$146,687,000 and amounts due to minority equity holders of the Company's subsidiaries of approximately HK$48,301,000

The amounts due to minority equity holders of the Company's subsidiaries amounted to HK$22,222,000 is unsecured, interest-free and repayable on demand, remaining amount of HK$26,079,000 is unsecured, interest bearing and due one year after the Company's related subsidiary commences its production.

Finance lease commitments

As at 30 April 2008, the Enlarged Group had obligation under finance lease of approximately HK$12,947,000.

Pledge of assets

As at 30 April 2008, the Enlarged Group's bank borrowings were secured by the pledge of the Enlarged Group's certain property, plant and equipment, prepaid lease payments and mining rights located in the PRC with the net book value of approximately HK$117,384,000, HK$45,972,000, and HK$1,503,000 respectively.

Bank guarantees

As at 30 April 2008, the Enlarged Group has executed guarantees amounting to approximately HK$793,325,400 with respect to bank loans to third parties. Under the guarantees, the Enlarged Group would be liable to pay the bank if the bank is unable to recover the loan. As at 30 April 2008, no provision for the Enlarged Group's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

Save as disclosed above and apart from intra-group liabilities (including loans from ultimate holding company of BVI companies and the related interest payable of approximately HK$1,263,690,000), the Enlarged Group did not have any other outstanding bank or other borrowings, mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, guarantee, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments or other contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximately exchange rates prevailing at the close of business on 30 April 2008.

Save as disclosed above, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 30 April 2008.

WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds, net proceeds from the Shougang Placing and the Second Placing and available bank facilities of the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements and for the requirements for the next twelve months from the date of this circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The following is the unaudited pro forma financial information of the Enlarged Group after the Acquisition prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited for the purpose of illustrating the effect of the Acquisition on the financial position of the Group as at 31 December 2007 and the results and cash flows of the Group for the year ended 31 December 2007.

The accompanying unaudited pro forma financial information of the Enlarged Group after the Acquisition is based on certain assumptions, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results and cash flows of the Group following the Completion of the Acquisition. Further, the accompanying unaudited pro forma financial information of the Enlarged Group after the Acquisition does not purport to predict the Enlarged Group's future financial position or results of operations.

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AFTER THE ACQUISITION

The unaudited pro forma consolidated balance sheet of the Enlarged Group after the Acquisition is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2007 extracted from the published annual report of the Group as of 31 December 2007 as set out in Appendix IV to this circular and the audited combined balance sheets of the Target Group A, the Target Group B and the Target Group C as at 31 December 2007 extracted from the accountants' reports as set out in Appendices I, II and III to this circular respectively (translated into HK$ at year end exchange rate of RMB1 = HK$1.0853), as if the Acquisition had been completed on 31 December 2007.

	The Group as at 31 December 2007 *HK$'000*	The Target Group A as at 31 December 2007 *HK$'000*	The Target Group B as at 31 December 2007 *HK$'000*	The Target Group C as at 31 December 2007 *HK$'000*	Combined Total *HK$'000*	Pro forma adjustments: Notes 2.1 and 2.2 *HK$'000*	Note 2.4 *HK$'000*	Note 2.5 *HK$'000*	Note 2.6 *HK$'000*	Note 2.7 *HK$'000*	Note 2.10 *HK$'000*	Note 2.11 *HK$'000*	Note 2.12 *HK$'000*	Note 2.13 *HK$'000*	Note 2.14 *HK$'000*	Note 2.16 *HK$'000*	Pro forma consolidated balance sheet of the Enlarged Group after the Acquisition *HK$'000* (Unaudited)
ASSETS AND LIABILITIES																	
Non-current assets																	
Property, plant and equipment	376,349	348,287	296,406	224,527	1,245,569		91,263										1,336,832
Prepaid lease payments	17,799	27,046	11,178	4,563	60,586												60,586
Interests in associates	–	18,522	210,619	–	229,141				1,238,246	(1,448,865)							18,522
Interests in subsidiaries	–	–	–	–	–	9,482,710										(9,482,710)	–
Mining rights	–	167,125	569,707	736,809	1,473,641			9,350,058									10,823,699
Available-for-sale financial assets	7,597	–	–	–	7,597												7,597
Prepayments and deposits	389,437	–	–	–	389,437												389,437
Goodwill	15,703	–	–	–	15,703												15,703
	806,885	**560,980**	**1,087,910**	**965,899**	**3,421,674**												**12,652,376**
Current assets																	
Inventories	–	26,010	22,269	21,176	69,455												69,455
Available-for-sale financial assets	–	434	–	–	434												434
Trade and bill receivables	7,232	212,256	362,828	81,886	664,202												664,202
Deposits, prepayments and other receivables	20,429	65,283	29,052	22,652	137,416									42,000			179,416
Amounts due from Mr. Xing's net indebtedness	–	–	–	–	–						988,259			(988,259)			–
Amount due from ultimate holding company	–	20,166	–	–	20,166						(20,166)						–
Amounts due from a related party/companies	–	241,226	337,515	46,455	625,196						(625,196)						–
Amount due from director	–	–	17,365	–	17,365						(17,365)						–
Amount due from Target Group	–	–	–	–	–	1,113,290									(1,113,290)		–
Amount due from fellow subsidiaries	–	–	–	115,447	115,447							(115,447)					–
Amounts due from minority investor	–	487,596	30,989	380,401	898,986						(411,390)		(487,596)				–
Pledged bank deposit	–	33,151	15,740	1,089	49,980												49,980
Cash and cash equivalents	460,538	17,923	801	14,215	493,477	(4,360,000)								6,083,259			2,216,736
	488,199	**1,104,045**	**816,559**	**683,321**	**3,092,124**												**3,180,223**
Current liabilities																	
Trade and bill payables	2,294	92,535	109,501	35,991	240,321												240,321
Other payables and accruals	125,997	357,382	150,214	207,356	840,949	66,000											906,949
Amount due to minority equity holders of subsidiaries	85,589	–	–	–	85,589												85,589
Amounts due to related companies	25,907	76,679	2,565	527	105,678	500,000					(79,771)						525,907
Amounts due to ultimate holding company	–	–	6,087	600,130	606,217						(6,087)				(600,130)		–
Amount due to associate			487,596	–	487,596								(487,596)				–
Amounts due to fellow subsidiaries	–	4,810	110,637	–	115,447							(115,447)					–
Borrowings	184,588	69,812	49,927	5,183	309,510												309,510
Derivative liability of convertible notes	10,916	–	–	–	10,916												10,916
Provision for tax	–	93,059	85,046	20,140	198,245												198,245
	435,291	**694,277**	**1,001,573**	**869,327**	**3,000,468**												**2,277,437**

	The Group as at 31 December 2007	The Target Group A as at 31 December 2007	The Target Group B as at 31 December 2007	The Target Group C as at 31 December 2007	Combined Total	Pro forma adjustments: Notes 2.1 and 2.2	Note 2.4	Note 2.5	Note 2.6	Note 2.7	Note 2.10	Note 2.11	Note 2.12	Note 2.13	Note 2.14	Note 2.16	Pro forma consolidated balance sheet of the Enlarged Group after the Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Net current assets/(liabilities)	**52,908**	**409,768**	**(185,014)**	**(186,006)**	**91,656**												**902,786**
Total assets less current liabilities	**859,793**	**970,748**	**902,896**	**779,893**	**3,513,330**												**13,555,162**
Non-current liabilities																	
Long term payables	–	18,019	–	–	18,019												18,019
Borrowings	–	52,235	–	6,897	59,132									1,200,000			1,259,132
Amount due to minority equity holders of subsidiaries	33,769	–	–	–	33,769												33,769
Loans from ultimate holding company	–	160,178	240,265	112,717	513,160										(513,160)		–
Convertible notes	34,014	–	–	–	34,014												34,014
	67,783	**230,432**	**240,265**	**119,614**	**658,094**												**1,344,934**
Net assets	**792,010**	**740,316**	**662,631**	**660,279**	**2,855,236**	5,670,000	91,263	9,350,058	1,238,246	(1,448,865)	–	–	–	3,937,000	–	(9,482,710)	**12,210,228**
EQUITY																	
Equity attributable to equity holders of the Company																	
Share capital	242,239	–	–	–	242,239	126,000								86,000			454,239
Share premium	1,089,359	–	–	–	1,089,359	5,544,000								3,851,000			10,484,359
Statutory and other reserves	46,300	192,762	205,329	132,538	576,929		65,930	6,795,910	804,860							(8,197,329)	46,300
(Accumulated losses)/Retained earnings	(644,167)	354,991	419,899	473,089	603,812											(1,247,979)	(644,167)
	733,731	**547,753**	**625,228**	**605,627**	**2,512,339**												**10,340,731**
Minority interests	**58,279**	**192,563**	**37,403**	**54,652**	**342,900**		25,333	2,554,148	433,386	(1,448,865)						(37,402)	**1,927,339**
	792,010	**740,316**	**662,631**	**660,279**	**2,855,236**	5,670,000	91,263	9,350,058	1,238,246	(1,448,865)	–	–	–	3,937,000	–	(9,482,710)	**12,210,228**

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group:

2.1 On 9 May 2008, the Company, Jade Green Investments Limited, a wholly-owned subsidiary of the Company and Mr. Wong, a substantial shareholder of the Company, entered into an agreement (the "Agreement") with the Seller and Mr. Xing, the controlling shareholder of the Seller, to acquire the Sale Shares and Sale Loans as follows:

Sale Shares: the entire issued shares of each of the BVI Companies comprising:

(i) 1 share of US$1 each in the issued capital of Company A, being the entire issued share capital of Company A;

(ii) 1 share of US$1 each in the issued capital of Company B, being the entire issued share capital of Company B; and

(iii) 1 share of US$1 each in the issued capital of Company C, being the entire issued share capital of Company C.

Sale Loans: (i) the unsecured loan advanced by the Seller to Company A. As at the date of the Agreement, the outstanding principal of the loan amounted to US$20,199,501 (approximately HK$160,178,000);

(ii) the unsecured loan advanced by the Seller to Company B. As at the date of the Agreement, the outstanding principal of the loan amounted to US$30,299,252 (approximately HK$240,265,000); and

(iii) the unsecured loan advanced by the Seller to Company C and the amount due from Company C to the Seller in the current account of Company C. As at the date of the Agreement, the outstanding principal of the loan amounted to US$14,214,463 (approximately HK$112,717,000) and the amount due to the Seller from Company C (non-interest bearing) amounted to US$80,750,000 (approximately HK$600,130,000).

Sale Loans as at the date of the Agreement are totalled approximately HK$1,113,290,000.

The fair value of total consideration for the Acquisition is HK$10,530,000,000 which is to be satisfied in the following manners:

	HK$'000
Cash*	4,860,000
Issue and allotment of 1,260,000,000 Consideration Shares at the Issue Price (HK$4.5 per Consideration Share)	5,670,000
Total consideration	10,530,000

As the par value of the Consideration Share is HK$0.1, the issue and allotment of 1,260,000,000 Consideration Shares at the Issue Price (HK$4.5 per Consideration Share) results in the increase of share capital and share premium account by HK$126,000,000 and HK$5,544,000,000 respectively.

* *Included in the amount of HK$4,860,000,000, HK$4,360,000,000 is satisfied by cash on Completion of the Acquisition and the remaining of HK$500,000,000 will be payable on the expiry of six months period from the Completion of the Acquisition.*

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group (continued)

2.2 As the consideration includes the Sale Loans, amounts due to the Seller in the books of the Target Group were assigned to amounts due to the Group and hence these amounts become receivable balances due from the Target Group upon Completion. Consequently, the cost of investment is thus as follows:

	HK$'000
Total consideration	10,530,000
Less: Amounts due from Target Group *(note 2.8)*	(1,113,290)
Capitalised direct costs associated with the Acquisition	66,000
Cost of investment	9,482,710

The Sale Loans are determined based on the aggregate of amounts due to Seller as at 31 December 2007. This balance is to be eliminated on consolidation in the unaudited pro forma balance sheet as shown in note 2.14 below.

The capitalised direct costs represents the accruals for the professional fees (including but not limited to financial advisor fees, legal fees and reporting accountants' remuneration) and other costs for the Acquisition upon completion would be HK$66,000,000.

2.3 The calculation is to reflect the effect of the Acquisition on the consolidated balance sheet of the Group if the Acquisition had taken place on 31 December 2007.

Details of net identifiable assets to the acquired and goodwill arising on the Acquisition are as follows:

	HK$'000
Cost of investments at Completion of the Acquisition *(note 2.2)*	9,482,710
Less: Fair value of net identifiable assets to be acquired – as shown below	(9,482,710)
Goodwill	–

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group (continued)

2.3 (continued)

The fair values and carrying amounts of assets and liabilities arising from the Acquisition are as follows:

	The Target Group A as at 31 December 2007		The Target Group B as at 31 December 2007		The Target Group C as at 31 December 2007		Combined	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets								
Property, plant and equipment *(note a)*	348,287	383,215	296,406	330,708	224,527	246,560	869,220	960,483
Prepaid lease payments	27,046	27,046	11,178	11,178	4,563	4,563	42,787	42,787
Interests in associates *(note c)*	18,522	18,522	210,619	1,448,865	–	–	229,141	1,467,387
Mining rights *(note b)*	167,125	3,670,043	569,707	4,022,275	736,809	3,131,381	1,473,641	10,823,699
	560,980	**4,098,826**	**1,087,910**	**5,813,026**	**965,899**	**3,382,504**	**2,614,789**	**13,294,356**
Current assets								
Inventories	26,010	26,010	22,269	22,269	21,176	21,176	69,455	69,455
Available-for-sale financial assets	434	434	–	–	–	–	434	434
Trade and bill receivables	212,256	212,256	362,828	362,828	81,886	81,886	656,970	656,970
Deposits, prepayments and other receivables	65,283	65,283	29,052	29,052	22,652	22,652	116,987	116,987
Amount due from ultimate holding company	20,166	20,166	–	–	–	–	20,166	20,166
Amounts due from a related party/companies	241,226	241,226	337,515	337,515	46,455	46,455	625,196	625,196
Amount due from director	–	–	17,365	17,365	–	–	17,365	17,365
Amount due from fellow subsidiaries	–	–	–	–	115,447	115,447	115,447	115,447
Amounts due from minority investor	487,596	487,596	30,989	30,989	380,401	380,401	898,986	898,986
Pledged bank deposit	33,151	33,151	15,740	15,740	1,089	1,089	49,980	49,980
Cash and cash equivalents	17,923	17,923	801	801	14,215	14,215	32,939	32,939
	1,104,045	**1,104,045**	**816,559**	**816,559**	**683,321**	**683,321**	**2,603,925**	**2,603,925**
Current liabilities								
Trade and bill payables	92,535	92,535	109,501	109,501	35,991	35,991	238,027	238,027
Other payables and accruals	357,382	357,382	150,214	150,214	207,356	207,356	714,952	714,952
Amounts due to related companies	76,679	76,679	2,565	2,565	527	527	79,771	79,771
Amounts due to ultimate holding company	–	–	6,087	6,087	600,130	600,130	606,217	606,217
Amount due to associate	–	–	487,596	487,596	–	–	487,596	487,596
Amounts due to fellow subsidiaries	4,810	4,810	110,637	110,637	–	–	115,447	115,447
Borrowings	69,812	69,812	49,927	49,927	5,183	5,183	124,922	124,922
Provision for tax	93,059	93,059	85,046	85,046	20,140	20,140	198,245	198,245
	694,277	**694,277**	**1,001,573**	**1,001,573**	**869,327**	**869,327**	**2,565,177**	**2,565,177**
Net current assets/(liabilities)	**409,768**	**409,768**	**(185,014)**	**(185,014)**	**(186,006)**	**(186,006)**	**38,748**	**38,748**
Total assets less current liabilities	**970,748**	**4,508,594**	**902,896**	**5,628,012**	**779,893**	**3,196,498**	**2,653,537**	**13,333,104**
Non-current liabilities								
Long term payables	18,019	18,019	–	–	–	–	18,019	18,019
Borrowings	52,235	52,235	–	–	6,897	6,897	59,132	59,132
Loans from ultimate holding company	160,178	160,178	240,265	240,265	112,717	112,717	513,160	513,160
	230,432	**230,432**	**240,265**	**240,265**	**119,614**	**119,614**	**590,311**	**590,311**
Net assets	**740,316**	**4,278,162**	**662,631**	**5,387,747**	**660,279**	**3,076,884**	**2,063,226**	**12,742,793**

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group (continued)

2.3 (continued)

	The Target Group A as at 31 December 2007		The Target Group B as at 31 December 2007		The Target Group C as at 31 December 2007		Combined	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
EQUITY								
Equity attributable to equity holders								
Share capital	–	–	–	–	–	–	–	–
Statutory and other reserves	192,762	2,405,408	205,329	3,188,697	132,538	2,423,052	530,629	8,017,157
Retained earnings	354,991	441,945	419,899	545,259	473,089	478,349	1,247,979	1,465,553
	547,753	**2,847,353**	**625,228**	**3,733,956**	**605,627**	**2,901,401**	**1,778,608**	**9,482,710**
Minority interests	**192,563**	**1,430,809**	**37,403**	**1,653,791**	**54,652**	**175,483**	**284,618**	**3,260,083**
	740,316	**4,278,162**	**662,631**	**5,387,747**	**660,279**	**3,076,884**	**2,063,226**	**12,742,793**

Details of net assets acquired and goodwill are as follows:

Purchase consideration	
– Consideration in cash	4,860,000
– Consideration Shares	5,670,000
	10,530,000
Less: Amounts due from Target Group	(1,113,290)
Net consideration for Sale Shares	9,416,710
Capitalised direct costs associated with the Acquisition	66,000
Cost of investments at Completion of the Acquisition	9,482,710
Net assets acquired	(9,482,710)
Goodwill	–

Note a: The fair value on property, plant and equipment of the Target Group is determined based on valuation carried out by Assets Appraisal Limited, an independent valuer at 30 April 2008. The surplus of the fair value over the carrying amounts of the Target Group amounts to HK$91,263,000. Details of the valuation are set out in Appendix VI to this circular.

Note b: Based on the assumption the cost of investments equal to the fair value of net identifiable assets to be acquired and there is no goodwill arising from the Acquisition of the Target Group, the fair value of the mining rights is the balancing figure and equals to HK$10,823,699.

Note c : The carrying amount of interests in associates in the Target Group B represented share of 35% equity interests in the PRC Subsidiary A held by PRC Subsidiary B which is accounted for as an associate using the equity method. As the carrying amount of property, plant and equipment and mining rights of the Target Group A are revaluated to their fair values as disclosed in note a and note b above, the carrying amounts of interests in associates in the Target Group B were revalued to its fair values accordingly.

Note d : Save for the adjustments on fair values on property, plant and equipment and mining rights in note a and note b above respectively, the Directors are of the opinion that no fair value adjustment is required for other assets and liabilities as the carrying values of other assets and liabilities approximate their fair values.

On Completion, the fair value of the consideration and the net identifiable assets and liabilities of the Target Group will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma financial information. Accordingly, the actual goodwill at the date of completion may be different from that presented above.

The dividends proposed by the Target Group A, the Target Group B and the Target Group C for the year ended 31 December 2007 are not considered in the preparation of the unaudited pro forma financial information, as these were approved and paid after 31 December 2007.

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group (continued)

2.4 This adjustment reflects the fair value surplus on property, plant and equipment of the Target Group, as valued by Assets Appraisal Limited, an independent valuer at 30 April 2008. See note a of 2.3 above.

2.5 This adjustment reflects the fair value surplus on the mining rights over the carrying amounts as stated in the financial statements of the Target Group. See note b of 2.3 above. This is illustrated as follows:

	HK$'000
Fair value	10,823,699
Less: carrying amounts	(1,473,641)
Surplus amounts	9,350,058

2.6 This adjustment reflects the fair value surplus on the 35% equity interests in PRC Subsidiary A held by PRC Subsidiary B resulting from the fair value surplus on property, plant and equipment and mining rights as set out in notes 2.4 and 2.5 above respectively. The 35% equity interests in PRC Subsidiary A is accounted for as an associate using equity method. PRC Subsidiary A, as a whole, is a 87.75% subsidiary of the Target Group B.

2.7 This adjustment is to eliminate the effect of PRC Subsidiary A in the Target Group B.

2.8 As mentioned in note 2.2 above, since the consideration included the Sale Loans, amounts due to the Seller in the books of the Target Group were assigned to amounts due to the Group and hence these amounts become receivable balances due from the Target Group upon Completion. Amounts due from the Target Group are illustrated as follows:

	HK$'000
Target Group A	160,178
Target Group B	240,265
Target Group C (including the balances within the current account of HK$600,130,000)	712,847
Total	1,113,290

This balance is to be eliminated on consolidation in the unaudited pro forma balance sheet as shown in note 2.14 below.

2.9 The initial cash consideration of HK$4,360,000,000 for the Acquisition would be financed partially by net proceeds of HK$1,158,000,000 (after deduction of facility fee of HK$42,000,000) from a possible bank loan for a principal amount of HK$1,200,000,000 and net proceeds from share placements for an amount of HK$3,937,000,000 by issuing 860,000,000 new shares of the Company of which 450,000,000 new shares are issued at HK$4.6 per share and the remaining of 410,000,000 new shares are issued at HK$4.8 per share. The possible bank loan of HK$1,200,000,000 is reference to the indicative term sheet offered by a fellow subsidiary of BOCI to the Company.

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group (continued)

2.10 It is stipulated in the Agreement that the cash consideration shall be deducted by Mr. Xing's net indebtedness. As the unaudited pro forma consolidated balance sheet of the Enlarged Group after the Acquisition is prepared as if the Acquisition had been completed on 31 December 2007, Mr. Xing's net indebtedness is determined based on the followings as at 31 December 2007:

	The Target Group A	**The Target Group B**	**The Target Group C**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from ultimate holding company	20,166	–	–	20,166
Amounts due from a related party/companies	241,226	337,515	46,455	625,196
Amounts due from a director	–	17,365	–	17,365
Amounts due from minority investor	–	30,989	380,401	411,390
Amounts due to related companies	(76,679)	(2,565)	(527)	(79,771)
Amounts due to ultimate holding company*	–	(6,087)	–	(6,087)
Total of Mr. Xing's net indebtedness				988,259

* *Amounts due to ultimate holding company by the Target Group C have been included in the Sale Loans and therefore are not included in Mr. Xing's net indebtedness.*

2.11 This adjustment is to reflect the elimination of the balances due from/(to) the Target Group A, the Target Group B and the Target Group C as these groups becomes group companies within the Group.

2.12 This is to eliminate the inter company balances between the Target Group B and the Target Group A, both of which become companies within the Group upon Completion.

2.13 This represents the adjustments on the cash position of the Group as a result of the Acquisition and this is analysed as follows:

Cash outflows	*HK$'000*
Cash consideration is to be paid on the Completion as shown in note 2.1 above	4,360,000
Set off against Mr. Xing's net indebtedness as shown in note 2.10 above	(988,259)
Net cash payments	3,371,741

The above cash payments are to be financed by net proceed of HK$1,158,000,000 from a possible bank loan for a principal amount of HK$1,200,000,000 in accordance with the indicative term sheet offered by a fellow subsidiary of BOCI to the Company and the net proceeds from the share placements for aggregate amounts of HK$3,937,000,000 (after share issuing expenses and other expenses) by aggregate issuing 860,000,000 new shares of the Company. Pursuant to the Announcements of the Company dated 17 June 2008 and 20 June 2008 in relation to the placing of 450,000,000 new shares and 410,000,000 new shares with the par value of HK$0.1 of the Company at the issue price of HK$4.6 per share and HK$4.8 per share to obtain the net proceeds of HK$1,922,000,000 and HK$2,015,000,000 (after deduction of share issuing expenses and other expenses), the share capital and share premium account of the Company would be increased by HK$86,000,000 and HK$3,851,000,000. The net cash inflows arising from the bank loan and share placements are summarised as follows:

Cash inflows	*HK$'000*
Loan drawdown	1,200,000
Payment of facility fee as set out in note 2.9 above	(42,000)
Net proceeds from share placements	3,937,000
Net cash inflows	5,095,000

The net impact on the cash position of the Group is thus the net cash inflows of HK$1,723,259,000.

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group (continued)

2.14 This is to eliminate the amounts due to ultimate holding company as assigned under the Sale Loans.

2.15 This reflects the effect on the share capital and share premium arising from the issues and allotments of the Consideration Shares and share placements.

	Share capital	**Share premium**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Consideration Shares (as shown in note 2.1 above)	126,000	5,544,000	5,670,000
Share placements (as shown in note 2.13 above)	86,000	3,851,000	3,937,000
Total	212,000	9,395,000	9,607,000

2.16 This reflects the adjustments on the elimination of interests in subsidiaries and the respective pre-acquisition reserves.

3. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP AFTER THE ACQUISITION

The unaudited pro forma consolidated income statement of the Enlarged Group after the Acquisition is prepared based on the audited consolidated income statement of the Group for the year ended 31 December 2007 extracted from the published annual report of the Group as at 31 December 2007 as set out in Appendix IV to this circular and the audited combined income statements of the Target Group A, the Target Group B and the Target Group C for the year ended 31 December 2007 extracted from the accountants' reports as set out in Appendices I, II and III to this circular respectively (translated into HK$ at an average exchange rate of RMB1 = HK$1.0366), as if the Acquisition had been completed on 1 January 2007.

	The Group year ended 31 December 2007	The Target Group A year ended 31 December 2007	The Target Group B year ended 31 December 2007	The Target Group C year ended 31 December 2007	Combined Total	Pro forma adjustments: Note 3.1	Note 3.2	Note 3.3	Note 3.4	Note 3.5	Pro Forma consolidated income statement of the Enlarged Group after the Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Revenue	15,056	731,353	553,635	539,933	1,839,977	(38,081)					1,801,896
Cost of sales	(13,206)	(269,102)	(168,301)	(137,037)	(587,646)	38,081	(365,336)				(914,901)
Gross profit	**1,850**	**462,251**	**385,334**	**402,896**	**1,252,331**						**886,995**
Other operating income	15,142	20,820	1,328	2,689	39,979						39,979
Selling expenses	–	(58,668)	(8,033)	(11,869)	(78,570)						(78,570)
Administrative expenses	(42,094)	(48,451)	(37,961)	(28,912)	(157,418)						(157,418)
Other operating expenses	(17,469)	(1,328)	(5,502)	(3,965)	(28,264)						(28,264)
Operating (loss)/profit	**(42,571)**	**374,624**	**335,166**	**360,839**	**1,028,058**						**662,722**
Finance costs	(22,482)	(40,705)	(37,624)	(16,895)	(117,706)			62,189	(144,000)		(199,517)
Fair value loss on derivative liability of convertible notes	(21,038)	–	–	–	(21,038)						(21,038)
Share of profit of associate	–	329	123,776	–	124,105					(123,776)	329
(Loss)/Profit before income tax	**(86,091)**	**334,248**	**421,318**	**343,944**	**1,013,419**						**442,496**
Income tax expenses	–	–	–	–	–						–
(Loss)/Profit for the year	**(86,091)**	**334,248**	**421,318**	**343,944**	**1,013,419**	–	(365,336)	62,189	(144,000)	(123,776)	**442,496**
Attributable to:											
Equity holders of the Company	(77,948)	210,472	263,667	326,065	722,256	–	(297,178)	62,189	(144,000)	(80,454)	262,813
Minority interests	(8,143)	123,776	157,651	17,879	291,163	–	(68,158)	–	–	(43,322)	179,683
	(86,091)	**334,248**	**421,318**	**343,944**	**1,013,419**	–	(365,336)	62,189	(144,000)	(123,776)	**442,496**
(Loss)/Earning per share for loss/(profit) attributable to the equity holders of the Company during the year *(Note 3.6)*											
– Basic	HK$(3.42 cents)										HK$5.98 cents
– Diluted	N/A										N/A

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

3.1 This adjustment is to reflect the elimination of inter-company transactions amongst the Target Group A, the Target Group B and the Target Group C for the year ended 31 December 2007 upon consolidation as these groups are considered as companies within the Group from 1 January 2007.

3.2 As set out in notes 2.4 and 2.5 above, property, plant and equipment and mining rights had been appraised at fair value. As a result, additional depreciation of HK$4,563,000 and amortisation of HK$360,773,000 are arisen from the new fair value and are accordingly charged to the unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2007. As it is assumed that the fair values of property, plant and equipment and mining rights as at 1 January 2007 are the same as those as at 30 April 2008, the additional charges are determined based on the fair values of property, plant and equipment and mining rights as at 31 December 2007.

3.3 As the consideration comprises the Sale Loans, interest arising from the loans due by the Target Group A, the Target Group B and the Target Group C to the Seller is therefore entitled by the Group, had the Acquisition been completed on 1 January 2007. The adjustment is to reflect the interest income entitled by the Group for the year ended 31 December 2007 amounting to HK$62,189,000. This amount is eliminated on consolidation as the Target Group A, the Target Group B and the Target Group C are considered as the group companies within the Group from 1 January 2007.

3.4 This adjustment is to reflect the interest expense and facility fee for the year ended 31 December 2007 on a possible bank loan of HK$1,200,000,000 which is used to finance part of the consideration of the Acquisition. In accordance with the indicative term sheet of the bank loan offered by a fellow subsidiary of BOCI to the Company, the interest rate would be 9% per annum, one-off facility fee of 3.5% on the principal amount and repayment in 14 months. This is consistent with the accounting policy of the Group where borrowing cost is expensed as when incurred. The facility fee of 3.5% on the respective loan is amortised over the repayment period of 14 months.

3.5 Prior to Completion of the Acquisition, BVI Company B indirectly held 35% equity interest in PRC Subsidiary A and its results were accounted for as an associate under equity method for the year ended 31 December 2007. Had the Acquisition been completed on 1 January 2007, upon completion, the Group effectively holds 87.75% equity interest in PRC Subsidiary A and thus, its results are consolidated into the consolidated income statements with the Group. Accordingly, share of profits of PRC subsidiary A of HK$123,776,000 is eliminated.

3.6 **Pro forma earnings per share**

The calculation of the pro forma basic earnings per share attributable to the equity holders of the Company is based on the pro forma consolidated profit attributable to the equity holders of the Company of HK$262,813,000 and the weighted average number of 4,397,844,621 ordinary shares, calculated as follows:

Number of shares	**Pro forma Enlarged Group**
Weighted average number of ordinary shares for the year ended 31 December 2007 extracted from published annual report of the Group as at 31 December 2007	2,277,844,621
Adjustment for Consideration Shares issued under the Agreement on 1 January 2007	1,260,000,000
Adjustment for issue of 860,000,000 new Shares for raising funds for partial settlement of cash consideration under the Agreement on 1 January 2007	860,000,000
Weighted average number of ordinary shares for the purpose of basis loss per share	4,397,844,621

Pro form diluted earnings per share was not presented because the impact of the exercise of the share options and the convertible notes was anti-dilutive.

4. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma consolidated cash flow statement of the Enlarged Group after the Acquisition is prepared based on the audited consolidated cash flow statement of the Group for the year ended 31 December 2007 extracted from the published annual report of the Group as of 31 December 2007 as set out in Appendix IV to this circular and the audited combined cash flow statements of the Target Group A, the Target Group B and the Target Group C for the year ended 31 December 2007 extracted from the accountants' reports as set out in Appendices I, II and III to this circular respectively (translated into HK$ at an average exchange rate of RMB1 = HK$1.0366), as if the Acquisition had been completed on 1 January 2007.

	The Group year ended 31 December 2007 HK$'000	The Target Group A year ended 31 December 2007 HK$'000	The Target Group B year ended 31 December 2007 HK$'000	The Target Group C year ended 31 December 2007 HK$'000	Combined Total HK$'000	Pro forma adjustments: Note 4.1 HK$'000	Note 4.2 HK$'000	Note 4.3 HK$'000	Note 4.4 HK$'000	Note 4.5 HK$'000	Note 4.6 HK$'000	Note 4.7 HK$'000	Note 4.8 HK$'000	Note 4.9 HK$'000	Pro Forma Consolidated cash flow of the Enlarged Group after the Acquisition HK$'000 (Unaudited)
Cash flows from operating activities															
(Loss)/Profit before income tax	(86,091)	334,248	421,318	343,944	1,013,419	(144,000)	62,189	(123,776)	(365,336)						442,496
Adjustments for:															
Amortisation of prepaid lease payments	450	631	219	89	1,389										1,389
Amortisation of mining rights	–	5,663	5,073	3,556	14,292				360,773						375,065
Depreciation of property, plant and equipment	2,755	27,152	14,262	14,106	58,275				4,563						62,838
Finance costs	22,482	40,705	37,624	16,895	117,706	144,000	(62,189)								199,517
Fair value loss on derivative liability of convertible notes	21,038	–	–	–	21,038										21,038
(Gain)/Loss on disposals of property, plant and equipment	–	(829)	682	–	(147)										(147)
Interest income	(15,142)	(569)	(191)	(2,689)	(18,591)										(18,591)
Share-based compensation expenses	19,429	–	–	–	19,429										19,429
Impairment loss on prepayments and other receivables	–	6,549	9,545	3,183	19,277										19,277
Share of profit of associates	–	(329)	(123,776)	–	(124,105)			123,776							(329)
Operating (loss)/profit before working capital changes	**(35,079)**	**413,221**	**364,756**	**379,084**	**1,121,982**										**1,121,982**
Decrease/(Increase) in inventories	–	6,026	(7,912)	(7,391)	(9,277)										(9,277)
(Decrease)/Increase in trade and bill receivables	(7,229)	(81,368)	(183,830)	32,549	(239,878)										(239,878)
(Decrease)/Increase in prepayment, deposits and other receivables	(13,752)	200,107	(3,560)	5,401	188,196							(866,159)			(677,963)
Decrease/(Increase) in amount(s) due from a related party/related companies	–	185,522	(160,004)	(15,894)	9,624							(9,624)			–
Increase in amounts due from fellow subsidiaries	–	–	–	(110,266)	(110,266)									110,266	–
Increase in amounts due from minority investor	–	(638,966)	(475,758)	(380,764)	(1,495,488)							856,522		638,966	–
Increase in amounts due from ultimate holding company	–	(19,261)	–	–	(19,261)							19,261			–
Increase/(Decrease) in trade and bill payables	2,294	(397)	14,131	5,142	21,170										21,170
Increase/(Decrease) in other payables and accruals	7,424	206,040	(48,977)	101,967	266,454							(251,874)			14,580
Increase/(Decrease) in amounts due to related companies	–	33,135	2,329	(2,166)	33,298							(33,298)			–
Decrease in amounts due to ultimate holding company	–	(14,736)	(16,524)	(91,647)	(122,907)							122,907			–
Decrease in amounts due to minority investor	–	–	(92,926)	(69,339)	(162,265)							162,265			–
Increase in amounts due to a fellow subsidiary	–	4,594	105,672	–	110,266									(110,266)	–
Increase in amounts due to associate	–	–	638,966	–	638,966									(638,966)	–
Net cash (used in)/generated from operations	**(46,342)**	**293,917**	**136,363**	**153,324**	**230,614**										**230,614**
Finance costs paid	–	(7,616)	(344)	(2,871)	(10,831)	(108,000)				(42,000)					(160,831)
Income tax paid	–	(189)	(446)	(5,598)	(6,233)										(6,233)
Net cash (used in)/generated from operating activities	**(46,342)**	**286,112**	**135,573**	**(161,793)**	**213,550**										**63,550**

	The Group year ended 31 December 2007 HK$'000	The Target Group A year ended 31 December 2007 HK$'000	The Target Group B year ended 31 December 2007 HK$'000	The Target Group C year ended 31 December 2007 HK$'000	Combined Total HK$'000	Pro forma adjustments: Note 4.1 HK$'000	Note 4.2 HK$'000	Note 4.3 HK$'000	Note 4.4 HK$'000	Note 4.5 HK$'000	Note 4.6 HK$'000	Note 4.7 HK$'000	Note 4.8 HK$'000	Note 4.9 HK$'000	Pro Forma Consolidated cash flow of the Enlarged Group after the Acquisition HK$'000 (Unaudited)
Cash flows from investing activities															
Purchase of property, plant and equipment	(57,737)	(56,588)	(85,242)	(81,553)	(281,120)										(281,120)
Proceeds from disposals of property, plant and equipment	–	2,106	505	9,272	11,883										11,883
Prepayments for purchase of property, plant and equipment and potential mining project	(99,948)	–	–	–	(99,948)										(99,948)
Payments for prepaid lease payments	–	–	(247)	(103)	(350)										(350)
Acquisitions of Target Group A, Target Group B and Target Group C	–	–	–	–	–						(3,096,210)		(66,000)		(3,162,210)
Capital investment in an available-for-sale financial assets	(7,597)	–	–	–	(7,597)										(7,597)
Interest received	15,142	569	191	2,689	18,591										18,591
Net cash used in investing activities	**(150,140)**	**(53,913)**	**(84,793)**	**(69,695)**	**(358,541)**										**(3,520,751)**
Cash flows from financing activities															
Net proceeds from issue of new shares upon placement	443,530	–	–	–	443,530					3,937,000					4,380,530
Net proceeds from issue of convertible notes	289,522	–	–	–	289,522										289,522
Decrease in long term payables	–	(5,574)	–	–	(5,574)										(5,574)
Increase in pledged bank deposits	–	(18,383)	–	–	(18,383)										(18,383)
Proceeds from new bank loans	54,265	–	–	–	54,265					1,200,000					1,254,265
Repayment of bank loans	(50,819)	–	–	–	(50,819)										(50,819)
Proceeds from new other loans	–	41,464	46,647	–	88,111										88,111
Repayment of other loans	(101,555)	(253,767)	(61,159)	(1,202)	(417,683)										(417,683)
Repayment to ultimate holding company	(10,000)	–	–	–	(10,000)										(10,000)
Repayment to related companies	(2,281)	–	–	–	(2,281)										(2,281)
Advances from minority equity holders of subsidiaries	30,509	–	–	–	30,509										30,509
Finance costs paid	(7,293)	(33,089)	(37,280)	(14,024)	(91,686)										(91,686)
Net cash generated from/(used in) financing activities	**645,878**	**(269,349)**	**(51,792)**	**(15,226)**	**(309,511)**										**5,446,511**
Net increase/(decrease) in cash and cash equivalents	**449,396**	**(37,150)**	**(1,012)**	**(246,714)**	**164,520**										**1,989,310**
Cash and cash equivalents at 1 January	**10,573**	**55,246**	**1,405**	**218,880**	**286,104**						(275,531)				10,573
Effect of foreign exchange rate changes	**569**	**(173)**	**408**	**42,049**	**42,853**										42,853
Cash and cash equivalents at 31 December	**460,538**	**17,923**	**801**	**14,215**	**493,477**	(108,000)	–	–	–	5,095,000	(3,371,741)	–	(66,000)	–	**2,042,736**

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

4.1 This adjustment is to reflect the interest expense and facility fee for the year ended 31 December 2007 on the bank loan of HK$1,200,000,000 which is used to finance part of the consideration of the Acquisition, assuming the interest rate of approximately 9% per annum. The facility fee of 3.5% on the respective loan is amortised over the repayment period of 14 months.

4.2 Interest arising from the loans due by the Target Group A, the Target Group B and the Target Group C to the Seller is therefore entitled by the Group, had the Acquisition been completed on 1 January 2007. The adjustment is to reflect the interest income entitled by the Group for the year ended 31 December 2007 amounting to HK$62,189,000. This amount is eliminated on consolidation as the Target Group A, the Target Group B and the Target Group C are considered as the group companies within the Group from 1 January 2007.

4.3 Prior to Completion of the Acquisition, BVI Company B indirectly holds 35% equity interest in PRC Subsidiary A and its results were accounted for as an associate under equity method for the year ended 31 December 2007. Had the Acquisition been completed on 1 January 2007, upon completion, the Group effectively holds 87.75% equity interest in PRC Subsidiary A and thus, its results are consolidated into the consolidated income statements with the Group. Accordingly, share of profits of PRC subsidiary A of HK$123,776,000 is reversed.

4.4 As set out in notes 2.4 and 2.5 above, property, plant and equipment and mining rights had been appraised at fair value. As a result, additional depreciation of HK$4,563,000 and amortisation of HK$360,773,000 are arisen from the new fair value and are accordingly charged to the unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2007. It is assumed that the fair values of property, plant and equipment and mining rights as at 1 January 2007 are the same as those as at 30 April 2008.

4.5 This pro forma adjustment represented net proceeds from bank loan and share placements for financing the settlement of consideration as set out in note 2.9 above.

4.6 This pro forma adjustment represented net cash outflows on the Acquisition which is calculated by the cash consideration to be paid on the Completion of the Acquisition of HK$4,360,000,000 less beginning aggregate balance of HK$275,531,000 of cash and cash equivalents of the Target Group A, the Target Group B and the Target Group C and less Mr. Xing's net indebtedness of HK$988,259,000 as if the Acquisition had been completed on 1 January 2007.

4.7 This pro forma adjustment represents reclassification of accounts in relation to amounts due from/(to) related party/companies, minority investor and ultimate holding of the Target Group A, the Target Group B and the Target Group C. Upon consolidation, the amount due from/(to) related party/companies, minority investor and ultimate holding company of the Target Group A, the Target Group B and the Target Group C will be reclassified as other receivables/payables.

4.8 This pro forma adjustment represents the payment of professional fees amounted to HK$66,000,000 as set out in note 2.2 above.

4.9 This pro forma adjustment represents elimination of inter-company fund transfer among the Target Group A, the Target Group B and the Target Group C.

B. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Grant Thornton
均富

Member of Grant Thornton International Ltd.

25 June 2008

The Directors
Fushan International Energy Group Limited
12th Floor
Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of Fushan International Energy Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), Thechoice Finance Limited ("Company A") and its subsidiary, Worldman Industrial Limited ("Company B") and its subsidiary, and Gumpert Industries Limited ("Company C") and its subsidiary, (together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Company A, Company B and Company C, might have affected the financial information presented, as set out on pages V-1 to V-16 of the Company's circular dated 25 June 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information of the Enlarged Group (the "Unaudited Pro Forma Financial Information of the Enlarged Group") is set out in the section under the heading of "Unaudited pro forma financial information of the Enlarged Group" in Appendix V to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information of the Enlarged Group in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information of the Enlarged Group 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 of the Enlarged Group 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 of the Enlarged Group 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 of the Enlarged Group has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information of the Enlarged Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information of the Enlarged Group.

The Unaudited Pro Forma Financial Information of the Enlarged Group 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 give any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 31 December 2007 or any future date; or

– the results and cash flows of the Enlarged Group for the year ended 31 December 2007 or any future periods.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information of the Enlarged Group 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 of the Enlarged Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

Asset Appraisal Limited
資產評值顧問有限公司

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

25 June 2008

The Board of Directors
Fushan International Energy Group Limited
12th Floor
Kwan Chart Tower
No.6 Tonnochy Road
Wanchai, Hong Kong

Dear Sirs,

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

In accordance with the instructions from **Fushan International Energy Group Limited** (the "Company") for us to value the property interests (the "properties") held by the Company, Thechoice Finance Limited, Worldman Industrial Limited, Gumpert Industries Limited or their subsidiaries (altogether referred to as the "Enlarged Group") situated in the People's Republic of China (the "PRC") and in Hong Kong, we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at **30 April 2008** (the "date of valuation").

BASIS OF VALUATION

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

TITLESHIP

For the properties situated in the PRC, we have been provided with copies of legal documents regarding the properties. Further, we have relied upon the legal opinion provided by the PRC legal advisers, namely King & Wood PRC Lawyers (北京金杜律師事務所) (the "PRC Legal Opinion"), to the Company on the relevant laws and regulations in the PRC, on the nature of the Enlarged Group's interests in the properties. Its material content has been summarized in the valuation certificate attached herewith.

For the property situated in Hong Kong, we have caused search to be made at the Land Registry and the material information of the registration details has been summarized in the valuation certificate attached herewith for reference purpose.

VALUATION METHODOLOGY

We have valued the properties on the market basis assuming sale with the benefit of immediate vacant possession and by reference to comparable transactions available in the market.

Having considered the general and inherent characteristics of the buildings and structures of the properties numbered 5 to 7, we have also adopted the Depreciated Replacement Cost Methods in valuing them. It is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the valuation date. This method of valuation requires an estimate of the market value of the land in its existing use (if any) and an estimate of the new replacement cost of the buildings and other site works, from which deductions are then made to allow for age, condition, functional obsolescence, etc.

As the land grant procedures of the properties numbered 3 and 4 have not yet been completed, we have attributed no commercial value to the property.

LIMITING CONDITIONS

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

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

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

We have inspected the exterior and, where possible, the interior of the buildings and structures of the properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

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

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

In valuing the PRC properties, we have valued the properties in Hong Kong Dollars (HK$). The conversion of Renminbi (RMB) into "HK$" is based on the factor of $1.0 to RMB0.90 with reference to the prevailing exchange rate on the valuation date.

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited
Sandra Lau
MFin MHKIS AAPI RPS(GP)
Director

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

SUMMARY OF VALUATION

Group I – Property held by the Enlarged Group in the Hong Kong

Property	Market Value as at 30 April 2008 *HK$*	Interest attributable to the Enlarged Group	Value of property interest attributable to the Enlarged Group *HK$*
1. Offices 1 to 5 on 12th Floor Kwan Chart Tower No.6 Tonnochy Road Wanchai, Hong Kong	18,000,000	100%	18,000,000
Subtotal:	18,000,000		18,000,000

Group II – Property held by the Enlarged Group in the PRC

Property	Market Value as at 30 April 2008 *HK$*	Interest attributable to the Enlarged Group	Value of property interest attributable to the Enlarged Group *HK$*
2. 5th Floor Block 1 Shengwei Building No.480 Nanneihuan Street Taiyuan City Shanxi Province the PRC	10,190,000	91.25%	9,298,375
3. Land, Buildings and Structures of Coke Procession Plant located at Xiwangtun Village Wutong Town Xiaoyi City Shanxi Province the PRC	No commercial value	66%	No commercial value
4. Land, Buildings and Structures of Coke Procession Plant located at Risheng Gou Malan Town Gujiao City Shanxi Province the PRC	No commercial value	63.875%	No commercial value

SUMMARY OF VALUATION

Property		Market Value as at 30 April 2008 *HK$*	Interest attributable to the Enlarged Group	Value of property interest attributable to the Enlarged Group *HK$*
5.	Land, Buildings and Structures of Coal Mine located at Zhuangshan Village Zhuangshan Town Liulin County Luliang City Shanxi Province the PRC	250,000,000	87.75%	219,375,000
6.	Land, Buildings and Structures of Coal Mine located at Lishuao Village Zhuangshan Town Liulin County Luliang City Shanxi Province the PRC	189,000,000	65%	122,850,000
7.	Land, Buildings and Structures of Coal Mine located at Zhaiyadi Village Chenjiawan Town Liulin County Luliang City Shanxi Province the PRC	113,000,000	95%	107,350,000
8.	Land, Buildings and Structures of Coke Processing Plant located at Gaohong Industrial Area Xuecun Town Liulin County Luliang City Shanxi Province the PRC	No commercial value	91.25%	No commercial value
	Subtotal:	562,190,000		458,873,375
	Total:	**580,190,000**		**476,873,375**

VALUATION CERTIFICATE

Group I – Property held by the Enlarged Group in the Hong Kong

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 *HK$*
1. Offices 1 to 5 on 12th Floor Kwan Chart Tower No.6 Tonnochy Road Wanchai Hong Kong 15/464th share of and in the Remaining Portions of Section E, H and I of Marine Lot No. 440, the Remaining Portion of Section B of Marine Lot No. 441 and Section C or Marine Lot No. 441.	The property comprises 5 office units on 12th floor of a 24-storey office building completed in 1993. The total saleable floor area of the property is 3,107 square feet. The property is held under government leases for the terms of 99 years renewable for further 99 years commencing on 1 July 1927. The annual government rent of the subject lot sections is HK$154.18 per annum	The property is occupied by the Enlarged Group as offices.	18,000,000 (100% interest attributable to the Enlarged Group: 18,000,000)

Notes:

1. The registered owner of the property is Jumbo Hall International Limited which is a wholly-owned subsidiary of the Company vide memorial no.UB6760441 dated 2 September 1996.

2. The property is falling within an area currently zoned “Commercial/Residential” under the Wan Chai Outline Zoning Plan No. S/H5/25.

VALUATION CERTIFICATE

Group II - Property held by the Enlarged Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 *HK$*
2. 5th Floor Block 1 Shengwei Building No.480 Nanneihuan Street Taiyuan City Shanxi Province the PRC	The property comprises all office units on 5th floor of a 22-storey (plus two basements) office building completed in 1999. The total gross floor area of the property is 1,310.02 square metres.	The property is occupied by the Enlarged Group as offices.	10,190,000 (91.25% interest attributable to the Enlarged Group: 9,298,375)

Notes:

1. As stipulated in the Building Ownership Certificate dated 25 July 2007, the property is held by Shanxi Jinshan Energy Limited ("Jinshan") (山西金山能源有限公司) which is a 91.25%-owned subsidiary of the Company.

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

   2.1 Jinshan has obtained the Building Ownership Certificate of the property;

   2.2 Jinshan has the right to use, dispose, lease, mortgage the property;

   2.3 Up to the date of legal opinion, the property is not subject to any encumbrance; and

   2.4 According to the Article of the Provisional Regulation of People's Republic of China and Granting and Transferring the Land Use Right of State-owned Land in Cities and Towns, the property is held for a maximum term of 50 years for the purpose of composite uses.

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 *HK$*
3. Land, Buildings and Structures of Coke Procession Plant located at Xiwangtun Village Wutong Town Xiaoyi City Shanxi Province the PRC	The property comprises a parcel of land with an area of 165,334.16 square metres on which various single to 6-storey buildings and structures are under construction. Upon completion, the total gross floor area of the aforesaid buildings and structures will be 23,610.84 square metres with breakdown set out as follows: **Use** / **Gross Floor Area** *(sq. m.)* Warehouse 3,000.00 Workshop 8,205.30 Office 3,979.04 Ancillary 8,426.50 Total: 23,610.84 As at the date of our inspection, the construction works for the subject development were in progress and the buildings were scheduled for completion by end of this year. The subject land parcel is held by the Enlarged Group under a lease for a term of 50 years commencing on 1 October 2000 and expiring on 30 September 2050 at an current annual rent of RMB496,000.	The property is currently vacant.	No commercial value

Notes:

1. Pursuant to a land lease agreement dated 28 September 2000, Xiao Yi Yao Zin Coal and Coking Company Limited ("Xiao Yi", 孝義曜鑫煤焦有限責任公司), rented the property from Zhong Wu Tong Villager Committee (中梧桐村民委員會).

2. Xiao Yi is one of the shareholders of Shanxi Yao Zin Coal and Coking Company Ltd. ("Yao Zin", 山西曜鑫煤焦有限責任公司) which is a 66%-owned subsidiary of the Company.

3. As the land grants procedures of the property have not yet been completed and the land use rights are in the nature of collectively-owned, we have attributed no commercial value to the property in existing state as well as the property as if it were completed on the valuation date.

4. As confirmed by the Company, the total construction costs for the subject development is budgeted at RMB460,000,000. As at the valuation date, the construction costs expended onto the property and the construction costs to be expended to completed the subject development were RMB242,407,800 and RMB217,592,200.

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

   5.1 Under the prevailing contract law in the PRC, the maximum permitted term of leasing agreement is 20 years;

   5.2 Therefore, the maximum term of the subject land lease agreement shall not be longer than 20 years and the portion of the agreed lease term beyond 20 years shall be invalid;

   5.3 The land use rights in the property are in the nature of collectively-owned. The leasing of the land use rights before completion of land grant procedures shall create legal imperfection to the leasehold interest.

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 *HK$*
4. Land, Buildings and Structures of Coke Procession Plant located at Risheng Gou Malan Town Gujiao City Shanxi Province the PRC	The property comprises a parcel of land with an area of 218,001.09 square metres on which various single to 6-storey buildings and structures are under construction Upon completion, the total gross floor area of the aforesaid buildings and structures will be 20,191.57 square metres with breakdown set out as follows: **Use** — **Gross Floor Area** *(sq. m.)* Workshop 7,290.00 Dormitory 3,911.29 Office 5,480.24 Ancillary 3,510.03 Total: 20,191.57 As at the date of our inspection, the construction works for the subject development were in progress and the buildings were scheduled for completion by end of this year. The subject land parcel is held by the Enlarged Group under 2 leases for a term of 50 years commencing on 30 September 2003 and expiring on 1 October 2053 at an annual rent of RMB163,500 (being RMB500/mou of land area).	The property is currently vacant.	No commercial value

Notes:

1. Pursuant to two sets of land lease agreement both dated 30 September 2003, Taiyuan Xishan Risheng Coal and Coking Co., Ltd. (太原西山日盛煤焦有限公司 (formerly known as Taiyuan Xishang Coal Co., Ltd. (太原西山煤焦有限公司)), a 63.875% indirectly owned subsidiary of the Company, rented the subject land parcel from Gu Jiao City Ma Lan Zhen Bei She Village Villager Committee ("Gu Jiao", 古交市馬蘭鎮北社村村民委員會) (an independent third party).

2. As the land grant procedures of the property have not yet been completed and the land use rights are in the nature of collectively-owned, we have attributed no commercial value to the property in existing state as well as the property as if it were completed on the valuation date.

3. As confirmed by the Company, the total construction costs for the subject development is budgeted at RMB220,000,000. As at the valuation date, the construction costs expended onto the property and the construction costs to be expended to completed the subject development were RMB117,797,400 and RMB102,202,600.

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

   4.1 Under the prevailing contract law in the PRC, the maximum permitted term of leasing agreement is 20 years;

   4.2 Therefore, the maximum term of the subject land lease agreement shall not be longer than 20 years and the portion of the agreed lease term beyond 20 years shall be invalid;

   4.3 The land use rights in the property are in the nature of collectively-owned. The leasing of the land use rights before completion of land grant procedures shall create legal imperfection to the leasehold interest.

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 *HK$*
5. Land, Buildings and Structures of Coal Mine located at Zhuangshan Village Zhuangshan Town Liulin County Luliang City Shanxi Province, the PRC.	The property comprises three parcels of land with a total land area of 125,814.57 square metres on which various single to 7-storey buildings and structures erected. The aforesaid buildings and structures were completed in between 1970 and 2005. The total gross floor area of the aforesaid buildings and structures is 52,584.64 square metres. The property is held for a term expiring on 7 June 2052 and 7 June 2072 for industrial use and residential use respectively.	The property is occupied by the Enlarged Group for mining operations.	250,000,000 (87.75% interest attributable to the Enlarged Group: 219,375,000)

Notes:

1. Pursuant to the Land Use Rights Contract entered into between State-owned Land Resource Bureau of Liulin County (柳林縣國土資源局) and Shanxi Liulin Xingwu Coalmine Company Limited ("Xingwu", 山西柳林興無煤礦有限責任公司), a 87.75%-owned subsidiary of the Enlarged Group, issued on 6 June 2002, the latter acquired the subject land at a consideration of RMB37,798,000 of which only a sum of RMB11,339,400 was payable to the Land Bureau and the remaining sum of RMB26,458,600 has been waived by the Land Bureau. As confirmed by the Enlarged Group, up to the valuation date, a sum of RMB3,339,000 of the aforesaid payable consideration was outstanding.

2. As stipulated in two sets of Land Use Rights Certificate both dated 4 August 2006, the land use rights in a portion of the property with a total land area of 96,747.75 square metres is held by Xingwu for a term expiring on 7 June 2052 for industrial purpose. As stipulated in the another set of Land Use Rights Certificate dated 4 August 2006, the remaining portion of the land use rights in the property is held by Xingwu for a term expiring on 7 June 2072 for residential purpose.

3. As stipulated in 49 sets of Building Ownership Certificate dated 26 September 2006, 27 September 2006 or 13 February 2007 respectively, the aforesaid completed buildings and structures are held by Xingwu.

4. As stipulated in the aforesaid Land Use Rights Certificates and Building Ownership Certificates, the subject land and some of the aforesaid buildings and structures with a total gross floor area of 29,627.87 square metres are subject to a mortgage in favour of Deutsche Bank Shanghai Branch.

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

   5.1 Based on the written confirmation from the Land Resource Bureau of Liulin County, Xingwu shall have unfettered rights to occupy the property throughout the unexpired land use right terms even though the land premium is not yet settled in full;

   5.2 Although Xingwu has secured the land use rights in the property, the overdue of the land premium would expose Shanxi Liulin to late payment penalty;

   5.3 Besides the subject land parcels and some of the building and structures (with a total gross floor area of 29,627.87 square metres) which are subject to a mortgage, the remaining portion of the property was not subject to mortgage as at the date of legal opinion; and

   5.4 The property can be transferred, lease or mortgaged by Xingwu. Before discharging the aforesaid mortgage, the leasing, transfer and further charging of the pledged portions are subject to prior consent from the mortgagee.

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 HK$
6. Land, Buildings and Structures of Coal Mine located at Lishuao Village Zhuangshan Town Liulin County Luliang City Shanxi Province the PRC	The property comprises four parcels of land with a total land area of 153,945.75 square metres on which various single to 4-storey buildings and structures erected. The aforesaid buildings and structures were completed in between 1998 and 2006. The total gross floor area of the aforesaid buildings and structures is 25,236.93 square metres. The property is held for a term expiring on 25 December 2056.	The property is occupied by the Enlarged Group for mining operations.	189,000,000 (65% interest attributable to the Enlarged Group: 122,850,000)

Notes:

1. Pursuant to the Land Use Rights Contract entered into between State-owned Land Resource Bureau of Liulin County (柳林縣國土資源局) and Shanxi Liulin Jinjiazhuang Coal Company Limited ("Jinjiazhuang", 山西柳林金家莊煤業有限公司), a 65%-owned subsidiary of the Enlarged Group, on 20 September 2006, Jinjiazhuang was granted the subject land with an area of 153,945.51 square metres at a land premium of RMB10,324,631.

2. As stipulated in four sets of Land Use Rights Certificate all dated 28 December 2006, the land use rights in the property are held by Jinjiazhuang for a term expiring on 25 December 2056 for industrial purpose.

3. As stipulated in 17 sets of Building Ownership Certificate dated 15 September 2006 or 18 September 2006 respectively, the aforesaid completed buildings and structures are held by Jinjiazhuang.

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

   4.1 Jinjiazhuang can transfer, lease or mortgage the property during the unexpired land use right terms;

   4.2 Out of the total land premium payable of RMB10,324,631, a sum of RMB10,022,623 was overdue;

   4.3 Based on the written confirmation from the Land Resource Bureau of Liulin County, Jinjiazhuang shall have unfettered rights to occupy the property throughout the unexpired land use right terms even though the land premium is not yet settled in full;

   4.4 Although Jinjiazhuang has secured the land use rights in the property, the overdue of the land premium would expose Shanxi Liulin to late payment penalty; and

   4.5 As at the date of legal opinion, the property was not subject to mortgage.

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 *HK$*
7. Land, Buildings and Structures of Coal Mine located at Zhaiyadi Village Chenjiawan Town Liulin County Luliang City Shanxi Province the PRC	The property comprises two parcels of land with a total land area of 63,814.29 square metres on which various single to 6-storey buildings and structures erected. The aforesaid buildings and structures were completed in between 1995 and 2006. The total gross floor area of the aforesaid buildings and structures is 17,417.44 square metres. The property is held for a term expiring on 25 December 2056.	The property is occupied by the Enlarged Group for mining operations.	113,000,000 (95% interest attributable to the Enlarged Group: 107,350,000)

Notes:

1. Pursuant to the Land Use Rights Contract entered into between State-owned Land Resource Bureau of Liulin County (柳林縣國土資源局) and Shanxi Liulin Zhaiyadi Coal Company Limited ("Zhaiyadi", 山西柳林寨崖底煤業有限公司), a 95%-owned subsidiary of the Enlarged Group, on 31 September 2006, Zhaiyadi was granted the subject land at a land premium of RMB4,211,724.

2. As stipulated in two sets of Land Use Rights Certificate both dated 28 December 2006, the land use rights in the property are held by Zhaiyadi for a term expiring on 25 December 2056 for industrial purpose.

3. As stipulated in 11 sets of Building Ownership Certificate all dated 15 September 2006, majority of the aforesaid completed buildings and structures with a total gross floor area of 15,738.44 square metres are held by Shanxi Liulin Zhaiyadi Coal Co., Ltd..

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

   4.1 Zhaiyadi can transfer, lease or mortgage the property during the unexpired land use right terms;

   4.2 Out of the total land premium payable of RMB4,211,724, a sum of RMB4,140,988 was overdue;

   4.3 Based on the written confirmation from the Land Resource Bureau of Liulin County, Zhaiyadi shall have unfettered rights to occupy the property throughout the unexpired land use right terms even though the land premium is not yet settled in full;

   4.4 Although Zhaiyadi has secured the land use rights in the property, the overdue of the land premium would expose Shanxi Liulin to late payment penalty; and

   4.5 As at the date of legal opinion, the property was not subject to mortgage.

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2008 *HK$*
8. Land, Buildings and Structures of Coke Processing Plant located at Gaohong Industrial Area Xuecun Town Liulin County Luliang City Shanxi Province the PRC	The property comprises a parcel of land with an area of 99,760 square metres on which a coke processing plant is under construction. According to the development scheme provided by the Company, the total gross floor area of the processing plant will be 11,310.50 square metres. As at the date of our inspection, the foundation works were in progress and the construction is scheduled for completion by 2009.	The property is currently vacant.	No commercial value

Notes:

1. As stipulated in the Construction Land Use Planning Permit dated 19 March 2008, Shanxi Jinshan Energy Limited ("Jinshan" 山西金山能源有限公司), a 91.25%-owned subsidiary of the Company for coke processing plant purpose.

2. As the land grant procedures of the property have not been completed, we have attributed no commercial value to the property.

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

   3.1 By virture of an approval dated 22 May 2007 issued by the People's Government of Shanxi Province, Jinshan was allowed to acquire the collective owned agricultural land with an area of 49,228 square metres (being part of the subject land) and to convert the agricultural land into construction land;

   3.2 Jinshan acquired another parcel of collective owned construction land with an area of 10,110 square metres as another portion of the subject land;

   3.3 Jinshan acquired another parcel of unutilized state-owned land with an area of 35,428 square metres as the remaining portion of the subject land;

   3.4 as revealed by a Opinion on Location Selection for Construction Project dated 19 March 2008 issued by the Shanxi Construction Department, the department accepted the proposal for developing a coke processing plant in the subject land;

   3.5 by certified by a Construction Land Use Planning Permit dated 19 March 2008 endorsed by the Shanxi Construction Bureau, the development of a coke processing plant on the subject land is consistent with town planning controls; and

   3.6 Jinshan have completed have followed all necessary procedures and gains government approval in acquiring the collective-owned land and is eligible to complete the state-owned land grant procedures with the Government.

PROPERTY RECONCILIATION

Property	(No.1) Offices 1 to 5 on 12th Floor Kwan Chart Tower No.6 Tonnochy Road Wanchai, Hong Kong	(No.2) 5th Floor Shengwei Building No. 480 Nanneihuan Street Taiyuan City Shanxi Province the PRC	(No.3) Land, Buildings and Structures of Coke Procession Plant located at Xiwangtun Village Wutong Town Xiaoyi City Shanxi Province, the PRC	(No.4) Land, Buildings and Structures of Coke Procession Plant located at Risheng Gou Malan Town Gujiao City Shanxi Province, the PRC	(No.5) Land, Buildings and Structures of Coal Mine located at Zhuangshan Village Zhuangshan Town Liulin County Luliang City Shanxi Province, the PRC	(No.6) Land, Buildings and Structures of Coal Mine located at Lishuao Village Zhuangshan Town Liulin County Luliang City Shanxi Province, the PRC	(No.7) Land, Buildings and Structures of Coal Mine located at Zhaiyadi Village Chenjiawan Town Liulin County Luliang City Shanxi Province, the PRC	(No.8) Land, Buildings and Structures of Coke Processing Plant located at Gaohong Industrial Area Xuecun Town Liulin County Luliang City Shanxi Province, the PRC
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Carrying value as at 31 December 2007 *(Note 1)*	7,464,000	6,654,000	234,790,000	124,783,000	91,216,000	68,080,000	62,714,000	2,672,000
Addition during the period from 1 January 2008 to 30 April 2008 *(Note 2)*	Nil	Nil	28,968,000	3,136,000	125,591,000	87,436,000	28,212,000	478,000
Depreciation for the period from 1 January 2008 to 30 April 2008 *(Note 2)*	(118,000)	(298,000)	Nil	Nil	(3,904,000)	(2,437,000)	(1,450,000)	Nil
Currency realignment for the period from 1 January 2008 to 30 April 2008 *(Note 2)*	Nil	158,000	5,584,000	2,967,000	2,169,000	1,619,000	1,491,000	64,000
Carrying value as at 30 April 2008 *(Note 2)*	7,346,000	6,514,000	269,342,000	130,886,000	215,072,000	154,698,000	90,967,000	3,214,000
Revaluation Surplus/Deficit of 100% property interest	10,654,000	3,676,000	Nil	Nil	34,928,000	34,302,000	22,033,000	Nil
Valuation Report as at 30 April 2008 *(Note 3)*	18,000,000	10,190,000	No commercial value	No commercial value	250,000,000	189,000,000	113,000,000	No Commercial Value

Notes:

1. Extracted from the management account for the year ended 31 December 2007
2. Extracted from the management account for the period ended 30 April 2008
3. Per Property valuation report

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent valuer, in connection with its valuations as at 30 April 2008 of the Mines.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

25 June 2008

The Board of Directors
Fushan International Energy Group Ltd.
12/F Kwan Chart Tower
6 Tonnochy Road
Wanchai Hong Kong

Dear Sirs,

Re: Business valuation of shareholders' equities of 3 companies held by Fortune Dragon Energy Limited

In accordance with the instructions from **Fushan International Energy Group Ltd.** (referred to as the "Company") to value the shareholders' equity interests of three companies (referred to as the "Mining Companies") held by **Fortune Dragon Energy Limited** (referred to as "FDE"). We confirm that we have carried out inspection of the Coal Mines of the Mining Companies, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the fair value of the shareholders' equities of the Mining Companies as at **30 April 2008** (referred to as the "Valuation Date").

The Mine Companies are principally engaging in coke coal mining operations and each of the companies holds coal mining right in a coke coal mine (referred to as the "Coal Mines") all situated in Liulin County, Shanxi Province, the People's Republic of China (the "PRC"). The name of the coke coal mines of each of the Mining Companies are set out as follows:

Mining Companies	Coal Mines
山西柳林金家庄煤業有限公司 Shanxi Liulin Jinjiazhuang Co. Ltd. ("JJZ Company")	Jinjiazhuang Mine ("JJZ Mine")
山西柳林興無煤礦有限責任公司 Shanxi Liulin Xingwu Co. Ltd. ("XW Company")	Xingwu Mine ("XW Mine")
山西柳林寨崖底煤業有限公司 Shanxi Liulin Zhaiyadi Co. Ltd. ("ZYD Company")	Zhaiyadi Mine ("ZYD Mine")

BACKGROUND OF THE MINING COMPANIES

JJZ Company is principally engaged in the operations of coke coal mining. Coking coal exploited from JJZ Mine is hard coke coal. A coke coal processing/preparation plant nearby the mining site of JJZ Mine is currently under construction and scheduled for completion in October 2008. JJZ Company has been granted the exploitation right in JJZ Mine which has a recoverable coke coal reserve of 43,800,000 tonnes with reference to the Technical Review Report dated 25 June 2008 prepared by an independent coal mine expert namely John T. Boyd Company (referred to as "BOYD Report").

XW Company is principally engaged in the operations of coke coal mining and coke processing. Coking coal exploited from XW Mine is hard coke coal. XW Company is also holding and running a coke coal preparation plant, which is located adjacent to the XW Mine, with a coke output capacity of 0.9Mt per annum. XW Company has been granted the exploitation right in XW Mine which has a recoverable coke coal reserve of 46,340,000 tonnes with reference to the BOYD Report.

ZYD Company is principally engaged in the operations of coke coal mining. Coking coal exploited from ZYD Mine is semi hard coke coal. ZYD Company has been granted the exploitation right in ZYD Mine which has a recoverable coke coal reserve of 52,210,000 tonnes with reference to the BOYD Report. As confirmed by ZYD Company, it is planning to establish a coal processing/preparation plant adjacent to ZYD Mine and the plant is expected to be completed and operated by 2010.

COAL INDUSTRY IN THE PRC

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

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

Unit: 1,000 tonnes

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

Source: China Coal Resource

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

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

Unit: 1,000 tonnes

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

Source: China Coal Resource

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

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

i. The PRC has streamlined its coal mining industry since last year by closing thousands of small-scale substandard mining entities.

ii. Coal exports are discouraged and encouraging use of foreign resources, the government has also scrapped tax rebates and now levies export duties on coal. National statistics show that the PRC produced 2.38 billion tons of coal in 2006 and consumed 2.37 billion tons, promoting a balanced market.

iii. with the PRC's GDP growing at an average of 9% through 2010, coal consumption is expected to reach 2.87 billion tons in 2010, a shortfall of 270 million metric tons out of the 2.6 billion tons of planned domestic output of the same year.

iv. As the government boosts a market-based transformation for the coal industry to encourage suppliers and parties with demands to negotiate on pricing independently according to the supply-demand relation in the market, it is certain that the relatively low price in key contracts on high grade coal provided for power plants in a long period of time will get close to the price in the market according to the supply-demand relation and the deficient degree.

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

THE COAL MINES

Brief Description of the Coal Mines

A. Jinjiazhuang Mine (JJZ)

JJZ Mine began operation in 1996. Coking coal exploited from JJZ Mine is hard coke coal. The mining right area is located 14 km south of Liulin city core and encompasses about 6.35 sq. km. Access is via unpaved country road. The Xiaoliu Railway station in Liulin City serves the mine for rail shipments on the Liulin – Shilou line. JJZ Mine's current permitted coking coal output is 1.20 Mtpa and the actual output capacity under existing outfit is 2.1 Mtpa. As advised by the Company, the estimated coke coal output from the mine is 1.45 Mtpa this year. A coke coal processing/preparation plant adjacent to the mining site with a designed processed coke coal output capacity of 2.1 Mtpa is currently under construction and is scheduled for completion in October 2008.

B. Xingwu Mine (XW)

XW Mine began operation in 1968. Coking coal exploited from XW Mine is hard coke coal. The mining right area extends over 11.6 sq. km. and is located 6 km at the south of Liulin City. Vehicular access to the mine is provided by an unpaved traffic road. XW Mine's current permitted coking coal output is 1.2 Mtpa and the actual output capacity under existing outfit is 2.1 Mtpa. As advised by the Company, the estimated coking coal output from the mine is 1.65 Mtpa this year.

Construction of XW coal processing plant began in June 2001 and the facility was put into operation in October 2002. The XW coal processing plant operates independently of XW Mine and maintains its own financial accounting system. At times, up to 10 local mines have sold raw coal to XW for processing and the plant also washes raw coal on a merchant plant basis according to client requirement. Approximately 1.174 Mt raw coal, of which 0.88Mt was from XW mine, was sent to the plant for processing in 2007 producing clean tonnage of 0.83Mt at a processing yield of 71%.

The plant is computer controlled and is capable to automatically adjust for ash requirements. Processed coke coal recovery achieved by the plant ranges from 60% to 70% with plant yields depending on ash content of feedstock. Coal middling and slimes with higher ash content are transported to the nearby Liulin power plant for power generation. Processed coke coal is dispatched to market by rail or local deliveries by truck.

C. Zhaiyadi Mine (ZYD)

ZYD Mine began operation in 1988. Coking coal exploited from ZYD Mine is semi hard coke coal. The mining right area covers over 13.9 sq.km. and is located 16 km southwest of Liulin City. With reference to the BOYD Report, a recoverable coke coal reserve of 55,830,000 tonnes. Vehicular access to the mine is via unpaved country road. ZYD Mine's current permitted coking coal output is 1.2 Mtpa and the actual output capacity under existing outfit is 2.1 Mtpa. As advised by the Company, the estimated coking coal output from the mine is 1.83 Mtpa this year.

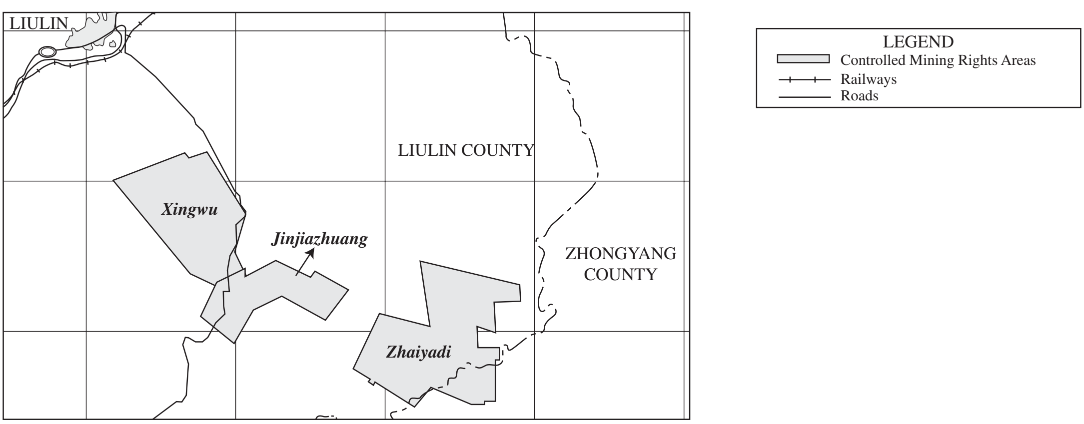
As confirmed by ZYD Company, it is planning to establish a coal processing/preparation plant adjacent to ZYD Mine and the plant is expected to be completed and operated by 2010.

Transportation of the Coke Coal

Coal transport in Shanxi relies highly on railways. The railway network connects Shijiazhuang and Taiyuan; Beijing and Yuanping; Beijing and Baotou; Datong and Manyuan, Taiyuan and Jiaozuo. The province has completed seven double-track electric railways extending to such major ports as Qinghuandao, Qingdao, Yantai and Lianyungang. In addition, the Shuozhou – Huanghua Railway links Shenchi County in Shanxi with Huanghua Port in Hebei and it is the second largest railway for coal transportation from west to east in the PRC.

With Taiyuan as the hub, the highways in Shanxi forms a road network linking all the counties in the Province. Major highway namely Dayun connects the cities to south and north of the province. The Taiyuan-Jiuguan Expressway joins the Beijing-Shijiazhuang expressway and connects Beijing-Tianjin-Tanggu expressway and Beijing-Shenzhen expressway, leads to Beijing and the region of Bohai Sea rim directly.

Liulin County where the Coal Mines are found is lying at the western part of the province and is at the west of Lu Liang City. The county is well served with highways and coal transportation railways.



The Xiaoliu Railway station of the Liulin-Shilou line in Liulin City is approximately 30 minutes driving distance from the mines. Coal products are transported by truck via the No. 307 State Road to railway loading facilities. Temporarily storage facilities are provided at the mine site to facilitate logistics of coking coal and processed coke coal. The railway linking Zhongwei City of Ningxia Hui Autonomous Region and Datong City of Shanxi Province is currently under construction and with completion projected in 2009, is expected to improve the regional coal transportation.

Coking coal Reserves

With reference to the BOYD Report, the respective In-Place, Recoverable and Marketable coking coal reserves of the Mining Sites as at 31 December 2007 are shown below:

Reserve of the Mining Sites

	In-Place Resource (Mt)			Recoverable Reserves (Mt)			Marketable Reserves (Mt)		
Mine	Measured	Indicated	Total	Proved	Probable	Total	Proved	Probable	Total
JJZ	29.01	35.17	64.18	20.78	23.02	43.80	15.65	16.17	31.82
XW	14.24	48.99	63.23	11.11	35.23	46.34	9.46	22.64	32.10
ZYD	19.43	58.91	78.34	13.32	38.89	52.21	9.84	28.30	38.14
Total	62.68	143.07	205.75	45.21	97.14	142.35	34.95	67.11	102.06

With reference to the BOYD Report, the recoverable coal reserves of JJZ Mine, XW Mine and ZYD Mine as at 31 December 2007 are 43.8Mt, 46.34Mt and 52.21Mt respectively.

Mining Rights

As at the date of this report, the Mining Companies have been issued with the following relevant consents, permits and approvals for conducting their business operations:

i. *Business License (企業法人營業執照)*

Mining Companies	Certificate No.	Permitted Scope of Business	Valid Period
JJZ	140000400016830	Mine exploration	Expire on 26/6/2010
XW	140000400016792	Mine exploration	Expire on 30/8/2008
		Coal preparation/washing	Expire on 12/9/2035
ZYD	001682	Mine exploration	Expire on 30/3/2011

ii. *Coal Mine Exploitation Permit (採礦許可證)*

Mining Companies	Mining Certificate No.	Area *(km^2)*	Max. Permitted Output	Valid Period
JJZ	1400000721097	6.3491	1.2Mt/pa	2/2007 to 2/2012
XW	1400000721096	11.6325	1.2Mt/pa	2/2007 to 2/2012
ZYD	1400000721098	13.9068	1.2Mt/pa	2/2007 to 2/2012

iii. Coal Production License (煤炭生產許可證)

Mining Companies	Mining Certificate No.	Area (*km²*)	Max. Permitted Output	Valid Period
JJZ	X040807057Y2G1	6.3491	1.2Mt/pa	23/8/2004–26/6/2010
XW	D040807006Y2G2	11.6325	1.2Mt/pa	28/10/2005–10/8/2008
ZYD	X040807024Y2G2	13.9068	1.2Mt/pa	28/5/2003–26/6/2010

iv. Safety Production License (安全生產許可證)

Mining Companies	Mining Certificate No.	Max. Permitted Output	Valid Period
JJZ	X040807057Y2G1	1.2Mt/pa	23/8/2004–26/6/2010
XW	D2112B1	1.2Mt/pa	19/6/2007–1/8/2008
ZYD	D3511	1.2Mt/pa	26/6/2007–26/6/2010

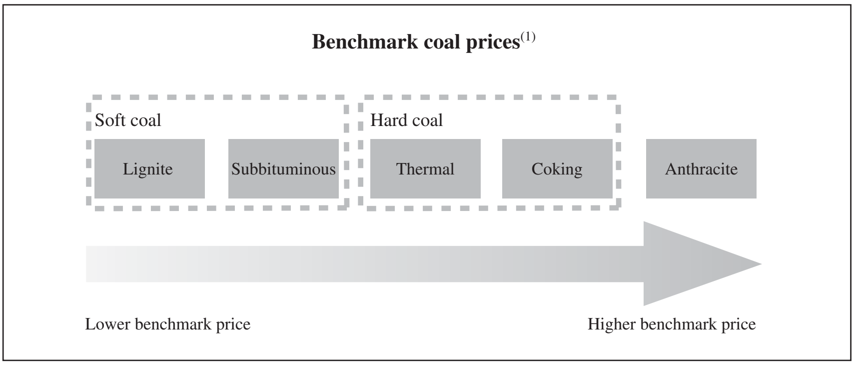
v. Certificate of Qualification to Director of Coal Mine (煤礦礦長資格證書)

Mining Companies	Certificate No.	Valid Period
JJZ	K050208050	5/2005–5/2008
XW	07014010080078	4/6/2007–4/6/2010
ZYD	060108019	3/2006–3/2009

Our valuation has been arrived at on the basis that the Mining Companies have applied and obtained all relevant consent, permits and approvals from the appropriate regulatory bodies and Government authorities for undertaking their existing coal mining and processing activities and operations and shall have no legal impediment in renewing those documents in due course free from any payment of substantial amount.

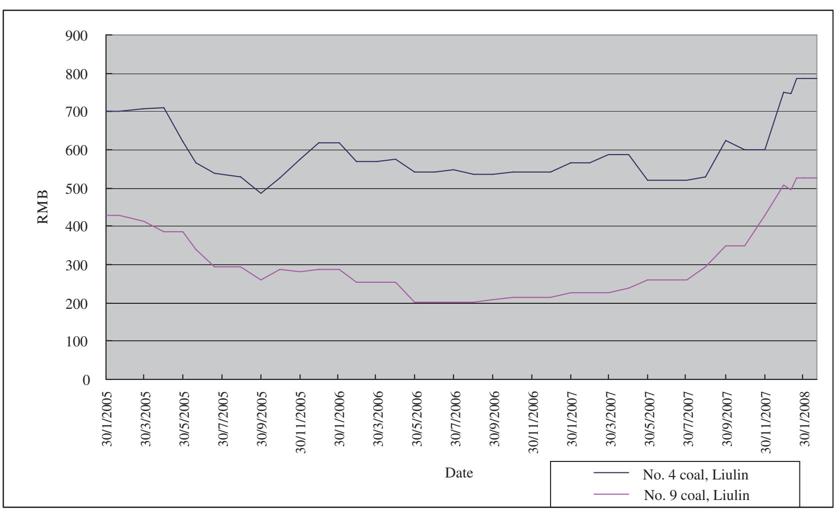
Coal Classification

Coal is classified as a bulk commodity and is commonly traded by contract. The illustration below provides a diagrammatic scale of the prices of various types of coal.



Coking coal is coal used to make coke. Yearly over 400 million metric tons of coke is being produced world-wide. Coke is used in various applications such as foundry, lead/zinc smelting, Ferro-chrome production, but the vast majority of coke is being produced to make sized coke for use in blast furnaces for steel making.

The prices of No. 4 and No. 9 coking coal in the PRC have been high, because of strong growth in steel production. It is expected that the prices maintained the up trend and the growth will be continued in 2008.



Both JJZ Mine and XW Mine are producing good quality, low to medium ash, very low sulfur No. 4 coking coal. ZYD Mine is producing medium ash, medium to high sulfur, lean No. 9 coking coal. With reference to the sale contracts in April 2008 of the Coal Mine, an average unit price of RMB750/Mt (include VAT tax) has been achieved for JJZ and XW Mines and RMB620/Mt (include VAT tax) for ZYD Mine.

BASIS OF VALUATION

The shareholders' equity interests have been valued on the basis of "Fair Value" in the premise of continued use. In our appraisal, the fair value reflects the future economic benefit to be derived from the continuous operation of the business and the ownership of the assets of the Mine Companies including but not limiting to the Mining Rights. Fair Value in continued use is defined as the estimated amount at which an asset might be expected to exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion and with the buyer and seller contemplating retention of the asset for continuation of its current operations and implementation of the business plans in associate with the asset.

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

Market Value

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

Fair Market Value

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

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

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing the shareholders' equities of the Mining Companies namely the market approach, the cost approach and the income approach.

Market Approach considers prices recently paid for similar assets, with adjustment made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparables. Assets for which there are an established used market may be appraised by this approach.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Among the three general valuation methodologies, we have considered the cost approach is regarded inadequate for this valuation, as this approach does not reflect the intangible assets and future growth potential of the subject asset. We also consider that the income approach is not the most optimal appropriate to value the subject asset, as this approach involves adoption of much more assumptions than the other two approaches, not all of which can be easily quantified or ascertained. In the event of any such assumptions are founded to be incorrect or unfounded, the valuation would be significantly affected. Thus, we have determined that the market approach is the most appropriate valuation approach for this valuation.

The market approach determines the fair value of the subject asset by reference to the transaction prices, or 'valuation multiples' implicit in the transaction prices, of identical or similar assets on the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar business enterprises by a financial parameter, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it. Adjustment are required to the transaction prices or valuation multiples to reflect the differentiating characteristics of the subject business enterprises and the comparable business enterprises for which the transaction prices or valuation multiples are known.

We have selected several comparable companies with primary business of coal mining. The criteria on the selection must consider the locality of the mine of the comparable company and the type of the coal being produced.

JJZ Mine and XW Mine are producing high quality hard coking coal and ZYD Mine is producing semi hard coking coal (power coal) which is inferior to the coking coal of JJZ and XW Mines. The demand for coke coal, which used for the manufacture of steel and iron ore, is high. The restraint on the transportation of the coal is the major reason causing the price remained high in the central China which renders coal price highly sensitive to location factor.

We have selected the following ten companies:

1. Shanxi Xishan Coal and Electricity Power Co., Ltd (Stock Code No. 000983)

Shanxi Xishan Coal and Electricity Power Co., Ltd is primarily engaged in the production, processing and sale of coal, as well as the generation and supply of electricity. Headquartered in Taiyuan, Shanxi Province, the comparable company offers cleaned coal, mixed coal, raw coal and slime. During the year ended 31 December 2007, the Company produced approximately 16.12 million metric tons of raw coal and sold out 16.4 million metric tons of coal products, including 8.85 million metric tons of cleaned coal. The comparable company is mainly producing coke coal. About 85% of its revenue was contributed from coal business. The average coal price is RMB404-628 per tonne.

2. China Coal Energy Company Ltd. (Stock Code: 1898.HK)

The comparable company is principally engaged in coal operation, coal chemicals operations, coal mining equipment and other related operations in China. Coal, coal chemicals and coal mining equipment operations are the businesses of the Company. The coal operations include coal production, sales and trading. The coal chemicals operations include the production and sale of coke and coal-based chemicals. The coal mining equipment operations include design, research and development, manufacturing, marketing and sales, after-sales services. Other operations include provision of coal mine design services. During the year ended 31 December 2007, the Company produced approximately 83.27 million metric tons of raw coal The comparable company is also producing coke coal. About 85% of its revenue was contributed from coal business. The average coal price is RMB339-668 per tonne.

3. Hebei Jinniu Energy Resources Co., Ltd (Stock Code: 000937.CH)

Hebei Jinniu Energy Resources Co., Ltd is principally engaged in the mining and processing of coal, the manufacture and sale of construction materials and the generation of power and steam. During the year ended 31 December 2007, the Company obtained approximately 80% of its total revenue from its coal business.

In 2007, the company produced approximately 11.35 million metric tons of raw coal and 4.47 million metric tons of fine coal. Northern China is the major domestic market of the Company, contributing approximately 86% of the total revenue in 2007. About 80% of its revenue was contributed from coal business.

4. Kailuan Clean Coal Co., Ltd. (Stock Code 600997.CH)

Kailuan Clean Coal Co., Ltd. is principally engaged in the business of coal mining and processing, as well as coke making. The comparable company's products include: metallurgical coke, washed coal and others. The comparable company operates its businesses in both the domestic and overseas markets. As of 31 December 2007, the company produced approximately 7,509,100 tons of raw coal. The comparable company had four major subsidiaries, engaging in coal, coke and coal chemicals business. The comparable company is producing fat and coke coal. About 100% of its revenue was contributed from coal business.

5. Hidili Industry International Development Ltd. (Stock Code 1393.HK)

Hidili Industry International Development Limited is an integrated coal company in South West China. The comparable company has been primarily engaged in coal mining and production and sale of clean coal and coke. Its principal customers are steel manufacturers. The Company produces high-ash thermal coal as by-products from its coal washing plants and sell it to power plants for power generation. It also produces coal tar as a by-product from coke production and sells primarily to local chemical trading companies. During the year ended 31 December 2007, the company produced approximately 2,275,000 tonnes of raw coal, approximately 1.2 million tonnes of clean coal and approximately 0.5 million tonnes of coke in 2007. The average selling price of the coal is HK$650 per tonne. The comparable company is producing coke coal. About 99% of its revenue was contributed from coal business. The average coal price is RMB650 per tonne.

6. Shanxi Lu'an Environmental Energy Development Co., Ltd. (Stock Code: 601699.CH)

Shanxi Lu'an Environmental Energy Development Co., Ltd. is principally engaged in the exploration, production and sale of coal. The comparable company's major offerings are mixed coal, cleaned coal and pulverized coal under the brand of "Lu'an". During the year ended 31 December 2007, the company produced 20.41 million metric tons raw coal and sold 19.53 million metric tons commercial coal. The comparable company is producing power coal. About 100% of its revenue was contributed from coal business. The average coal price is RMB381 per tonne.

7. Pingdingshan Tianan Coal Mining Co., Ltd. (Stock Code: 601666.CH)

Pingdingshan Tianan Coal Mining Co., Ltd. is principally engaged in the coal exploration, preparation, processing and sale activities. During year ended 31 December 2007, the comparable company distributed approximately 26.74 million tons of merchantable coal. In 2007, the comparable company obtained approximately 44% and 41% of its total revenue from mixed coal and metallurgical coal, respectively. The comparable company is producing power coal. About 95% of its revenue was contributed from coal business. The average coal price is RMB370 per tonne.

8. Yanzhou Coal Ming Co. (Stock Code No. 1171.HK)

Yanzhou Coal Mining Company Limited is principally engaged in underground coal mining, preparation and processing, sales and railway transportation of coal. The comparable company is organized into two operating divisions: coal mining and coal railway transportation. comparable company operates six coal mines, the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine, Jining II coal mine (Jining II) and Jining III coal mine (Jining III), as well as a regional rail network that links these mines with the national rail network. The comparable company's main products are low-sulphur coal, which is suitable for use in large-scale power plants as steam coal. During the year ended 31 December 2007, the Company produced approximately 35.64 million metric tons of raw coal About 97% of its revenue was contributed from coal business. The average coal price is RMB414 per tonne.

9. Shanxi Guoyang New Energy Co., Ltd. (Stock Code No. 600348.CH)

Shanxi Guoyang New Energy Co., Ltd. is principally engaged in production, washing, dressing, processing and sale of coal, as well as the generation and sale of electricity and heat. The comparable company offers washed lump coal, washed fines coal, slack coal and slime. During the year ended 31 December 2007, the comparable company obtained approximately 97.1% of its total revenue from coal. In 2007, the comparable company produced approximately 12.87 million tons of raw coal. The comparable company is producing power coal. About 99% of its revenue was contributed from coal business.

10. Datong Coal Industry Co., Ltd. (Stock Code: 601001.CH)

Datong Coal Industry Co., Ltd. is primarily engaged in the mining, processing and sale of coal products. During the year ended 31 December 2007, the comparable company produced approximately 17.47 million tons of coal and distributed approximately 15.26 million tons of coal. The comparable company is producing power coal. About 100% of its revenue was contributed from coal business. The average coal price is RMB333 per tonne.

Comparable Company financial ratio as at 31 December 2007 is as follows:

Comparable Company No.	**EV/Output**	**PE Ratio**	**EV/Sales**	**Gross Margin**
	(RMB)			*(RMB)*
Coke Coal Comparable				
Shanxi Xishan Coal & Electricity Power	3,891	54.46	8.12	39.93
China Coal Energy Co. Ltd.	2,920	28.44	12.34	64.49
Hebei Jinniu Energy Resources Co., Ltd.	3,132	62.26	6.82	35.52
Kailuan Clean Coal	3,689	41.55	5.13	24.75
Hidili Industry International	9,989	28.76	21.8	65.07
Coal Comparable				
Shanxi Lu'an Environmental	1,896	42.51	3.93	28.82
Pingdingshan Tianan Coal Mining Co. Ltd.	1,779	44.51	4.37	22.73
Yanzhou Coal Mine Co. Ltd.	2,402	19.49	10.58	48.48
Shanxi Guoyang New Energy	1,616	42.21	2.13	12.60
Datong Coal Industry	1,587	53.81	5.54	23.07

Source: Bloomberg

An exchange rate of HK$1 to RMB0.8981 is adopted for currency conversion.

Among various price multiples and given the similarity of cost structures of coal business operators, the Enterprise Value to Output (EV-to-Output) multiple is chosen for comparison and assessing the fair value of the shareholders' equities of the mining company. Enterprise Value is defined herein as market capitalization plus debts, minority interest and preferred shares minus total cash and cash equivalents. The multiple takes into account the debts and revenue of a firm which an acquirer will have to assume and into account and it ignores the distorting effects of individual company's taxation as well as the firms' depreciation policies. Hence, the determination of revenue on a mine company is focused on the mine annual output. Output is restraint by the production capacity and the government restriction and the improvement on the output involves a large capital involved and time. As the mining companies and the comparable companies are producing same nature of products, the outputs of them provide a good proxy for the profitability of the respective companies.

Our selections of the comparable companies are based on the following reasons:

1. they are mainly devoted to coal mining business in the PRC;

2. most of the comparable companies are situated at Shanxi Province or its neighbouring provinces; and

3. they are producing coal of similar kinds to the mining companies.

The following comparable companies have been analyzed and the EV/Output ratio are set out below:

Coke Coal Comparable

No.	**Comparable Company**	**EV/Output** *(RMB/Mt)*
1	Shanxi Xishan Coal & Electricity Power	3,891
2	China Coal Energy Co. Ltd.	2,921
3	Hebei Jinniu Energy Resources Co., Ltd.	3,132
4	Kailuan Clean Coal	3,689
5	Hidili Industry International	9,990

Coal Comparable

No.	**Comparable Company**	**EV/Output** *(RMB/Mt)*
6	Shanxi Lu'an Environmental	1,896
7	Pingdingshan Tianan Coal Mining Co. Ltd.	1,779
8	Yanzhou Coal Mine Co. Ltd.	2,403
9	Shanxi Guoyang New Energy	1,616
10	Datong Coal Industry	1,767

An exchange rate of HK$1 to RMB0.8981 is adopted for currency conversion.

Comparable nos. 1, 2, 3, 4 and 5 which are producing high quality coke/fat coal are taken for EV-to-Output multiple comparison with JJZ and XW Mines. Comparable no. 5 was an outliner and excluded in our valuation. It is concluded that an EV-to-Output multiple of RMB3,605 is adopted valuing for JJZ Company and XW Company.

Comparable nos. 6,7, 8, 9 and 10 which are produced power coal with similar quality of ZYD Mine. Given the EV-to-Output multiples of the three comparable companies as mentioned above, it is concluded that an EV-to-Output multiple of RMB1,993 is adopted for valuing ZYD Company.

Based on the information provided by the Company, the total output of JJZ, XW and ZYD Mines for the year 2007 are 1,508,000 tonnes, 1,639,000 tonnes and 1,936,000 tonnes respectively. In computing the shareholders' equities of the Mining Companies, we have deducted from the assessed enterprise values their respective total liabilities and added back the cash/cash equivalent items as of 30 April 2008. The total liabilities as reported in the Balance Sheets for JJZ, XW and ZYD are RMB903,503,783, RMB1,168,415,090 and RMB500,516,679 respectively. The cash and cash equivalent as advised by the Company as at 30 April 2008 for JJZ, XW and ZYD are RMB17,514,908, RMB168,229,794 and RMB152,548,921 respectively.

ASSUMPTIONS

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

i. the coal market conditions in which the Coal Mines is situated;

ii. the nature of the business operations of the Mining Companies, the Mining Rights in the Coal Mines and future operating strategies to be employed in operating their businesses;

iii. the coal reserve, nature and quality of coal of the Coal Mines as advised by BOYD Report and the management of the Company.

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

i. there will be no major change in the existing political, legal and economic conditions in the PRC in which the Mining Companies are operating;

ii. there will be no major change (except those changes that have been officially announced) in the current taxation law in the PRC, that the rates of tax payable by FDE or the Mining Companies remain unchanged and that all applicable laws and regulations will be complied with by them;

iii. the amount of current assets, current and long-term liabilities as stated in the Balance Sheets of the Mining Companies are correctly and reasonably reflected the actual financial situations of the Mining Companies;

iv. the FDE and Mining Companies shall secure and retain competent management, key personnel, marketing and technical staff to carry out the support of their mine businesses;

v. the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary fair value of the shareholders' equity of the Mining Companies;

vi. the interest rates will not differ materially from those presently prevailing;

vii. besides the liabilities stated in the financial statements of the Mining Companies, they are free from any encumbrance and liability including but not limited to mortgage, charge, land premium, relocation compensation and development costs;

viii. the Mining Companies shall have uninterrupted rights to operate the Coal Mines throughout the period until the entire coal reserves of the Coal Mines are fully exploited and subject to no land premium or any payment to the Government of substantial amount;

ix. full amount of account receivable are recoverable. The other receivable are loan to the director of the mine companies and the related companies loans, as confirmed by the company, they are recoverable in full within 3 years period;

x. the reserves of the Coal Mines are reasonably estimated and confirmed by BOYD Report;

xi. the Mining Companies have been valued on the basis that they shall have no legal impediment and extra costs to renew their permits/licences/certificate/approval in associate with their coal mining and processing activities and businesses from the Government authority from time to time until the coal reserves of the Coal Mine are fully exploited. As represented by FDE, they are not aware of any circumstance which may result in such permits/licenses/certificate not being renewed upon their expiries; and

xii. The current output of the coking coal from the each of the Mining Sites exceeds their respective permitted output. Pursuant to the Notice issued by the Ministry of Coal Industry of Liulin County, Luliang Shanxi (山西省呂梁市柳林縣煤炭工業局) and Bureau of Coal Safety Production of Liulin County, Luliang Shanxi (山西省呂梁市柳林縣煤炭安全生產監督管理局), each of the Mining Companies is subject to a penalty at an annual lump sum of RMB100,000 for exceeding the permitted output for each of the year 2004, 2005, 2006 and 2007. We assumed that the Mining Companies shall apply for extending their permitted annual coking coal output volume in due course.

LIMITING CONDITIONS

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

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

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

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

Neither the whole nor any part of this report can be published, disclosed or referred to in any public document without our written consent.

OPINION OF VALUE

Based upon the investigation and analysis outline above, out valuation basis, valuation assumption and appraisal method employed, we are of the opinion that the fair values of 100% shareholders' equities of the Mining Companies as at the Valuation Date are reasonably represented by the sums as set out as follows:

Mining Companies	**Fair Value of Shareholders' Equity** *(RMB)*	**Attributable Interest**	**Fair Value of the respective attributable interest** *(RMB)*
山西柳林金家庄煤業有限公司 (JJZ Company)	4,560,000,000	65%	2,964,000,000
山西柳林興無煤礦有限責任公司 (XW Company)	4,910,000,000	87.75%	4,308,525,000
山西柳林寨崖底煤業有限公司 (ZYD Company)	3,510,000,000	95%	3,334,500,000

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

Yours faithfully,
For and on behalf of
Greater China Appraisal Limited
Tse Wai Leung
MFin BSc MRICS MHKIS RPS (GP)
Assistant Vice President

The following is the text of a letter, independent technical review prepared for the purpose of incorporation in this circular received from John T. Boyd Company, an independent technical advisor.

INDEPENDENT TECHNICAL REVIEW

CURRENT OPERATIONS

FORTUNE DRAGON GROUP LIMITED

Shanxi Province, People's Republic of China

Prepared For

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

By

John T. Boyd Company

Mining and Geological Consultants

Pittsburgh, Pennsylvania

JUNE 2008

John T. Boyd Company
Mining and Geological Consultants

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James W. Boyd

President and Chief Executive Officer
John T. Boyd II

Chief Operating Officer and Managing Director
Ronald L. Lewis

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25 June 2008

Fushan International Energy Group Limited
12/F, Kwon Chart Tower, No.6 Tonnochy Road, Causeway Bay
HONG KONG
People's Republic of China

Attention: The Directors
Fushan International Energy Group Limited

Subject: Independent Technical Review
Current Operations
Fortune Dragon Group Limited
Shanxi Province, People's Republic of China

The Directors:

This report presents our technical due diligence of the current operation status of the select operations of Fortune Dragon Group Limited (FDG) for Fushan International Energy Group Limited (Fushan). FDG operations include Jinjiazhuang, Xinwu and Zhaiyadi Coal Mines, which are active, and related coal processing facilities, including raw coal crushing and screening at all three mines and coal preparation plants at Xingwu (in operation) and Zhaiyadi (under construction). These operations are located at Liulin County, Shanxi Province, People's Republic of China (PRC). Current output capacity is 6.3 Mtpa; authorized raw coal output capacity by these three mines totals 3.6 Mtpa. FDG controls the Mining Rights to their respective resource areas. Our independent due diligence is intended for inclusion in a Circular for Potential Acquisition Transaction in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (SEHK).

We have relied on available source data as provided by FDG and discussions and observations during John T. Boyd Company's (BOYD) project team's several visits to FDG Mines in 2006 and 2007. The source data were evaluated according to our broad Chinese and international coal industry experience. Resource and reserve estimates are prepared in accordance with international (JORC) reporting requirements.

Respectfully submitted,

JOHN T. BOYD COMPANY
By:

John T. Boyd II
President and CEO

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* *Reference to page number in the Technical Review Report is to the page numbers of its own report.*

GLOSSARY AND DEFINITIONS

Ad	Air dried as in coal quality reporting
AFC	Armored Face Conveyor
Block	A defined area of coal bordered by gateroads, usually rectangular in configuration, in which the LW face operates, also known as panel
BOYD	John T. Boyd Company
Cash (Production) Cost	All cash costs directly associated with coal production including, but not limited to, raw materials consumed, salary and wages, labor benefits, power, repairs, coal processing transport of coal from mine to loading point, general administrative expense and selling expenses
Coal Reserve	A Coal Reserve is the economically mineable part of a Measured or Indicated Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves
Coal Resource	A Coal Resource is a concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a coal resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories
Coal Seam	Portion of the strata that contains solid fossil fuel
Con-Mech	Conventionally Mechanized (Longwall face), a kind of mining method in which the working face is equipped with individual hydraulic props and roof bars, AFC and shearer

CPP . . . . Coal Preparation Plant, facility used to process raw coal using mechanical washing or chemical methods

d . . . . Dry basis as in coal quality reporting

daf . . . . Dry, ash free basis as in coal quality reporting

Dip . . . . Angle which strata makes with the horizontal

Face . . . . An area of coal designated for extraction utilizing longwall mining within which a series of Blocks are developed

Face (working face) . . . . Mine location where active coal extraction is taking place

FDG . . . . Fortune Dragon Group Limited

Feasibility Study . . . . A Feasibility Study by international standards assesses in detail the technical soundness and Economic Viability of an undeveloped mining project, and serves as the basis for the investment decision and as a bankable document for project financing. The study is based on a detailed mine plan and constitutes an audit of all geological, engineering, environmental, legal and economic information accumulated on the project. Generally, a separate environmental impact study is required

Fm . . . . Formation

FM . . . . Fully Mechanized (Longwall face), a kind of mining method in which the working face is equipped with hydraulic shields, AFC and shearer

Fushan . . . . Fushan International Energy Group Limited

Gate . . . . Room and pillar development around a longwall panel supporting its operation

Geologic Report . . . . A Geologic Report is compiled by a Chinese exploration team or company after exploration activity is completed in a designated area. The report generally details geologic data including location and geography, regional geology, mine geology, seam geology, hydrology, engineering geology, environmental geology, coal resource/ reserve tonnages, exploration status and resource assessment, etc. Supporting maps, cross sections, and figures may also be contained in or attached to the report

Gob	Spoil material allowed to subside behind the advancement of a longwall
Gr. v. d.	Gross value, dry basis as in coal quality reporting
Indicated Coal Resource	An Indicated Coal Resource is that part of a Coal Resource for which tonnage, densities, shape, physical, characteristics, quality and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed
Inferred Coal Resource	An Inferred Coal Resource is that part of a Coal Resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
ITR	Independent Technical Review
JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
JORC Code	Australasian Code for Reporting of Mineral Resources and Ore Reserves
Kcal/kg	Kilocalorie per kilogramme – measure of coal heat content
km	Kilometre
LW	Longwall – underground mining technique
m	Metre
m^2	Square metre (also sq. m.)
m^3	Cubic metre (also cu. m.)

m^3/min	Cubic metres per minute
Marketable Reserves	Saleable coal product from Recoverable Reserves after accounting for mining and processing losses
Measured Coal Resource	A Measured Coal Resource is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes
Methane	A colorless, odorless, explosive gas (CH4) typically associated with coal seams
Mine Plan	A Mining Plan is understood as the current documentation of the state of development and exploitation of a deposit during its economic life including current mining plans. It is generally made by the operator of the mine. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in Economic Viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining
Mining Rights	The mining rights grated by the relevant authorities to conduct mining activities within the area specified, mining method specified, and annual cost output level specified
MLR	Ministry of Land and Resources of PRC
mm	Millimetre
Mt	Million tonnes
Mtpa	Million tonnes per annum
Normal Fault	A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall
NRC	National Railway of China
OSD	Out-of-seam dilution, i.e., roof and floor rock recovered with the coal seam during the normal coal loading process

Outcrop	The part of the coal formation exposed to the surface
Out-of-Seam	Non-coal material above and below the coal seam recovered during mining
Overburden	Waste rock material overlying a coal seam
Partings	Rock material within mineable coal seams usually extracted with the coal
Pillar	Column of coal left behind for support
PRC	The People's Republic of China
Prefeasibility Study	Provides a preliminary assessment of the Economic Viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes all geological, engineering, environmental, legal and economic information accumulated to date
Probable Coal Reserve	Probable Coal Reserve is the economically mineable part of an Indicated, and in some circumstances, Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified
Productivity	Measurements of worker efficiency usually expressed in terms of tonnes per unit of time, for example, tonnes per employee-year
Proved Coal Reserve	Proved Coal Reserve is the economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

Railcar	Open-top cars (wagons) used to haul coal to the customers
Raw Coal	Coal on an as-mined basis, which may be sold directly or processed if necessary
Recoverable Coal	Portion of coal reserve available for mining exclusive of coal losses due to mining
Recoverable Reserves	Proved and Probable reserves prior to adjustment for preparation plant yield
RMB	Renminbi – Chinese currency
ROM	Run-of-mine – the as-mined material as it leaves the mine site
SACMS	State Administration of Coal Mine Safety of PRC
SAWS	State Administration of Worker Safety of PRC
SEHK	The Stock Exchange of Hong Kong
Shearer	Equipment utilized to extract coal from a fully mechanized longwall face
Strike	The course or bearing of an inclined coal seam or stratum on a level surface; the direction of a horizontal line perpendicular to the dip
Subcrop	Projected limit of mineral deposition where the coal seam outcrop is overlain by surface alluvial material (i.e., bed outcrop is obscured)
Temporary Personnel	Workers employed on a temporary basis at a mining operation to perform specific construction or maintenance tasks. These workers are not reflected in mine employment figures
Tonne	Metric ton equal to 1,000 kilogrammes
tph	Tonnes-Per-Hour
UG	Underground
VM	Volatile Matter, index for coal quality
Yield	Saleable portion of the raw coal processed in a preparation plant relative to the total tonnes processed

1.0 INTRODUCTION

1.1 Background

John T. Boyd Company (BOYD) was engaged in October 2007 by Fushan International Energy Group Limited (the Company) to complete an Independent Technical Review (ITR) on the current operation of the primary assets of FDG – namely three coal mining operations and their associated coal processing plants. The coal mining and plant operations included in this ITR are located about 10km south of Liulin County, Shanxi Province of China (see Figure 1.1) and include:

- Three (3) underground coal mines currently controlled by FDG
  - Jinjiazhuang.
  - Xingwu.
  - Zhaiyadi.
- Three (3) coal processing plants
  - Jinjiazhuang, crushing/screening with CPP under construction.
  - Xingwu, crushing/screening and CPP.
  - Zhaiyadi, crushing/screening with CPP proposed.

1.2 Scope of Work

The scope of work for the ITR includes the following items:

- *Geology, Reserves*

  Review of subject mine's reserves/resources:

  - Estimates of reserves and resources according to the JORC Code for subject mines reflecting mining and exploration activity through 31 December 2007 in the mining right areas.
  - Coal quality review for subject mines.

- *Mine Operations*

  General assessment of:

  – Mining practices and technology.

  – Employment levels.

  – Historical operating data including existing production capacity and output as of 31 December 2007).

  – Mine infrastructure.

  – Production equipment.

- *Mine Plans*

  Assessment of FDG mine plans regarding:

  – Consistency of mining plan and forecasts based on reserve estimate.

  – Equipment utilization.

  – Productivity assumptions.

  – Issues which may adversely affect the projections.

- *Environmental Overview*

  Review of environmental policies and procedures regarding:

  – Compliance of active mining operations with World Bank/Chinese requirements.

  – Environmental liabilities.

- *Health and Safety*

  Review of health and safety practices:

  – Historical performance.

  – Current practices.

- *Coal Preparation Plants*

  General assessment of:

  – Coal washing practices and technologies.

  – Processing capacity and output.

  – Employment levels.

  – Coal quality and plant performance.

  – Historical operating data.

- *Transportation*

  Assessment of existing transportation infrastructure:

  – Adequacy of existing transportation infrastructure.

  – Ability to transport coal production.

The basis of our work was historical operating and other source data provided principally by FDG, which were evaluated within the context of the BOYD project team's extensive Chinese and broader international mining expertise. Historical data were updated to end of 2007.

1.3 Work Program

During the course of this study, BOYD's US and Chinese technical specialists in coal mining (underground), coal preparation, geology and reserves, and environmental practices completed a series of site visits to complete firsthand observations of FDG's operations, to collect available source data, and to discuss historic performance and future plans with FDG staff and management personnel. BOYD's Beijing office also provided technical and translation support.

In January, March, October 2006 and October 2007, BOYD geologists and engineers met with FDG technical personnel concerning geology, coal resources, mining and coal processing operations and future mine plans. FDG provided data in these meetings and follow-up data at our request. In addition, BOYD mining engineers visited the FDG mines in January and October 2006 and October 2007 for underground tours. During the mine site visits, discussions with mine managers and personnel were conducted concerning mining practices and future mine plans.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this ITR was provided by FDG, we independently evaluated the reasonableness of the data provided within the context of our professional, and technical expertise and broad Chinese mining and international experience. To confirm our interpretation of the FDG data, after our initial analysis of the available data, additional information was collected where necessary.

1.4 Forward-Looking Statements

Estimates of coal resources and reserves, as well as projections of coal mine output, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to: inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in market prices, variances in execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures.

Imposition of different central, regional, and/or local government policies could effect future coal production. For example, increased environmental compliance and changes in regulatory oversight for health and safety could result in reduced output and increased costs. Possible variations of future performance from the projections presented in this report are addressed in more detail in specific sections of this report. Comments on the risks inherent in the various operations are discussed in the appropriate sections.

1.5 Project Team

The BOYD project team has extensive professional experience in coal resource and mine evaluations. Key professionals for this project include:

Mr. Ronald L. Lewis – Chief Operating Officer and Managing Director, BS (Civil Engineering)

Mr. Lewis has 37 years of experience in assessment and evaluation of coal mining companies with specialized expertise in the areas of coal/mineral reserve estimation, open cut and underground mine analysis and economic assessment of mining operations. He is a Registered Professional Mining Engineer and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

Mr. David Zhong – General Manager, BS (Mining Engineering)

Mr. Zhong has over 40 years experience in the mining industry, primarily in coal mine design at the Beijing Coal Design and Research Institute. His last position was that of Chief Engineer.

Mr. David L. Rohanna – Managing Director EurAsia, BS (Economics/Geology), MS (Mining Engineering)

Mr. Rohanna has over 36 years of experience at the executive/senior manager level in the mining and materials handling industries with a broad and extensive background in engineering and project management with specialized worldwide expertise in coal and mineral preparation, ports, and bulk materials handling and transportation. Mr. Rohanna is a member of the Society for Mining, Metallurgy, and Exploration, Inc, the American Iron and Steel Engineering Society, and the Cranes Manufacture's Association (CMA) Mechanical and Electrical Sub-Committees.

Mr. James F. Kvitkovich – Vice President, BS (Mining Engineering)

Mr. Kvitkovich has 25 years experience in assessment and evaluation of underground coal mining operations throughout the world. He is a Registered Professional Engineer and is highly experienced with regard to reviewing and evaluating LW mining operations.

Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

Mr. Paul D. Anderson – Director of Geological Services, BS (Geology)

Mr. Anderson is a Certified Professional Geologist (AIPG) with 31 years of professional experience in exploration, evaluation, and development of coal and mineral deposits. Mr. Anderson is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and a member of the American Institute of Professional Geologists, and is qualified as a Competent Person as defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code).

Mr. Zhao Liang – Mining Engineer, BS (Coal Mine Technology)

Mr. Zhao has 9 years of mining industry experience with a broad base of knowledge of coal mine design and feasibility gained at the Beijing Huayu Engineering Co. Ltd.

Mr. Jisheng Han – Mining Engineer, MS (Mining Engineering)

Mr. Han has 10 years of mining industry experience in both China and US.

Mr. Zhang Bing – Mining Engineer, MS (Mining Engineering)

Mr. Zhang has 1 year of mining industry experience in China.

1.6 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. Our consultancy services have been provided on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations
- Fuel and energy supply planning
- Permitting and environmental analysis
- Contract negotiations
- Market and transport analyses
- Economic feasibility studies and valuations
- Assessment of existing operations
- Strategic business planning
- Transport issues
- Asset appraisals
- Minerals industry restructuring
- Privatization studies
- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Reserve and geotechnical studies
- Technical assistance in legal matters
- Monitoring of operating companies
- Financial analysis

Our headquarters office is located in the Pittsburgh, Pennsylvania, region in the US. Branch offices are established in Denver, Colorado (US), Brisbane, Australia and Beijing, China.

Our website, www.jtboyd.com, has additional details.

BOYD also possesses extensive computer and software systems to evaluate resources, reserves and mine plans including Vulcan, MINCOM, SurvCadd, and others.

We have extensive experience in preparing Competent Persons and Independent Financial Technical Review Reports for international financing purposes and for stock exchange filings. We are knowledgeable of listing requirements of The Stock Exchange of Hong Kong, London Stock Exchange, and NI43101 (Canadian Requirements), JORC Code, US Securities and Exchange Rules, etc. We are familiar with the level of effort required by international investors and financial institutions.

Among our many Chinese IPO projects, we represented Shenhua Group Corporation as their Technical Advisor for their successful IPO on the SEHK. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling and rail and ocean transport facilities, and economics. Shenhua Group Corporation's reserve holdings were evaluated according to JORC Code to meet the requirements of the SEHK Rule 18. Our report was accepted by the SEHK. We also prepared an ITR for MP Logistics International Holdings Limited for two open pit mines in Xinjiang Uygur Autonomous Region.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry regarding the privatization of British Coal Corporation (British Coal) and actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry. The coal mining operations of British Coal were successfully privatized for a total purchase price of US$1.4 billion equivalent. We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies, including some of the largest US coal producers, for Securities and Exchange (SEC) filings. Representatives of BOYD have appeared before SEC's technical staff to support our estimates.

We have worked with and for virtually all of the major international banks. Numerous financial agencies have used our services to opine on property/mine operations. We have the proven ability to prepare a bankable document that is accepted and used with confidence by major financial institutions and other investors around the world.

1.7 Statement of Interests

BOYD is a privately owned consultancy firm with headquarters in the US. Our company was selected for this assignment on the basis of our internationally-recognized expertise in exploration, resource/reserve studies, mine development, and valuation. BOYD has no ownership or shareholder interest in FDG or Fushan or their respective assets. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by FDG and Fushan.

1.8 Closing

In preparing this report, we have relied on reserve, operating, and other data as provided by FDG. We have exercised reasonable care in reviewing the information provided. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. Our ITR has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by FDG with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

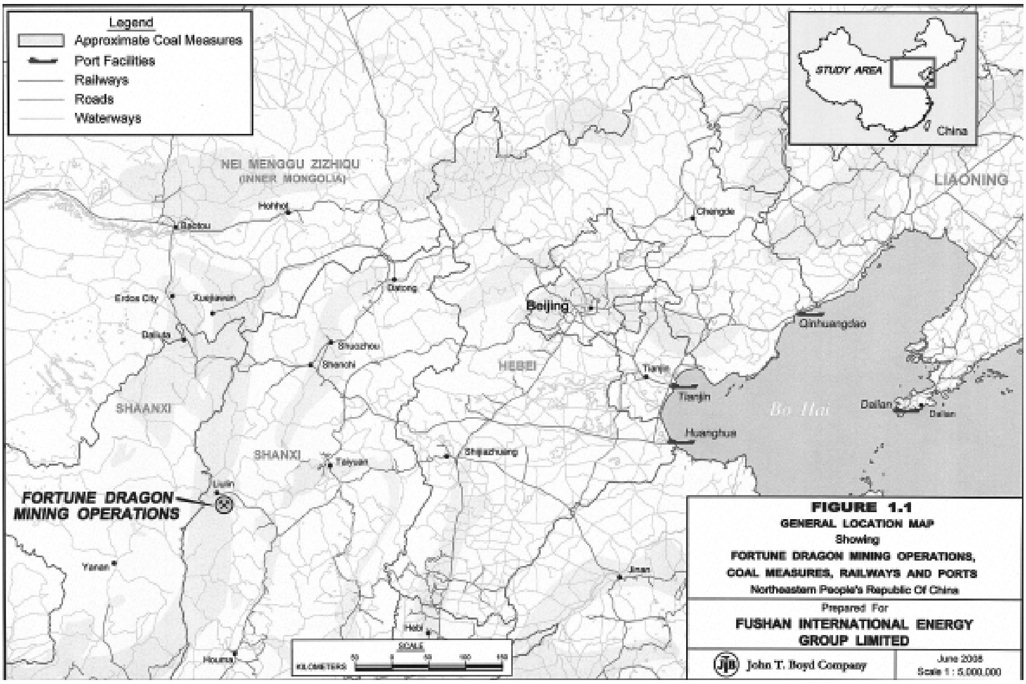
The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have made no attempt to verify the technical and geological information presented in the reference material documents and assume it has been prepared by competent engineers and geologists. Our expertise is in technical and financial mining issues and BOYD is not qualified, nor do we represent any of our findings include matters of a legal or accounting nature. BOYD's independent analyses of the available data have been developed in a manner consistent with industry standards and engineering practices. We believe our conclusions are reasonable assessments of the information provided.

The ability of FDG, or any mine operator, to achieve the projections contained in this report is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, securing required approvals and permits in a timely manner, etc. Unforeseen changes in regulations could also impact performance, although we believe all findings and conclusions to be reasonable, we do not warrant this report in any manner, express or implied.

While this report addresses technical (e.g., reserve, mining, etc.) and financial (operating costs, capital costs, revenues, etc.) issues, qualified legal expertise is required to verify existing exploration and mining rights to the various areas.

Following this page is Figure 1.1, General Location Map Showing FDG Mining Operations, Coal Measures, Railways, and Ports.

Figure 3.1: Controlled Mining Right Areas



Respectfully submitted,

JOHN T. BOYD COMPANY

By:

Paul D. Anderson

Director of Geological Services

David Zhong

Managing Director – Beijing Office

James F. Kvitkovich

Vice President

Ronald L. Lewis

Chief Operating Officer and Managing Director

2.0 SUMMARIZED FINDINGS

2.1 Introduction

The FDG mines, Jinjiazhuang, Xingwu and Zhaiyadi, are underground coal mines located near Liulin County, Shanxi Province, China. The mines are presently in production with output capacity of 2.1 Mtpa each (authorized output capacity 1.2 Mtpa each presently). Xingwu coal preparation plant (CPP) was put into production in 2002 and has a raw coal processing capacity of 1.2 Mtpa. A CPP is under construction at Jinjiazhuang, which plans to Zhaiyadi begin coal processing in 2009. A CPP is also under consideration (proposed) for the Zhaiyadi Mine. FDG controls the mining rights for these mines.

Mining Right Area	Mining Right Certificate Number	Present Outout Capacity *(Mtpa)*	Authorized Output Capacity *(Mtpa)*	Authorized Seams to be Mined	Authorized Mining Elevation *(m)*	Mining Method	Area *(km^2)*	Mining Right Grant Date *(Month/yr)*
Jinjiazhuan	1400000721097	2.1	1.2	3,4,5,8,9,10	880-510	UG	6.3491	2/2007
Xingwu	1400000721096	2.1	1.2	4,5,6,8,9,10	840-570	UG	11.6325	2/2007
Zhaiyadi	1400000721098	2.1	1.2	3,4,5,8,9	990-650	UG	13.9068	2/2007

The principal findings of this study are summarized in this chapter, and are supported by the text included in the body of this report. This section presents the major findings regarding coal resources, economic evaluation, and environmental overview. Technical description and discussion of mine facilities, operating practices, etc. concerning the FDG mines prospects can be found in their respective sections.

2.2 Geology and Resources

2.2.1 Introduction

On a global basis the geological setting or nature of the coal deposits controlled by FDG are judged to be simple to moderate (i.e., not geologically complex). Areas of coal occurrence evaluated in this report are located in the Liliu Coal Field. The lower coal seams are contained in the Taiyuan Formation of Carboniferous Age and the upper seams in the overlying Shanxi Formation of Permian Age.

2.2.2 Proved and Probable Reserves – Controlled Mining Right Areas

BOYD has independently prepared coal reserve estimates as of 31 December 2007 using JORC Code requirements, summarized as follows:

	In-Place Reserves *(Mt)*			**Recoverable Reserves** *(Mt)*			**Marketable Reserves** *(Mt)*		
	Measured	**Indicated**	**Total**	**Proved**	**Probable**	**Total**	**Proved**	**Probable**	**Total**
Jinjiazhuang	29.01	35.17	64.18	20.78	23.02	43.80	15.65	16.17	31.82
Xingwu	14.24	48.99	63.23	11.11	35.23	46.34	9.46	22.64	32.10
Zhaiyadi	19.43	58.91	78.34	13.32	38.89	52.21	9.84	28.30	38.14
Total	62.68	143.07	205.75	45.21	97.14	142.35	34.95	67.11	102.06

2.2.3 Inferred Resources – Controlled Mining Right Areas

FDG also controls inferred resources in the Xingwu and Zhaiyadi mining right areas. These resources are classified as Inferred due to the lack of exploration data which results in a low level of confidence in the estimate. It is commonly assumed that the majority of Inferred Resources would upgrade to Indicated Resources with continued exploration. However, due to the uncertainty of Inferred Resources it should not be assumed this will always occur.

	Inferred Resources *(Mt)* **As of 31 December 2007**		
Mining Right Areas	**In-Place**	**Recoverable**	**Marketable**
Xingwu	14.20	10.17	6.09
Zhaiyadi	0.47	0.40	0.37
Total	14.67	10.57	6.46

Estimates of Inferred In-Place Coal Resources are also JORC compliant. Typical JORC compliant statements of Inferred Coal Resources are limited to an in-place tonnage basis; however, BOYD has extended the estimates of Inferred Coal Resources to include Recoverable and Marketable tonnage bases. We have prepared these estimates using the same recovery factors as applied to the seams in adjacent Indicated or Probable areas. These estimates provide an approximate tonnage that could be reasonably expected, assuming the Inferred Resources actually exist as now projected. It is important to understand that it is not appropriate to combine Inferred Resources with any Reserve estimates as there is no direct connection between Inferred Coal Resources and any category of Coal Reserves in the JORC Code.

2.2.4 Coal Quality

FDG mines produce high quality, medium volatile coking coals for local, regional and national coking coal markets. Coal qualities in the Hedong Coal Field vary by seam and mine. Mines with seams in the Permian Age Shanxi Formation (Nos. 4 and 5) are recognized as JM class coking coal mines. Mines operating in the Carboniferous Age Taiyuan Formation (No. 9 Seam), produce lean coking coals recognized as SM class. The No. 4 Seam is recognized throughout China for its superior coking characteristics.

Recent testing of FDG's coals indicates that the test samples from Jinjiazhuang and Xingwu meet the international definition for hard coking coals. Zhaiyadi sample test results indicate that its coal meets international definition for semi-hard coking coals.

Following are typical FDG coal quality characteristics for its highest commercial coal grades:

			Mining Operation				
			Jinjiazhuang		**Xingwu**		**Zhaiyadi**
Coal Quality Characteristics		**Basis**	**No. 3 Seam**	**No. 4 Seam**	**No. 4 Seam**	**No. 5 Seam**	**No. 9 Seam**
Moisture	(%)	ad	0.6	0.7	0.9	0.3	0.7
Ash	(%)	d	6.3	11.0	11.3	10.1	10.4
Sulfur (total)	(%)	d	0.32	0.47	0.36	0.85	1.65
Volatile Matter	(%)	daf	21.3	22.4	21.6	23.4	18.7
Fixed Carbon	(%)	ad	73.1	68.4	68.6	67.0	72.1
Calorific Value	(Kcal/kg)	Gr.v.d	7,920	7,520	7,500	7,200	7,540
FSI			7	7	7	7	7
Y	(mm)		9	11	17	13	8
Caking Index	(G)		49	77	86	75	72

2.3 Mine Operation

2.3.1 Mines

The three (3) active mines comprising FDG mining operations are established in the Hedong coalfield with present raw coal producing capacity 2.1 Mtpa for each mine. All FDG mines utilize longwall (LW) methods and operate in generally geologically simple, laterally consistent coal seams with sufficient reserves to support long-term operations.

Mine	LW Method	2007 Active LW Faces	Year of Initial Operation	Present Output Capacity *(Mtpa)*	Current Approved Output Capacity [(a)] *(Mtpa)*	LW FM	Face Type Con-Mech
Jinjiazhuang	FM/CM	3	1996	2.1	1.2	1	2[(b)]
Xingwu	FM/CM	2	1968	2.1	1.2	1	1
Zhaiyadi	FM/CM	2	1988	2.1	1.2	1	1

FM = Fully Mechanized CM = Con-Mech.

(a) Current output approvals by Shanxi Province.

(b) Both faces utilize sublevel caving techniques.

Based on our experience with comparable Chinese mines, the FDG mines are typical in performance for the level of mining technology, underground infrastructure, and geologic conditions.

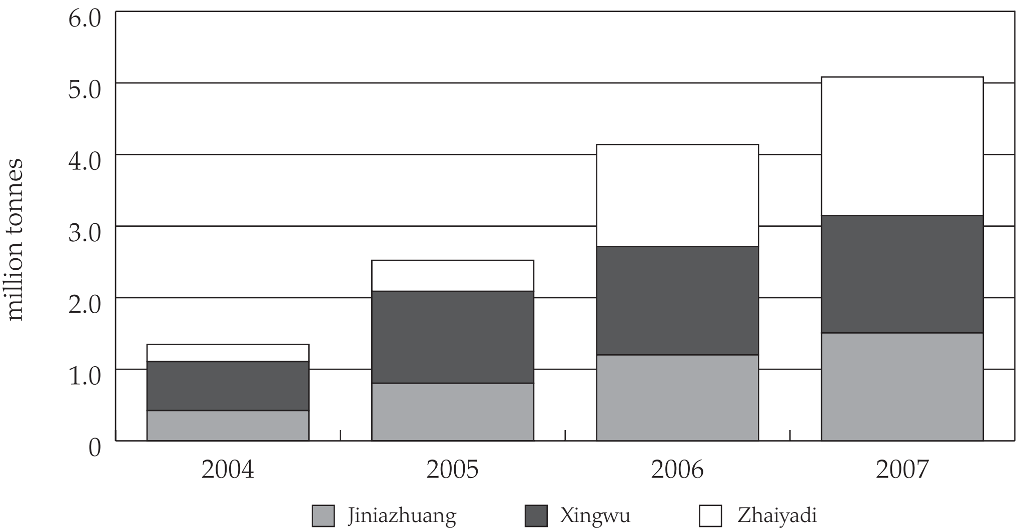
2.3.2 Historical Output

Historical coal output for the FDG mines follows:

	Raw Coal Output Tonnes *(millions)*			
Mine	**2004**	**2005**	**2006**	**2007**
Jinjiazhuang	0.423	0.805	1.201	1.508
Xingwu	0.684	1.284	1.514	1.639
Zhaiyadi	0.240	0.433	1.425	1.936
Total	1.347	2.522	4.140	5.082

FDG output in 2006 to a minor extent was impacted for safety reviews and inspections on orders of Shanxi Province and Luliang City due to major accidents in other mines in Liulin and adjacent counties. Coal production in 2007 was impacted by a major highway washout incident related to heavy rains and associated landslides, which constrained Jinjiazhuang and Xingwu's ability to ship coal.

Historical Coal Output



2.3.3 Staffing

FDG mine employment totaled 3,781 personnel as of 31 December 2007. Employment levels by mine and category are shown below.

Employees – 31 December 2007

Mine	Underground Mining	Underground Support	Coal Handling/ CPP	Surface Support	Officer/ Engineer	Total	Approximate UG Labor Productivity Raw Tonnes/ Employee-Year*
Jinjiazhuang	341	714	–	146	109	1,310	1,430
Xingwu	223	735	153	232	95	1,438	1,710
Zhaiyadi	357	332	–	234	110	1,033	2,810
Total	921	1,781	153	612	314	3,781	1,880

* *FDG underground mine labor productivity based on 31 December 2007 employment levels.*

2.3.4 Mine Operating Costs

A breakdown of production costs on a company composite basis is shown below by general category.

Category	**2004**	**2005**	**2006**	**2007**
Raw Coal Output (Mt)	1.35	2.52	4.14	5.08
	Operation Cost *(RMB/Raw Tonne)*			
Material	26.0	24.1	19.2	17.3
Salary	29.0	25.7	20.2	19.1
Welfare	4.1	3.5	2.8	2.7
Power and Fuel	7.6	7.2	4.4	4.5
Safety Fund	6.8	13.0	15.0	15.0
Production Maintenance Fee	8.3	10.0	10.0	10.0
Sustainable Development Fund	–	–	–	15.5
Depreciation	8.0	7.2	5.9	6.5
Other FDG	10.8	5.8	7.1	2.1
Total – Production Cost	100.6	96.6	84.5	92.7
Mine Cash Cost*	77.5	66.4	53.6	61.2

* *Production cost less Production Maintenance and Safety Fund fees, and Depreciation.*

FDG's cash operating costs in 2007 are generally tracking the company's 2006 cost performance. Principal factor in higher 2007 cash costs is the imposition of the Sustainable Development Fund (RMB15.5/tonne) in 2007. Excluding this item, cash operating costs were nearly RMB8/tonne (15%) lower in 2007, reflecting economies of scale as raw output increased by 23%.

FDG's costs are in-line with our expectations based on our experience in China and the type of mines, technology employed, and output levels. The company's cost performance is believed to be competitive with other regional producers.

2.4 Environmental Overview

BOYD has determined that FDG has implemented appropriate environmental protection measures in response to national environment protection laws. Generally, the Company's environmental protection work is comparable to similar mining enterprises elsewhere in China. From our site visits, BOYD determined FDG's facilities for environmental protection for the Jinjiazhuang, Xingwu and Zhaiyadi mines operate adequately. While the particulars of current environmental practices may need to be upgraded at some mines, there do not appear to be environmental constraints to future coal mining operations. In our opinion, that in meeting the relevant requirements as required by national laws, the environmental protection practices of FDG comply with Chinese and World Bank's requirements for environmental protection related to coal mining activities.

3.0 COMPANY PROFILE

3.1 Introduction

Within the context of the Chinese coal industry, FDG is a small to medium size producer. Among privately owned coal-producing enterprises in China, FDG is one of the larger producers of coking-grade coals. FDG is an established underground coal producer and controls a significant tonnage of coal reserves to sustain, and to expand future, operations. FDG's current operations include three (3) operating coal mines with output of 4.1 million raw tonnes in 2006 5.1 million raw tonnes in 2007. FDG mines produce various grades and types of coking coal for local, regional, and national customers. FDG has also exported a limited amount of coking coal. General location of FDG mining operations is in western Shanxi Province, Liulin County, near Liulin Town as shown in Figure 3.1.

3.2 FDG Mine Assets

The three (3) active mines comprising FDG mining operations are established in the Hedong coalfield with each mine having a raw coal production capacity of 2.1 Mtpa (authorized output is 1.2 Mtpa for each mine presently). All FDG mines utilize longwall (LW) methods and operate in generally geologically simple, laterally consistent coal seams with sufficient reserves to support long-term operations.

Mine	LW Method	2007 Active LW Faces	Year of Initial Operation	Present Output Capacity *(Mtpa)*	Current Approved Output Capacity [(a)] *(Mtpa)*	Remaining [(b)] Marketable Reserves as of 31 December 2007 *(Mt)*
Jinjiazhuang	FM/CM	3	1996	2.1	1.2	31.82
Xingwu	FM/CM	2	1968	2.1	1.2	32.10
Zhaiyadi	FM/CM	2	1988	2.1	1.2	38.14

FM = Fully Mechanized CM = Con-Mech.

(a) Current output approvals by Shanxi Province.

(b) BOYD estimate of marketable tonnes according to JORC Code classification.

3.3 Coal Preparation/Processing Facilities

FDG's coal processing at the Jinjiazhuang and Zhaiyadi mines currently consists of screening and crushing facilities to generate specific sizes of coal products and hand-picking to remove larger rock impurities. FDG's coal washing capabilities are presently limited to one coal preparation plant (CPP) at the Xingwu Mine. A CPP is under construction at the Jinjiazhuang Mine and to process the coal from the mine and third party coal purchases. The proposed addition of a CPP at Zhaiyadi is under consideration. FDG is heavily reliant on truck transport for its primary surface coal transportation to local and regional customers. Mined and processed coal is transported by 40-, 60-, 80- or 100-tonne trucks to Liulin City (12 – 16 km distance) for transloading to the NRC for shipment to customers or transported by truck directly to customers. The capacities of FDG preparation and screening plants (operating and planned) are adequate for planned future output.

Mine/Facility	Preparation/ Processing Plant Location	Level of Coal Processing	CPP Circuitry Type	2007 Processing Tonnage *(million)*
Jinjiazhuang	Mine	Cr.-Screen	NA	NA
Xingwu	Mine	Preparation Plant	Dense Media	1.174
Zhaiyadi	Mine	Cr.-Screen	NA	NA

3.4 Coal Quality

FDG mines produce high quality, medium volatile coking coals for local, regional and national coking coal markets. Coal qualities in the Hedong Coal Field vary by seam and mine. Mines with seams in the Permian Age Shanxi Formation (Nos. 4 and 5) are recognized as JM class coking coal mines. Mines operating in the Carboniferous Age Taiyuan Formation (No. 9 Seam), produce lean coking coals recognized as SM class. The No. 4 Seam in particular is recognized throughout China for its superior coking characteristics. Jinjiazhuang and Xingwu produce JM class coking coals; Zhaiyadi produces SM class coking coal.

Recent company test results indicate that the test samples from Jinjiazhuang and Xingwu meet the international definition for hard coking coals. Zhaiyadi sample test results indicate that its coal meets international definition for semi-hard coking coals.

FDG represents the following coal quality analyses as typical of its highest commercial coal grades. Actual sales coal quality parameters will deviate from these typical parameters due to natural variability in the coal seams and the extent to which ash constituents are removed during coal processing (screening, crushing, partial washing, full washing) before sale.

			Mine				
			Jinjiazhuang		Xingwu		Zhaiyadi
Coal Quality Characteristics		**Basis**	**No. 3 Seam**	**No. 4 Seam**	**No. 4 Seam**	**No. 5 Seam**	**No. 9 Seam**
Moisture	(%)	ad	0.6	0.7	0.9	0.3	0.7
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FSI			7	7	7	7	7
Y	(mm)		9	11	17	13	8
Caking Index	(G)		49	77	86	75	72

FDG produces lower quality grade (higher ash content) coals depending on customer requirements.

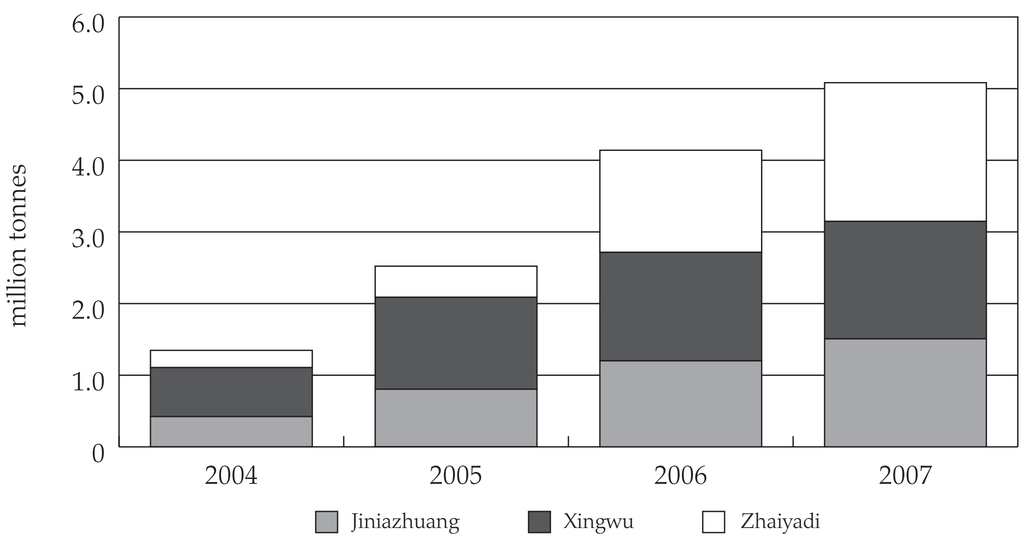
3.5 Historical Coal Output

Historical coal output for the FDG mines follows:

	Raw Coal Output Tonnes *(millions)*			
Mine	**2004**	**2005**	**2006**	**2007**
Jinjiazhuang	0.423	0.805	1.201	1.508
Xingwu	0.684	1.284	1.514	1.639
Zhaiyadi	0.240	0.433	1.425	1.936
Total	1.347	2.522	4.140	5.082

FDG output in 2006 to a minor extent was impacted for safety reviews and inspections on orders of Shanxi Province and Luliang City due to major accidents in Liulin and adjacent counties. Coal production in 2007 was impacted by a major highway washout incident related to heavy rains and associated landslides, which constrained Jinjiazhuang and Xingwu's ability to ship coal.

Historical Coal Output



3.6 Operating Practices and Mining Systems

The FDG mines operate according to established procedures and practices that are generally applied throughout the company, although there may be differences in application at specific mines. FDG mines effectively operate 300 or more production days per year on a 24-hour, 7-day-per-week basis (14 to 16 production hours per day from the LW faces). Major festival periods and national holidays amount to 15 idle operating days annually. Labor staffing levels are low during the major festival periods and the mine is idled for maintenance activities during these periods. Routine mine and equipment examinations and repair periods account for the balance of the available time. LW faces are scheduled for three 8-hour shifts per day with two shifts of production and one shift of maintenance and face preparation.

Development sections (faces) are scheduled for three 8-hour shifts per day with support and maintenance performed as part of the cycle. The average employee works 5 or 6 days per week as required. FDG's mine scheduling practices tend toward a fuller operating schedule than is typical for the international coal industry, but are customary for the Chinese coal industry.

Surface facilities at the mines are well-established complexes, providing accommodations for all aspects of the mining operation including administration and mine manager offices, materials and parts storage, repair shops, change rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. The mines are remote from major population centers, and off-site workers commute to work by a variety of means including buses, personal vehicles, etc. Living quarters for single men are often provided nearby the mine site.

FDG mines use steep angle inclines and vertical shafts to access the seams for mining activities. Secondary air shafts (intake or return) are utilized in mines where the workings have extended a sufficient distance from the initial access openings to warrant their construction. Generally, workers enter the underground mine workings at the main surface complexes.

LW mining is the primary coal production method in FDG mines. LW technology is the preferred Chinese method of coal production deriving from a long central government emphasis on maximizing reserve recovery. LW methods are generally (but not always) higher in recovery than any other method found in the underground coal industry.

LW mining is an underground mining technique for recovering coal from defined or developed blocks. As applied in FDG mines, the rectangular shaped coal blocks (LW faces) range from 90 meter (m) to 200 m in width (face length) and 500 m to 2,500 m in length (strike length). LW faces are generally defined (developed) around the entirety of the block and are typically arranged in a side-by-side sequential fashion with as many as 12 blocks depending on reserve configuration. Blocks vary in strike length according to the configuration of the mining right areas or other features defining the mineable reserve. Blocks are developed from a set of access openings (main roadways or tunnels). The openings (tunnels) that define the coal block are referred to as gates.

LW face systems are comprised of three basic elements: roof support, coal cutting or breaking and coal transport off of the face. LW faces are set-up or installed at the end of the block furthest from the access openings (main roadways). The direction of mining is toward the access openings and away from the rear of the blocks (or set-up rooms); this practice is termed retreating face LW mining. Depending on technique and system, the LW faces are designed to extract 100% of the coal in the block within the limits of their cutting height (extraction height). LW faces cut and transport the coal in the block to belt conveyor systems installed in an adjacent gate opening. These gate conveyors in turn convey the run-of-mine (ROM) coal to main belt conveyor systems installed in main roadways, which transport the ROM coal to incline belt conveyors or hoisting systems (both incline and vertical shaft type) for transferring the coal to the surface coal handling systems. Generally all FDG mines follow this simplified primary production system.

FDG LW faces may utilize several roof support, cutting and coal face haulage techniques depending on the geological setting and degree of mechanization. At the lowest level of mechanization, the roof support system consists of rows of single hydraulic props connected by steel bars. Coal cutting (or breakage) is provided by conventional drill and blasting techniques. Coal haulage on the face is accomplished with hand loading broken coal into small, lightweight chain pan conveyors. These low mechanization faces have a maximum extraction height of 2.5 m and a minimum extraction height of 0.7 m. At the highest level of mechanization, FDG presently has three FM LW faces consisting of hydraulic shield supports, double ranging shearers, armored face conveyors (AFC), and stage-loader and crusher assemblies. In between these levels of LW face mechanization are the conventionally-mechanized (Con-Mech) LW faces. Con-Mech faces have interconnected hydraulic props with controls, lightweight shearers, and AFCs. Mining equipment is procured from domestic sources. FDG operated four Con-Mech faces in 2007. FDG is gradually lengthening its faces as the geotechnical characteristics of longer faces are better understood and it is more comfortable with capabilities of the newer LW faces, in particular FM faces. The low mechanization faces in FDG mines had been replaced with Con-Mech faces or FM LW mines in earlier 2007.

In thicker seams, sublevel-caving techniques (also referred to as top coal caving) commonly utilized in thick seam Chinese mines are applied with Con-Mech and FM faces. In sublevel caving applications, the weight of the overburden generates pressures that break the coal seam that is not recovered in the initial shear cutting as the face supports move forward. Broken and crushed coal is recovered by letting the coal fall through special designed doors in the rear of the FM face supports or through wire mesh if Con-Mech face supports. FM faces for sublevel caving applications have both front and rear AFC's. The rear AFC is designed to transport the crushed coal falling through the doors to the belt conveyor system in the gate opening. Con-Mech faces may or may not have rear AFC's depending on design. High resource recovery associated with sublevel caving has dictated continued use of this technique. Recovery of coal by sublevel caving methods is estimated at 60% to 80% of the seam not recovered by initial cutting. FDG utilizes sublevel caving techniques at its Jinjiazhuang and Zhaiyadi mines.

By the end of 2007, FDG mines had 7 active LW faces in its three mines with the following breakdown:

		LW Face Type	
Mine	**LW Faces**	**FM**	**Con-Mech**
Jinjiazhuang	3	1	2[(a)]
Xingwu	2	1	1
Zhaiyadi	2[(b)]	1	1
Total	7	3	4

(a) One sublevel caving face and one full seam faces.

(b) Both faces utilize sublevel caving techniques.

Based on our experience with comparable Chinese mines, the FDG mines are typical in performance for the level of mining technology, underground infrastructure, and geologic conditions.

LW face retreat rates vary widely from 2.5 m/day to 5.0 m/day depending on mining technology employed. Spare AFC and other LW face equipment are available to facilitate face moves to successive LW panel setups in advance of the completion of mining in current panels. Face moves generally require 30 to 50 days to accomplish, depending on extent of equipment redundancy.

FDG's development methods for LW faces generally use twin parallel gate layouts, although single gate layouts are also utilized with barriers between adjacent parallel gates. Crosscut spacings range from 50 m to 100 m; gate spacings vary from 15 m to 30 m. LW gates are developed in the seam level, typically on the floor rock horizon. Main and gate openings are typically 3.0 m to 5.0 m in width, with opening height up to 1.8 m to 3.5 m. A three opening design for main roadways is typical, although a fourth roadway may be developed depending on haulage and ventilation requirements. Gate and roadway development rates vary with conditions and mining techniques. Mine openings are supported by a combination of methods. The more permanent main roadways are in part stone-lined or shot-crete lined. Gate openings are commonly supported with timber sets and wood lagging, although this method is gradually being supplanted with pattern roof bolting. Roof bolting is also used to reinforce main roadway openings. Roof bolts are typically 18 mm diam., with 2.4 m length, installed on 0.8 x 0.8 m pattern. Supplemental roof support including cable bolts, steel sets, etc. are installed as needed. LW gate and mainline development support practices and requirements are evolving toward more support of the underground openings. FDG mines generally develop openings using domestic make roadheaders although drill and blast methods are also employed. Roadheader development rates range from 250 m to 350 m/month; drill and blast methods range from 100 m to 150 m/month.

FDG maintains repair shops and related facilities at the mine sites. Upgrading of these facilities is ongoing to handle the newer mining technology installations at the mines.

For underground transport, FDG mines typically utilize narrow gauge railways and winches to transport supplies, parts, materials, equipment, infrastructure components, etc. Mine personnel generally walk to their job sites underground; in some instances the workers use hoisting arrangements in shafts and inclines. An overhead, cable-driven, man-riding system was recently installed in Xingwu Mine.

FDG's belt conveyor installations are comparable in terms of size, capacity and standards of care to those employed elsewhere in the Chinese coal industry at the scale of the FDG mines. All mines utilize belt conveyor systems of varying capacity to transport the coal from LW faces to the surface. Mainline conveyor system capacities range from 650 tph to 1,000 tph. With current level of LW face technologies, underground infrastructures are adequate for the planned output levels.

Water inflows experienced by FDG mines tend to be typical for shallow mines, and well within the capabilities of pumping systems. All mines have effective pumping systems with redundant primary sump pumps that control water inflows from the coal seam and overlying/underlying strata. Water control in the roadways and faces was observed to be well organized and effective. Pipelines carry the bulk of the water to the main sump room, where it is pumped to the surface and discharged to settling basins. Typically the discharged water is used in mine and processing and preparation plant applications for dust suppression. Water for fire fighting and dust suppression sprays is distributed underground using gravity flow by a system of steel pipes.

The coal measures, where FDG mines are situated, are classified as gassy, that is, the coal seams generate measurable methane gas in the mine workings. Generally the rate of methane release directly relates to depth of mine workings; the greater the depth, the higher the release of methane from the mine workings. At some point, methane releases become a significant concern in mine planning and operation.

FDG mines are ventilated to dilute and control methane liberations and dust generated by mining operations. To accomplish this end, FDG mines use exhausting type main fans with auxiliary backups as required by regulation. Main fans are generally installed at the terminus of a return incline or vertical shaft depending on mine. Mine ventilation quantities vary according to mine size but generally range from 6,000 to 12,000 m^3/min. Air velocities are acceptable for the underground openings. Auxiliary fans and blowing duct tubing are utilized in development faces. Air quantities, while somewhat lower than typical for similar international mines, are adequate for underground ventilation and do not present an issue for endangering mine workforces or preservation of the mines.

In gassier mines (generally mines at greater depths), the rate of methane release is such that the ventilation systems cannot adequately dilute the methane liberations. In these instances FDG has undertaken measures to de-gas the coal seam in advance of the development and LW mining teams. This is accomplished using short-hole horizontal drilling techniques and methane capture systems using piping and vacuum pumps. For development mining, the drilling extends 40 m to 80 m in advance of mining. LW face blocks are cross-drilled to drain the methane prior to LW mining in the block. In the cases where this technique is utilized, the captured methane is generally utilized for power generation heating fuel at on-site and nearby surface facilities. FDG mines do not utilize bleeder systems, gob de-gas holes or remote bleeder shaft fans (using high-pressure centrifugal fans) techniques, which are not common practice in the Chinese coal industry, but rely instead primarily on de-gasification techniques. LW gobs are ventilated to a small degree by negative pressure lines left in the gates defining the coal block. FDG mines are generally not prone to spontaneous combustion, so the minor gob ventilation is not a concern for combustion in the gob areas. LW panels are sealed after extraction is complete to prevent methane and other gases from migrating to active mining areas.

Although FDG controls the mining rights to the coal seams in the designated mining right areas, it controls little of the overlying surface areas. Villages varying in size from several dozen residents to several hundred residents, are situated within the FDG mining right areas. FDG has indicated that it will move several villages overlying un-mined portions of its mining right areas where logical LW face mining plans can be projected. FDG's situation is typical of the Chinese coal industry in this regard; in order to allow unimpeded, uninterrupted LW face mining, villages must be moved. Mining companies in China cannot undermine occupied villages without compensating affected village residents and seeing to their settlement in alternative living area. The villagers and the mining company must arrive at arrangements whereby the villagers have alternative housing and receive compensation for the moves. Local governments, for example, Liulin County, assist this process and help with conflict resolution. Villagers are typically given a sum of money and provided newly built accommodations, often with better amenities than the traditional village setting. The company-built villages are located in areas that either, have been previously mined, and are now stabilized, or in areas that will not be undermined due to protected surface features. Village services may include water supplies, sewage, power, schools, medical facilities, and security services. We anticipate that village moves will not pose a significant constraint to FDG's operations although short-term impacts are possible if village moves are not timely.

3.7 Employment and Labor Practices

FDG mine employment totaled 3,781 personnel as of 31 December 2007. Employment levels by mine and category are shown below.

Employees – 31 December 2007

	Underground		Surface				Approximate UG Labor Productivity Raw Tonnes/ Employee- Year*
Mine	Mining	Support	Coal Handling/ CPP	Support	Officer/ Engineer	Total	
Jinjiazhuang	341	714	–	146	109	1,310	1,430
Xingwu	223	735	153	232	95	1,438	1,710
Zhaiyadi	357	332	–	234	110	1,033	2,810
Total	921	1,781	153	612	314	3,781	1,880

* *FDG underground mine labor productivity based on 31 December 2007 employment levels.*

FDG provides basic mandatory retirement pension, medical, industrial accident, unemployment, and maternity insurance and supplementary retirement pension and medical insurance amounting to 28% to 31% of basic salaries. Other benefits provided by FDG include medical insurance premiums and allowances for festivals and holidays. Annual leave provisions (vacation, etc.) are between 10 and 20 days depending on a particular employee's seniority. The average age of FDG personnel is reported to be 33% with 56% of the workforce falling into the 30- to 40-year-old category. PRC Government regulations mandate retirement age at 60 for male staff and 55 for female staff.

FDG's wage levels, shown below, are average for the Chinese coal industry generally.

Mine	**Average*** **Annualized Salary** *RMB/Worker-Year*
Jinjiazhuang	21,400
Xingwu	29,500
Zhaiyadi	37,900
Average FDG	31,500

* *Based on 2007 historical data.*

FDG's labor costs on a unit of output basis are generally low in comparison to the major international coal industries. Average annual direct worker compensation (including bonuses) ranges from RMB21,000 to RMB38,000, equating to RMB14 to RMB28 per tonne of raw coal output. In terms of FDG's production costs, labor comprises approximately 20% to 30% of overall cash costs, which is comparable to the major coal-producing countries where direct labor is 20% to 35% of cash costs.

3.8 Safety

The standard measure used by the Chinese coal industry to measure and to compare safety performance is the fatality rate (average number of fatalities per 1.0 Mt of raw coal production). From the data provided by FDG, its mines did not experience any fatalities in the period 2004-2007. Similarly, FDG reports a low number of occurrences of major injuries over the same period.

Based on our site visits, the Company's practices follow appropriate standards for the type of hazards expected in the geological settings. The uppermost safety concern is methane gas generation in the coal mines. The Hedong Coal Field is well known for its high methane gas content. With the exception of Zhaiyadi (which is classified as a low methane generation mine), FDG mines use advance methane drainage techniques both in development and LW mining. These techniques consist of drilling horizontal in-seam bore holes on pattern from the mine openings to drain methane in advance of mining. Methane from these sources is gathered and pumped to storage tanks located on the surface, where the gas is stored for use by the mine complex (hot water boilers for example) and/or the local villages. In addition, JInjiazhuang and Xingwu uses a portion of the methane drained from the underground workings for power generation.

All mines employ underground monitoring systems comprised of multiple stations tracking methane content and other mine environmental characteristics. These systems are installed in surface control rooms, staffed on a 24-hour basis, and have the capability of de-energizing all or part of the mines where higher methane levels may be detected. Automatic shutdowns of underground electrical systems are triggered at certain methane content. All mines operate with exhausting air ventilation arrangements utilizing central exhausting fan systems. Air quantities appear adequate for diluting methane liberation in the development and LW faces; reported methane quantities in the final exhaust air current were well below the threshold for concern. Based on BOYD's observations during site visits, the mines appeared to be operating in a safe manner with close attention paid to monitoring gas emissions and providing adequate ventilation to dilute unrecovered gas emissions to a safe level. On the LW faces visited by BOYD, monitoring station and hand-held methane monitors indicated relatively low levels of methane on the LW faces.

Other customary safety practices such as coal dust suppression, spillage control, and adequate roof and rib support were also observed during the BOYD site visits. FDG mines have also taken proactive steps to minimize coal and coal dust accumulations outside of the face areas. Procedures in place to eliminate the potential for coal dust accumulations include:

- Reducing float dust as much as possible using water sprays in the development and LW face areas (equipment-mounted typically), along belt conveyor installations and underground transfer points (bunkers, chutes, etc.).

- Limiting air velocities to minimize "fugitive" dust pick up.

- Removing coal debris along belt conveyor lines and in the development faces with washing of roadways as required.

- Periodic cleaning and re-whitening of roadways as needed.

We believe that FDG's health and safety practices are in line with those observed at larger Chinese mining companies. We do not consider that FDG's 7-day operations scheduling, nearly uniform in the Chinese coal industry, is any way inherently unsafe. There are many underground mines with 7-day schedules in the international coal industry.

FDG reports their coal mines are heavily monitored by several levels of government: county, city, and province with Shanxi Province taking the lead role in mine regulation, although city and county regulations must also be followed. The allowable maximum output capacity is reviewed and approved by Shanxi Province officials. Even with the installation of safer, more productive and modern systems such as FM LW faces, mine output levels are closely regulated. Generally, a mine's approved output rate is related to its reserve base; a larger reserve base is supportive of approvals for higher output levels.

To this end, FDG has recently expanded the mining rights at Jinjiazhuang and Zhaiyadi to include adjacent mining right areas. These moves are in line with Shanxi Province regulatory policy to close small scale underground mines in favor of generally more productive, safer, larger scale mines. At present, FDG has Shanxi Province approval for 1.2 Mtpa output at each of its mines. FDG is currently applying for higher output approvals to support its long-term plans.

FDG conducts monthly safety inspections, provides additional training in safe work practices, and maintains detailed safety procedures designed to ensure worker safety. FDG also conducts classes and programs to upgrade the practical skills of its workforce, including management training, mechanical and electrical schools.

From the regulatory perspective, the SACMS supervises the mine site safety inspector offices on-site on a continual basis. The safety inspectors are charged with acting independently of coal mine management.

3.9 Training

FDG has implemented safety training programs, covering proper work procedures and work practices at all of their operations to provide for worker safety, and has established a good basis for its safety systems to support expanded future mine operations.

Provisions for safety training are largely guided by the State Administration of Worker Safety (SAWS). SAWS is in ultimate charge of worker safety at the national level and oversees officials at the provincial, coal mine bureau and coal producer levels. The State Administration of Coal Mine Safety (SACMS) provides regulatory oversight of the mine site safety inspectors. The safety inspectors act independently of coal mine management.

A safety training center is maintained at the coal producer level for training lower level personnel. A new FDG employee must take a series of classes amounting to a minimum of 15 working days (120 hours) of instruction. Annual retraining consists of 16 hours.

Annually, typically early in the year, the safety training requirements for the year are issued to the mines and related facilities. Safety meetings are conducted on a company-wide basis and on a mine-wide basis. Daily safety training meetings at the mine site are conducted before working shifts. Mine managers and deputy managers are trained in the provincial safety training center as arranged by the FDG's Safety Production Technology Department.

Task training sessions for the skilled and technical workers including electricians, blasters, methane and safety inspectors, team and shift managers for mining, electromechanical, ventilation, and transportation are organized by the Company and conducted by local government representatives. These workers must retrain as their certificates expire.

The FDG Safety Administration Department, with offices in the Xingwu Mine complex, oversees safety affairs and training activities. Each mine in turn has a safety administration section overseen by the company Department. Staffing for the FDG Safety Administration Section is 15 personnel including the manager, two (2) vice managers, four (4) section managers, and eight (8) engineers. At the mine level, the safety administration staff comprises 5 to 6 personnel, 1 manager and 4 to 5 engineers who work with the underground teams. A portion of the safety engineers received their training at the Liulin County Safety Training Center, while others were trained by FDG, which is authorized by Liulin County to provide such training and education. The engineers conduct extensive monthly training sessions, according to the annual safety training schedule. The Mine Manager Safety Qualification

Certificate can be held for a 3-year term before retraining and examination is required. Certifications for skilled workers require annual brief retraining and testing.

FDG plans for FM face training for the Zhaiyadi and Jinjiazhuang face personnel, as well as mechanics, electricians, belt conveyor attendants, other electromechanical department personnel, etc. for efficient and safe operation of the more advanced LW face technology.

3.10 Historical Operating Costs

FDG provided mine production costs for the period 2004 through 2007. BOYD has reviewed and accepted these costs provided by FDG as accurately reflecting mine level operating costs. Cash production costs directly associated with coal production include, but are not limited to, operating supplies, raw material consumption, equipment repairs, power, salaries, labor benefits, and production fees. Chinese coal mine cost accounting has several fees unique to the country's industry and include:

- Production Maintenance ("keep simple production") Fee.
- Safety Fund Fee.
- Sustainable Development Fund Fee.

Safety Fund and Production Maintenance are understood according to GAAP to be non-cash accruals. The recently implemented Sustainable Development Fee is assessed and paid directly to local governments. FDG's general and administrative expenses, selling costs, coal transportation costs (excluding inter-company movements), resource fees, operating taxes, value-added taxes (VAT), etc. are not reflected in the production costs below.

Historical mine cash production costs, as reported by FDG, are summarized by mine as follows:

Mine	**2004**	**2005**	**2006**	**2007**
Raw Coal Output *(Mt)*	1.35	2.52	4.14	5.08
	Average Cash Operating Cost *(RMB/Raw Tonne)*			
Jinjiazhuang	80.0	67.0	62.5	74.4
Xingwu	78.5	60.2	61.9	67.9
Zhaiyadi	70.5	83.8	37.4	45.1
Composite FDG	77.5	66.4	53.6	61.2

* *Production cost less Production Maintenance and Safety Fund fees, and Depreciation.*

A breakdown of production costs on a company composite basis is shown below by general category.

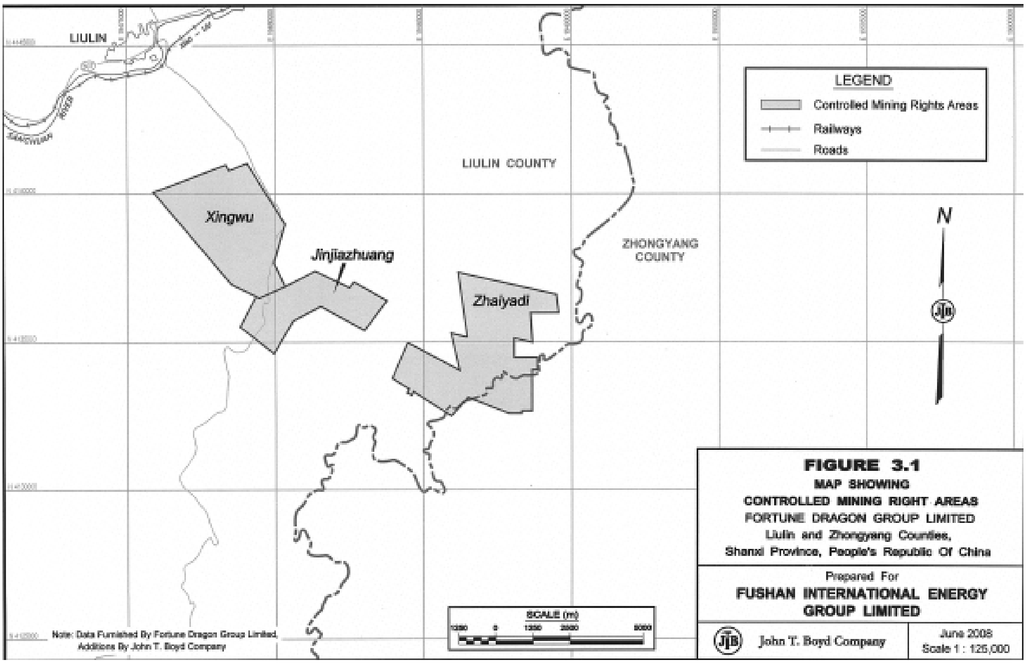
Category	2004	2005	2006	2007
Raw Coal Output *(Mt)*	1.35	2.52	4.14	5.08
	Operating Cost *(RMB/Raw Tonne)*			
Material	26.0	24.1	19.2	17.3
Salary	29.0	25.7	20.2	19.1
Welfare	4.1	3.5	2.8	2.7
Power and Fuel	7.6	7.2	4.4	4.5
Safety Fund	6.8	13.0	15.0	15.0
Production Maintenance Fee	8.3	10.0	10.0	10.0
Sustainable Development Fund	–	–	–	15.5
Depreciation	8.0	7.2	5.9	6.5
Other FDG	10.8	5.8	7.1	2.1
Total – Production Cost	100.6	96.6	84.5	92.7
Mine Cash Cost*	77.5	66.4	53.6	61.2

* *Production cost less Production Maintenance and Safety Fund fees, and Depreciation.*

FDG's 2007 cash operating costs are generally tracking the company's 2006 cost performance. Principal factor in higher 2007 cash costs is the imposition of the Sustainable Development Fund (RMB15.5/tonne) in 2007. Excluding this item, cash operating costs were nearly RMB8/raw tonne (15%) lower in 2007, reflecting economies of scale as raw output increased by 23%.

FDG's costs are in-line with our expectations based on our experience in China and the type of mines, technology employed, and output levels. The company's cost performance is believed to be competitive with other regional producers.

Following this page is Figure 3.1, Controlled Mining Right Areas.


LIULIN
LEGEND
Controlled Mining Rights Areas
Railways
Roads
LIULIN COUNTY
ZHONGYANG COUNTY
Xingwu
Jinjiazhuang
Zhaiyadi
N
FIGURE 3.1
MAP SHOWING
CONTROLLED MINING RIGHT AREAS
FORTUNE DRAGON GROUP LIMITED
Liulin and Zhongyang Counties,
Shanxi Province, People's Republic Of China
Prepared For
FUSHAN INTERNATIONAL ENERGY GROUP LIMITED
John T. Boyd Company
June 2008
Scale 1 : 125,000
SCALE (m)
Note: Data Furnished By Fortune Dragon Group Limited, Additions By John T. Boyd Company

4.0 GEOLOGY AND RESOURCES

4.1 Geology

On a global basis the geological setting or nature of the coal deposits controlled by FDG are judged to be simple to moderate (i.e., not geologically complex). Areas of coal occurrence evaluated in this report are located in the Liliu Coal Field. The lower coal seams are contained in the Taiyuan Formation of Carboniferous Age and the upper seams in the overlying Shanxi Formation of Permian Age.

The coal-bearing formations were unconformably overlain by semiconsolidated Tertiary and Quaternary alluvium measuring over 200 m thick and known as the Shanxi Loess Plateau. These strata have been eroded to form the present rugged topography with steep slopes (maximum relief of 300 m). Therefore, the thickness of the loess is greatest at the highest elevations along ridges and less in the valleys. In some of the lower drainage areas these alluvial strata have been completely eroded away, and the Permian strata are exposed.

The mining right areas evaluated in this report are in the same general area of the coalfield (see Figure 3.1). In the westernmost areas are the adjacent Xingwu and Jinjiazhuang mines. The Zhaiyadi Mine lies east of Xingwu and Jinjiazhuang.

The geologic strike of the strata in this part of the coalfield varies from a northwest to southeast, and a north to south orientation. Correspondingly, the general dip of the strata is to the southwest and west. In the mining right areas, the strata dip to the southwest at from 3 to 8 degrees. The structure of the resource areas is simple and no faulting has been encountered in the mines nor indicated by available drilling. Depth of cover ranges from 100 to 500 meters which is typical for mines in the area.

There are several coal seams present in each resource area. The seams are identified by number references, which range from 10 to 2 in stratigraphically ascending order. Seams 10 through 6 seams occur in the Carboniferous Taiyuan Formation and Seams 5 through 2 seams are in the overlying Permian Shanxi Formation. The seams are generally uniform in occurrence but occasionally split or pinch out. Seam intervals are also generally uniform; however, there are areas where seams abruptly split or merge.

4.2 Resource Evaluation Data

In order to prepare an evaluation of FDG coal resources, BOYD was provided with detailed data for each mining right area. Typical data provided included:

1. Geologic report.
2. Geologic data, including tables containing drill hole data and coal quality.
3. Resource tables and maps for each seam.
4. Mine plan maps.
5. Other data.

The geologic report contained information for the following items:

1. Location and Geography.
2. Regional Geologic, Mine Geology, Coal Seam Geology.
3. Coal Quality.
4. Hydrology.
5. Engineering Geology.
6. Environmental Geology.
7. Exploration Status.
8. Resource Assessment.
9. Resource Calculations.

The reports also contained various supporting maps sections and figures.

FDG resources are defined by exploration drilling and mine measurements. Typical drill hole data includes:

1. Drill hole logs.
2. Geophysical logs.
3. Coal Analyses.

The coal resources are defined by drill hole data and mine measurements as follows:

	Drill Holes		**Mine**
Seam No.	**Number**	**Spacing**	**Measurements**
		(m)	
	Jinjiazhaung		
3	20	500-1,000	20
4	20	500-1,000	57
8 & 9	21	500-1,000	–
	Xingwu		
4	8	600-1,200	44
5	11	600-1,200	8
9 & 10	15	600-1,500	–
	Zhaiyadi		
3	21	500-1,300	14
4	12	500-1,300	7
9	26	500-1,300	17

Mine measurements were typically taken on 200 to 400 meter spacing where active mine workings are adjacent to the resource areas.

BOYD received resource tables and maps for each seam in the resource areas. The resource maps showed hole locations, seam thickness and structure, geologic and hydrologic features, mining rights limits, buffer areas, local mine areas, current mining, and surface features. Resource polygons were shown with polygon identification number, area, seam thickness, density, and in-place tonnage data.

Polygon tables were also provided that corresponded to the maps. These tables showed the polygon identification, area, thickness, in-place tonnes, and holes used to determine seam thickness for the polygon. The table also shows the classification of the resources based on the classification system used by FDG.

FDG provided mine plan maps for all active operations. Mine plans were also provided for resources that were scheduled to be developed in the near term. These plans were reviewed by BOYD engineers with FDG's technical personnel and mine management.

During our review of this data BOYD personnel met several times with FDG to clarify and to verify our understanding of the data provided. Additional information including maps and tables were provided as needed. This interaction with FDG's technical personnel was an important source of information during our evaluation.

FDG prepared in-place resource tonnage estimates for each seam in each resource area according to standards established by the PRC Government for this coal grade. Under these standards, all underground mineable seams greater than 0.7 m in thickness are included in the resource estimates. FDG geologists use a polygon method to define individual area subdivisions used to calculate in-place resources. The PRC Government requires detailed accounting of all in-place coal tonnage to track exploitation of a strategic national asset.

BOYD has reviewed the in-place resources estimates prepared by FDG and found that the estimates were reasonable, based on PRC Government standards and available source exploration data. However, these estimates covered large areas, parts of which were well defined, moderately defined, and poorly defined by exploration and mine data. Also some polygon areas included some coal that was not considered by BOYD to be economically mineable. For purposes of the ITR, it was determined that the FDG's polygon estimates did not address other criteria such as, resource classification (reliability) and economic mineability, and could not be used. Therefore BOYD has prepared new estimates for all the specified resources areas.

4.3 Resource Classification

In reporting resources for the valuation of mining properties most international classification systems recognize two major factors must be considered, namely:

- Geologic assurance of existence.

- Economic viability.

All systems require that the degree of geological assurance of existence be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements).

Economic viability of resources is usually reported in economic and subeconomic categories.

The terms Resource and Reserve are commonly used in the reporting of coal tonnage, but the usage or definition supplied to these terms can vary between parties.

BOYD has prepared resource estimates for FDG using the Australasian Code for Reporting of Mineral Resources and Ore Resources also known as the JORC Code. Pleas see the Glossary and Definitions section of this report for definitions of the JORC Code and used in this ITR.

In this report Measured Resources and Proved Reserves are defined by points of observation on 500 m spacing. Indicated Resources and Probable Reserves are defined on 1,000 m spacing. Inferred Resources are defined on an up to 4 km spacing. Projections of resources in any category beyond any point of observation do not exceed one half of the defined spacing. We have assigned these spacing criteria based on our evaluation of the geologic conditions. The structure of the resource areas is generally simple and uniform and therefore seam splitting and thinning are the major geologic factors affecting assurance of existence. We believe the points of observation spacings used in this ITR are conservative but appropriate, and provide the required level of geological assurance.

4.4 Resource Estimates

Estimates of Proved and Probable Coal Reserves presented in this report are JORC compliant.

BOYD has also prepared estimates of Inferred Resources. These resources are classified as Inferred due to the lack of exploration data which results in a low level of confidence in the estimate. Commonly, it would be reasonable to expect that the majority of Inferred Resources would upgrade to Indicated Resources with continued exploration. However, due to the uncertainty of Inferred Resources it should not be assumed this will always occur. Typical JORC compliant statements of Inferred Coal Resources are limited to an in-place tonnage basis, however, BOYD has extended the estimates of Inferred Coal Resources to include Recoverable and Marketable tonnage bases. We have prepared these estimates using the same recovery factors as applied to the seams in adjacent Indicated or Probable areas. We have prepared these estimates to provide an approximate tonnage that could be reasonably expected, assuming the Inferred Resources actually exist as now projected. It is important to understand that it is not appropriate to combine Inferred Resources with any Reserve estimates as there is no direct connection between Inferred Coal Resources and any category of Coal Reserves in the JORC Code.

4.5 Economic Criteria

BOYD has developed criteria to assess the economic viability of each seam resource area. Economic viability is based on:

1. Mine plan feasibility studies.
2. Current mining economics.
3. Seam thickness and areal extent.
4. Geological considerations.

BOYD has reviewed FDG mine plans, costs and other data, and has developed our own economic models to evaluate the coal resources. A minimum seam thickness limit of 0.7 m has been used in thin seam areas (<1.5 m). Each thin seam area was evaluated for geologic continuity and areal extent.

BOYD has used various criteria to estimate Recoverable Resources and Marketable Resources from In-Place Resource estimates. These criteria address the following:

1. Vertical Seam Recovery.
2. Areal Mining Recovery.
3. Mining Dilution.
4. Mining Moisture Gain.
5. Preparation Plan Yield and Moisture Gain.

BOYD has used a maximum mineable seam thickness criterion for thick seams when the existing mining equipment cannot recover the full seam height as follow:

Area	**Maximum Mining Height** *(m)*
Jinjiazhuang	4.0
Xingwu	4.0
Zhaiyadi	4.0

In the optioned mine expansion areas the sublevel caving longwall mining method will be used in the thick No. 9 Seam. With this method the longwall will recover 2.6 m with the shearer and the remaining coal will be caved. It is estimated that 60% of this remaining coal will be recovered.

4.5.1 Area Mining Recovery

All mining is conducted using the longwall mining method. The following areal recoveries used are:

Resource Area	Areal Mining Recovery
Jinjiazhuang	70% – 3,4 Seams 60% – 8, 9/10 Seams
Xingwu	75% – 4 Seam 50% to 60% – 5 Seam 60% – 9 Seam 60% – 10 Seam
Zhaiyadi	70% – All Seams

Lower mining recoveries are used to account for losses due to irregular shaped areas at Jinjiazhuang in the No. 8, and Nos. 9/10 Seam. Low recoveries used for the No. 5 and No. 10 Seams at Xingwu area due to the close vertical intervals between overlying seams.

In the optioned mine expansion areas the areal recovery of the No. 3 and No. 4 Seams is 70%. A 60% recovery factor is used for the No. 9 Seam, which includes both areal recovery and sublevel caving recovery factors.

It should be understood that these values represent the average results a typical mine will achieve over the life of its operation. In FDG's active mines, these mining recoveries have been exceeded in certain small site-specific areas and have also been lower in other areas. We are confident these average values fairly represent the average recovery that is achievable at the subject FDG mines.

4.5.2 Mining Dilution

Mining Dilution is the rock contamination recovered from roof and floor strata that are mined with the coal seam during the normal mining process. BOYD has estimated mining dilution based on seam thickness as follows:

Seam thickness Interval *(m)*	**Mining Dilution** *(m)*
>1.0	0.1
0.7 to 1.0	0.2

These factors were selected based on current and planned mining equipment to be utilized in the resource areas. A 2.3 specific gravity density factor was used for calculating mining dilution tonnage.

4.5.3 Moisture Gain

Spray water is commonly used throughout the mining process to control dust liberated during mining and coal handling. BOYD applied a 2 percentage point gain in raw coal output to account for moisture gain.

4.5.4 Preparation Plant Yield and Moisture Gain

To improve quality FDG subjects its raw coal output to various screening, crushing, and washing processes. The following factors are used in this report to estimate the tonnage of marketable coal recovered from the raw (as-mined) coal:

- 90% of the coal portion of the as-mined product for the Nos. 3, 4, 5, 8, 10 seams.
- 80% of the coal portion of the as mined product for the No. 9 seam.
- 3% of the in-seam parting and mining dilution portions of the as-mined product are included in the washed product.
- 2% moisture gain is applied to the washed coal.
- For coal mined on a raw basis 50% of the parting and dilution material is removed by screening.

4.5.5 Exclusions

Resources in barrier and remnant pillars, mining right barriers, undermined areas, mined out areas, isolated or inaccessible areas, low cover areas, and areas where seam occurrences (vertical interval between seams) are too close to permit extraction, were excluded from the resources. We also excluded resources that underlie villages, surface industrial sites, roads, etc that will not be moved as specified by FDG.

4.6 FDG Resources

Resource estimates are presented by property control and resource classification categories. Resources for both controlled and uncontrolled properties, for Measured, Indicated and Inferred Resource, and for Proved and Probable Reserves, are presented on In-Place, Recoverable, and Marketable bases.

In Place-Resources were estimated using the resource area, total seam thickness (coal and partings), and the following densities coal 1.4 and parting 2.1.

Recoverable Resources and Reserves are estimated by applying vertical seam recovery, areal mining recovery, mining dilution, and mining moisture gain factors to the In-Place estimates.

Marketable Resources and Reserves are estimated by applying the plant yields and processing moisture gain to the estimated recoverable tonnages.

4.6.1 Controlled Mining Right Areas

4.6.1.1 Proved and Probable Reserves

BOYD has prepared resources estimated for mining rights areas controlled by FDG as of 31 December 2007. Our estimates of the Proved and Probable Reserves are summarized as follows:

	31 December 2007 JORC Code									
	In-Place Resource *(Mt)*			Recoverable Reserves *(Mt)*			Processing	Marketable Reserves *(Mt)*		
Seam No.	Measured	Indicated	Total	Proved	Probable	Total	Yield *(%)*	Proved	Probable	Total
Jinjiazhuang										
3	4.55	1.08	5.63	3.61	0.86	4.47	84	3.02	0.72	3.74
4	12.89	4.28	17.17	9.62	3.21	12.83	79	7.55	2.55	10.10
8	1.98	4.92	6.90	1.66	4.12	5.78	69	1.14	2.82	3.96
9-10	9.59	24.89	34.48	5.89	14.83	20.27	68	3.94	10.08	14.02
Total	29.01	35.17	64.18	20.78	23.02	43.80		15.65	16.17	31.82
Xingwu										
4	11.57	5.25	16.82	9.33	4.21	13.54	86	7.65	3.70	11.65
5	2.67	9.95	12.62	1.78	6.67	8.45	80	1.51	5.28	6.79
9	–	20.59	20.59	–	14.79	14.79	53	–	7.84	7.84
10	–	13.20	13.20	–	9.56	9.56	61	–	5.82	5.82
Total	14.24	48.99	63.23	11.11	35.23	46.34		9.46	22.64	32.10
Zhaiyadi										
3	2.16	4.94	7.10	1.74	4.19	5.93	93	1.64	3.86	5.50
4	2.00	3.10	5.10	1.63	2.50	4.13	94	1.52	2.36	3.88
9	15.27	50.87	66.14	9.95	32.20	42.15	68	6.68	22.08	28.76
Total	19.43	58.91	78.34	13.32	38.89	52.21		9.84	28.30	38.14
Total										
3	6.71	6.02	12.73	5.35	5.05	10.40	89	4.66	4.58	9.24
4	26.46	12.63	39.09	20.58	9.92	30.50	84	17.02	8.61	25.63
5	2.67	9.95	12.62	1.78	6.67	8.45	80	1.51	5.28	6.79
8	1.98	4.92	6.90	1.66	4.12	5.78	69	1.14	2.82	3.96
9, 9-10	24.86	96.35	121.21	15.84	61.82	77.66	65	10.62	40.00	50.62
10	–	13.20	13.20	–	9.56	9.56	61	–	5.82	5.82
Total	62.68	143.07	205.75	45.21	97.14	142.35		34.95	67.11	102.06

Proved and Probable Marketable reserves total 102.06 Mt and are JORC Code compliant. As shown the adjacent Xingwu and Jinjiazhuang mine areas contain 63% of the reserves. Approximately 34% of the reserves are classified in the Proved Reserves category.

4.6.1.1.1 Jinjiazhuang

The Jinjiazhuang reserves are contained in 4 seams as follows:

Seam No.	Average Thickness *(m)*	Total Marketable Reserves *(Mt)*	% of Reserves
3	1.5	3.74	12
4	3.2	10.10	32
8	0.9	3.96	12
9/10	4.2	14.02	44
Total		31.82	100

The majority of the reserves are contained in the thick No. 4 (32%) and the merged Nos. 9-10 Seams (44%). FDG also reported resources in the No. 8 Upper Seam; however, recent drilling data indicate the seam is erratic in occurrence. Due to this and the close vertical to the No. 8 Lower, the No. 8 Upper Seam has been excluded from our evaluation.

4.6.1.1.2 Xingwu

The Xingwu reserves are contained in 4 seams as follows:

Seam No.	Average Thickness *(m)*	Total Marketable Reserves *(Mt)*	% of Reserves
4	3.2	11.65	37
5	1.3	6.79	21
9	1.7	7.84	24
10	1.7	5.82	18
Total		32.10	100

As shown 61% of the reserves are in the No. 4 and No. 9 Seams.

FDG has estimated resources in the No. 8 and No. 6 Seams in this area. BOYD has excluded these seams due to erratic occurrence of these thin and split seams. BOYD has also excluded part of the No. 10 Seam area due to seam splitting.

4.6.1.1.3 Zhaiyadi

Zhaiyadi reserves are contained 3 seams as follows:

Seam No.	Average Thickness *(m)*	Total Marketable Reserves *(Mt)*	% of Reserves
3	1.0	5.50	14
4	1.2	3.88	10
9	4.8	28.76	76
Total		38.14	100

4.6.1.2 Inferred Resources

BOYD has also prepared estimates of Inferred Coal Resources for the controlled areas. As discussed in the resource classification section of this report, due to the lack of exploration data these estimates have a low degree of confidence (i.e., low geologic assurance). In the JORC Code, estimates of Inferred Coal Resources do not have a direct relationship with any category of reserves and should not be combined with any reserves estimates.

Our estimates of Inferred Resources are:

	31 December 2007 JORC Code			
Seam No.	In-Place *(Mt)*	Recoverable *(Mt)*	Processing Yield %	Marketable *(Mt)*
		Xingwu		
4	–	–	–	–
5	2.53	1.77	81	1.43
9	8.56	6.14	52	3.17
10	3.11	2.26	66	1.49
Total	14.20	10.17		6.09
		Zhaiyadi		
3	0.27	0.23	91	0.21
4	0.20	0.17	94	0.16
Total	0.47	0.40		0.37

	31 December 2007 JORC Code			
Seam No.	In-Place (Mt)	Recoverable (Mt)	Processing Yield %	Marketable (Mt)
	Total			
3	0.27	0.23	91	0.21
4	0.20	0.17	94	0.16
5	2.53	1.77	81	1.43
9	8.56	6.14	52	3.17
10	3.11	2.26	66	1.49
Total	14.67	10.57		6.46

As discussed in the Resource Classification section of this report, the estimates of Inferred Recoverable are JORC compliant but are typically only presented on an in- place basis. However we have also prepared estimates on Recoverable and Marketable bases using the same criteria in adjacent Probable Reserve areas to provide an approximate tonnage that could be reasonably expected if the Inferred Resources actually exist. As shown, inferred resources are only present in the Xingwu and Zhaiyadi mining right areas.

4.6.1.2.1 Xingwu

The Inferred Resources at Xingwu occur in the following seams:

Seam No.	Average Thickness (m)	Total Marketable Inferred Resources (Mt)	% of Reserves
4	–	–	–
5	1.1	1.43	23
9	1.7	3.17	53
10	1.7	1.49	24
Total		6.07	100

4.6.1.2.2 Zhaiyadi

The Inferred Resources at Xingwu occur in the following seams:

Seam No.	Average Thickness *(m)*	Total Marketable Inferred Resources *(Mt)*	% of Reserves
3	0.9	0.21	57
4	0.8	0.16	43
Total		0.37	100

4.7 Coal Quality

4.7.1 Chinese Coking Coal Classification

Chinese coking coals and coking blend coals have the following designations:

Type	Chinese Code
Coking Coal	JM
Lean (Coking) Coal	SM
1/3 Coking Coal	1/3 JM
Fat Coal	FM
Gas Coal	QM

Coking coals (JM) are considered as providing the best material for coke making. Generally coals for coke making are blends of the five coking coal classifications, with coking coal (JM) comprising the largest component of the blends.

Chinese coal classification uses primarily volatile matter content (VM), caking index (G), plastic layer thickness (Y) characteristics to determine coal rank and type. Dilatation (D) is also used to distinguish coal types within categories. The following table shows the relevant classification standards for coking coal:

Coal Type	Chinese Code	Code No.	V^{daf} (%)	G	Y (mm)	D (%)	Mean Max. Reflectance (% Ro Max.)
Lean Coal	SM	13	>10 ~ 20	>20 ~ 50			1.55 ~ 1.90
		14	>10 ~ 28	>50 ~ 65			
Coking Coal	JM	15	>10 ~ 28	>65			
		24	>20 ~ 28	>50 ~ 65	≤ 25	≤ 150	1.20 ~ 1.70
		25	>20 ~ 28	>65			
1/3 Coking Coal	1/3 JM	35	>28 ~ 37	>65	≤ 25	≤ 220	
Fat Coal	FM	16	>10 ~ 20	>85			
		26	>20 ~ 28	>85	>25	>150	0.90 ~ 1.30
		36	>28 ~ 37	>85			
Gas Coal	QM	34	>28 ~ 37	>50 ~ 65			
		43	>37	>30 ~ 50	≤ 25	≤ 220	0.90 ~ 1.30
		44	>37	>50 ~ 65			
		45	>37	>65			

4.7.2 International Coking Coal Classification

The standard international coking coal type definitions are as follows:

Coal Type	Air Dried Ash (%)	Volatile Matter (%)	Crucible Swelling Number (CSN)	Gieseler Max. Fludity (dopm)	Mean Max. Reflectance (% Ro Max.)	Gray King Assay	Audibert Amu Total Dilation (%)
Hard Coking	<10.0	19-35	6-9	200-25,000	1.0-1.6	G3-G9	30-180
Semi-Hard Coking	8.0-10.5	17-26	4-6	200-5,000	0.95-1.7	F-G4	
Semi-Soft Coking	8.0-11.0	25-41	3-8	100-30,000	0.7-0.95	D-G7	

Direct correlations of Chinese coking coal characteristics with international standard definitions are imprecise. The Chinese coking coal (JM) classification corresponds most closely to the international definition of the "hard coking" coal type. Lean coking coal (SM) classification denotes a lower grade of coking coal and conforms most closely to the international "semi-hard coking" coal type. The 1/3 coking coal (1/3 JM) classification generally conforms to the "semi-soft coking" coal type. Fat coal (FM) and gas coal (QM) classifications share some of the characteristics of the "semi-soft coking" coal type.

Chinese coking coal characteristics, as generally reported, do not include Crucible Swelling Number (CSN) (although G is used alternatively), Gieseler Maximum Fluidity, and other characteristics.

4.7.3 FDG Coking Coal Classification

FDG mines produce high quality, medium volatile coking coals for local, regional and national coking coal markets. Coal qualities in the Hedong Coal Field vary by seam and mine. Mines with seams in the Permian Age Shanxi Formation (Nos. 4 and 5) are recognized as JM class coking coal mines. Mines operating in the Carboniferous Age Taiyuan Formation (No. 9 Seam), produce lean coking coals recognized as SM class. The No. 4 Seam is recognized throughout China for its superior coking characteristics.

FDG had several samples from its mines and Xingwu preparation plant tested for standard Chinese coking coal and international coking coal characteristics. The results of these tests are as follows:

			Mining Operation				
			Jinjiazhuang		Xingwu		Zhaiyadi
Coal Quality Characteristics		**Basis**	**No. 3 Seam**	**No. 4 Seam**	**No. 4 Seam**	**No. 5 Seam**	**No. 9 Seam**
Moisture	(%)	ad	1.8	1.0	1.0	2.6	1.5
Ash	(%)	d	10.5	3.6	10.9	8.2	8.3
Ash	(%)	ad	10.5	3.6	10.7	8.1	8.2
Sulfur (total)	(%)	d	0.46	0.48	0.40	0.46	1.69
Volatile Matter	(%)	daf	21.3	21.8	21.2	20.8	18.1
Volatile Matter	(%)	ad	19.0	20.9	18.9	20.0	16.6
Fixed Carbon	(%)	ad	70.2	75.1	70.2	72.5	74.8
Calorific Value	(Kcal/kg)	Gr.v.d	7,750	8,470	7,690	7,980	7,920
Phosphorus	(%)	ad	0.003	0.001	0.060	0.021	0.130
Char Residue Characteristics		ad	6	8	7	7	5
Y	(mm)		14.5	22.0	16.0	16.5	8.0
Caking Index	(G)		88	97	90	86	87
Hardgrove Grindability		ad	100	106	96	98	94
Crucible Swelling Number	(CSN)		$7^1/_2$	$8^1/_2$	7	7	$4^1/_2$
Gieseler Max. Fludity	(ddpm)		339	1,582	607	641	3
Mean Max. Reflectance	(%)		1.41	1.30	1.40	1.40	1.40
Audibert Arnu							
Softening	(ºC)		399	396	396	406	443
Maximum Contraction	(ºC)		441	426	442	442	467
Maximum Dilation	(ºC)		490	488	491	499	496
Maximum Contraction	(%)		27	27	26	28	26
Maximum Dilation	(%)		42	132	12	27	-14
Gray King Assay			G5	G9	G1	G3	F

These test results indicate that the test samples from Jinjiazhuang and Xingwu meet the international definition for hard coking coals. Zhaiyadi sample test results indicate that its coal meets international definition for semi-hard coking coals.

Following are typical FDG coal quality characteristics for its highest commercial coal grades:

			Mining Operation				
			Jinjiazhuang		Xingwu		Zhaiyadi
Coal Quality	**Characteristics**	**Basis**	**No. 3 Seam**	**No. 4 Seam**	**No. 4 Seam**	**No. 5 Seam**	**No. 9 Seam**
Moisture	(%)	ad	0.6	0.7	0.9	–	0.7
Ash	(%)	d	6.3	11.0	11.3	–	10.4
Sulfur (total)	(%)	d	0.32	0.47	0.36	–	1.65
Volatile Matter	(%)	daf	21.3	22.4	21.6	–	18.7
Fixed Carbon	(%)	ad	73.1	68.4	68.6	–	72.1
Calorific Value	(Kcal/kg)	Gr.v.d	7,920	7,520	7,500	–	7,540
FSI			7	7	7	–	7
Y	(mm)		9	11	17	–	8
Caking Index	(G)		49	77	86	–	72

4.8 Mining Rights

4.8.1 Overview

Coal in China is owned by the central government as established in the PRC Mineral Resources Law. The law and related Administrative Measures on the Mineral Resources Production Registration, which governs certain aspects of mineral and coal resources control for exploitation (including the granting of new and the renewal of existing mining right permits), are administered by the Ministry of Land and Resources (MLR). Exploration right permits, mining right permits and land use rights are granted by the MLR or relevant provincial mineral resource bureau, in this instance, the Shanxi Province Land and Resource Bureau, before exploration or mining operations can be undertaken in defined mining right areas. Mining right permits are granted for specified periods of time, after which the rights may be extended upon application.

4.8.2 Mining Rights Review

FDG is licensed to produce coal at its three mines. We have not completed an independent legal evaluation of the status of FDG's mining rights but we have reviewed the documentation for the FDG's mining rights. By PRC law the maximum holding period (term) for mining right permit is 30 years, although FDG's smaller mining right areas have much shorter holding periods, typically 5 years or less. The MLR or relevant provincial regulatory body, in this case the Shanxi Province Land and Resource Bureau, has the legal authority to renew an existing mining right area that is expiring. It is typical practice in other major coal producing nations for governments to extend the term of the mining rights for the economic life of the reserves. We have assumed that FDG's mining rights will be renewable for the life of the resources for the purposes of our estimates.

Mining right permit summary and status for FDG's present operating mines, follows (to be updated):

Coal Producer/ Mining Right Area	Mining Certificate Number	Mining Method	Area	Mining Right Grant Date	Mining Right Expiration
			(km^2)	*(yr/month)*	*(yr/month)*
Jinjiazhuang	1400000721097	UG	6.3491	2007/2	2012/2
Xingwu	1400000721096	UG	11.6325	2007/2	2012/2
Zhaiyadi	1400000721098	UG	13.9068	2007/2	2012/2

FDG's mining right holding periods are relatively short duration and all of the areas will come up for renewal within the forecast period.

FDG's mining right certificate holding periods appear to follow typical practices of relatively short holding periods for smaller, non-state related mines. The maximum mining right holding period in China for coal is 30 years but this is usually only accorded to the former central state-related mining enterprises. Mining rights rollover is a legal issue that is evolving in China due to the coal industry's restructuring and the need for legal certainty.

It is reasonable to assume that FDG's mining rights will be renewed upon expiration. According to Chinese law governing natural resources, the owner of mining rights has priority to renew or extend its mining rights if mineable reserves remain at expiration of the mining right holding period. While not a large coal producer, the company has significant production assets and has the financial and organizational resources to successfully mine these areas in an orderly fashion thereby achieving maximum reserve recovery. The central and provincial governments are moving in the direction of consolidating mining operations, particularly local mines, to promote health and safety improvements and to create more efficient mining operations. For these reasons, we believe it likely that FDG will receive mining right renewals. Transfer of mining rights to a third party requires provincial approval.

4.8.3 Land Use Rights

Generally the surface lands within the FDG mining right areas belong to the PRC government. For mining right areas where underground mining methods are applied, extensive land use rights are not needed.

4.8.4 Resource Recovery

PRC laws and regulations governing the mining of coal resources require coal mine operators to attain high resource recovery rates. Failure to achieve applicable recovery rates in a timely manner as set by the responsible central government ministry can expose a coal producer to penalties such as revocation of the coal mine's production permit. A responsible person, typically the highest ranking geologist/engineer, prepares an annual report detailing changes in estimated resources over the year. Based on our discussions with FDG, the mines take resource recovery seriously and employ measures to comply with mandated recovery rates including secondary recovery mining activity in some instances, demonstrating a concern for maximizing resource recovery.

5.0 JINJIAZHUANG

5.1 Introduction

Jinjiazhuang Mine (Jinjiazhuang) began operation in 1996. The mining right area is located 14 km south of Liulin City and encompasses about 6.35 km^2, as shown in Figure 5.1. Measuring 3.4 km north to south and 6.8 km east to west, the Jinjiazhuang mining right area is adjacent to FDG's Xingwu mining right area. Access is provided by township roads. The Xiaoliu Railway station in Liulin City services the mine for rail shipments on the Liulin – Shilou line, which interconnects with the NRC. Jinjiazhaung's current authorized production capacity is 1.2 Mtpa, present output capacity is 2.1 Mtpa.

When purchased from a local owner in 1996, the mine had an output capacity of 150,000 tpy. Idled in 2001, the mine was restarted in 2003. In early 2007, the former Nangou Mine and Hejiashe Mine were consolidated into Jinjiazhuang. Active mining levels are in the Nos. 3 and 4 Seams (in descending order). During BOYD's last visit on 25 October 2007, Jinjiazhuang had one FM LW face and one Con-Mech face in the No. 3 Seam and one Con-Mech face is in No. 4 Seam. Single pass shearer cutting is utilized with retreating LW faces; the conventionally mechanized face in the No. 4 Seam uses sublevel caving methods. Four (4) development faces equipped with road headers are utilized for gate road advancement and two (2) drill and blast faces are utilized to advance the main roadways. The interval between the No. 3 and No. 4 seam levels is 8 to 15 m. Seam gradients range from 3 to 7 degrees. Depth of cover is approximately 300 m. BOYD visited the conventionally mechanized face in the No. 4 Seam on 14 January 2006 and on 24 October 2006, the No.11030315 FM LW face in the No. 3 Seam was visited on 25 October 2007.

5.2 Mine Services

5.2.1 Mine Openings

Jinjiazhuang has three shafts and one incline opening:

Shaft Opening	Description	Depth *(m)*	Diameter *(m)*	Vent. Type	Use
1	Ventilation	343	5.5	Return	Air return
2	Ventilation	276	3.5	Intake	Air-intake
3	Service	271	4.0	Intake	Men and material hoisting

Incline Opening	Description	Length *(m)*	Incline *(degree)*	Vent. Type	Use
4	Production	823	25	Intake	Raw coal transport

In addition to these accesses, openings in the consolidated Nangou and Hejiashe Mines are currently used for ventilation and development support. Development work in these areas is ongoing to interconnect with Jinjiazhuang existing underground roadways.

5.2.2 Underground Coal Haulage

The underground coal transportation system consists of belt conveyors. The mine's main incline belt installed in August 2005 extending to the No. 4 Seam, is 1.2 m wide and operates at a speed of 3.5 m/sec. with a capacity of 880 tph. Raw coal production from FM LW face operations and gate development faces is conveyed to the trunk road conveyors. The main level (trunk) road conveyors are 1.0 m width, operate at a speed of 2.5 m/sec, and have a nominal maximum capacity of 630 tph. Gate belt conveyors are 0.8 m width, with operating speed of 2.5 m/sec and 630 tph capacity.

5.2.3 Underground Material and Personnel Transport

The underground rail transport system consists of narrow gauge (600 mm) equipment and is equipped with fixed winches for moving railcars loaded with supplies, materials, equipment, etc. about the mine. Workers travel on foot from the man hoisting shaft to the faces, Travel time is approximately three-quarters of an hour each way.

5.2.4 Coalbed Methane

Jinjiazhuang is characterized as high methane generation mine; average methane generation is 65 m^3/min. or 0.79% of the air volume. Capacity of the mine's ventilation system is 12,000 m^3/minute. The main exhausting and spare fans have twin 400 kw motors with diesel generator back-up system available. Due to the high methane content, pre-mining methane drainage is practiced using in-seam horizontal drilling with hole depth up to 90 m. Approximately 24 m^3/min of methane is collected and placed in the underground gas pipeline network (trunk pipeline diameter is 377 mm, the branch pipeline diameter is 219 mm). Methane concentration in the drainage pipeline is about 60%. Gas collected from the methane drainage pumping system fuels one set of surface power generator with 1,300-kw capacity and two sets of 550-kw capacity. Power generated by the three sets of generators is sent to state grid. Methane control measures for underground operations include personal methane monitors, electronic disconnects, KJ2000 (an upgrade from the former KJ80) mine monitoring system and monitoring personnel.

5.2.5 Water Management

Jinjiazhuang water generation is relatively low. Mine water drainage is handled at three centralized underground pumping facilities. Capacity is 2,400 m^3/hr. Mine water generation is reported to be 1,094 m^3/day on average in 2007 and 1,500 m^3/day at maximum. Mine services include a surface based air compressor station.

5.2.6 Electrical Power

Electrical power is provided from the regional grid at 35 kV. The mine has two surface power transformers; one for the underground mine operations and a second for the surface facilities, hoists, etc. The underground mine transformer provides 6,000 V power to the underground distribution system; utilization voltages are 660 V for the roadheader faces and 1,140 V for the LW faces.

5.3 Mining Operations

5.3.1 LW Development

Roadheader sets are utilized to develop gate roadways; drivage rate using roadheaders averages 15 m/day assuming a 3 working shift basis. Roadheader sets include chain conveyor units for coal haulage to the gateroad belt conveyor.

Dual gateroad layouts are utilized for the LW faces with gates developed on 15 m centers, and crosscuts on 100 m centers in the headgate and 50 m centers in the tailgate. A barrier 30 m in width is maintained between adjacent panels. LW faces vary in strike length according to reserve configuration ranging in length from 400 to 1,100 m; typical face length is 150 m. Gate roads are designed at 3.0 m to 3.5 m in width and generally 2.0 m to 2.5 m height; the main belt conveyor and travel roads are 4.5 m to 5.0 m wide and 3.0 m and 3.5 m high.

5.3.2 LW Operations

The No. 4 Seam sub-level caving, conventionally mechanized face, visited during BOYD's October 2006 mine tour, equipped with "walking supports". Face length was 150 m; front and rear AFC capacity (with 630 mm width) is 550 tph. Typical LW face retreat rate was reported at 3.6 m/operating day or 1.8 m/operating shift. Shearer cutting height was 2.3 m with sub-level caving recovering an estimated 1.1 m. At 3.9 m of coal seam mining height, average daily raw coal production averages 2,600 raw tonnes. A single LW crew is comprised of 40 to 50 personnel, with 125 face personnel over a 3-shift rotation of two production shifts and one maintenance shift. The performance of the No. 4 Seam LW face is constrained at times by the slower mining advance in the overlying No. 3 Seam. In order to avoid sterilizing coal reserves, the No. 3 Seam must be mined prior to undermining the No. 4 Seam. In the first half of 2007, the mining operation in No. 4 Seam was delayed by four months to avoid undermining areas scheduled for mining in the No. 3 Seam.

BOYD personnel visited the FM LW face in No.3 Seam in October 2007. The face is equipped with 122 1.4 m wide domestic shield supports with working height ranging from 1.3 to 2.5 m. The 630 mm AFC is driven by 2x132 kw motors. Typical cycle time for each 0.6 m cut is 1.5 hours. Generally each production shift has 48 crew members and maintenance shift has 10 crew members.

5.3.3 BOYD Observations

General LW face and gate mining conditions (roof and floor, face line, water generation, etc.) were favorable and LW face mining practices were proficient. Observed methane liberation was low. Face ventilation air quantity was 1,500 m^3/min.

In the headgate, steel sets installed on 1.5 m centers with lagging provided primary roof support. The tailgate was supported with timber sets and lagging. As needed, additional support (mesh) was installed to minimize the potential for roof strata falling out between the steel sets. Portable hydraulic supports are used 30 m ahead of LW face retreat line. Roof bolting utilized in both seams consists of 2.4 m length roof and rib bolts; cable bolts are also installed for supplemental support. A contract roadway repairing team with 45 workers is hired to repair local roadway damages like floor heave or roof spalling. Areas of the mine observed during transit from the incline bottom area to the LW face were well-maintained, dry, well ventilated, and exhibited stable roof conditions.

5.4 Coal Processing/Preparation Plant

At present the mine produces raw coal, which is crushed, screened, and hand-picked to remove larger rock impurities and loaded on 40-tonne trucks. FDG is constructing a 500 tph CPP equipped with heavy media circuitry. Nominal plant processing capacity is 3.0 Mtpa of raw coal based on 6,000 processing hours. Site preparation for the facility, which will be located adjacent to the mine site, had been completed; and construction on the facility had begun at the time of BOYD's October 2006 visit. Construction was ongoing during BOYD's October 2007 visit. Anticipated timeframe for completion of construction is October 2008.

Coal products are transported by truck to rail loading facilities. Liulin County encountered a longer-than-normal rain season in 2007 and the No.307 state road was washed away in places due to rain and associated flooding. During BOYD's visit in October 2007, it was projected that it would require several months to reconstruct the washout zones. Coal, which cannot be shipped, has to be stored temporarily at the mine site. The railway linking Zhongwei City of Ningxia Hui Autonomous Region and Datong City of Shanxi Province, presently under construction with completion projected in 2009, is expected to improve the regional coal transportation for all shippers including FDG.

5.5 Coal Quality

Jinjiazhuang output, characterized as low to medium ash, very low sulfur, coking coal (Chinese JM coal classification) is sold for coking coal blends, locally. The No. 4 Seam, in particular, is in high demand throughout China for its superior coking characteristics.

Typical highest commercial grade coal quality characteristics for Jinjiazhuang are as follows:

Characteristics		Basis	Parameter No.3 Seam	Parameter No.4 Seam
Moisture	(%)	ad	0.6	0.7
Ash	(%)	d	6.3	11.0
Sulfur(total)	(%)	d	0.32	0.47
Volatile Matter	(%)	daf	21.3	22.4
Fixed Carbon	(%)	ad	73.1	68.4
Calorific Value	(Kcal/kg)	Gr.v.d	7,920	7,520
FSI			7	7
Y	(mm)		9	11
Caking Index	(G)		49	77

Actual coal sales quality parameters will vary from the above parameters due to natural variability in the coal seam and the extent to which ash constituents are removed during coal processing (screening, crushing, partial washing, full washing, etc.).

Results of coal quality testing performed from January to December 2007 on Jinjiazhuang's raw coal output (commingled No. 3 and No. 4 Seams) are summarized below:

Characteristics		Basis	Parameter
Moisture (total)	(%)	ar	7.7
Moisture	(%)	ad	0.3
Ash	(%)	d	28.7
Volatile Matter	(%)	daf	24.1
Sulfur (total)	(%)	ad	0.41
Fixed Carbon	(%)		51.3
Calorific Value	(Kcal/kg)	gr.d	6,680
X	(mm)		21
Y	(mm)		10
Caking Index	GR.I		84
Char Residue Index			6

5.6 Operating Costs

Jinjiazhuang's historical operating costs are as summarized as follows:

	Operating Cost *(RMB/Raw Tonne)*			
Raw Coal Output *(Mt)*	0.42	0.80	1.20	1.51
Category	**2004**	**2005**	**2006**	**2007**
Material	39.8	27.7	24.8	23.0
Salary	24.8	23.0	24.0	23.0
Welfare	3.5	3.2	3.4	3.2
Power & Fuel	9.5	9.1	5.3	6.6
Safety Fund	5.7	13.0	15.0	15.0
Production Maintenance Fee	8.1	10.0	10.0	10.0
Sustainable Development Fund	–	–	–	17.8
Depreciation	6.9	8.9	4.3	5.4
Other	2.5	4.0	5.0	0.8
Total – Production Cost	100.7	98.9	91.8	104.9
Mine Cash Cost*	80.0	67.0	62.5	74.4

* *Production cost less Production Maintenance and Safety Fund fees and Depreciation.*

Mine cash unit costs declined in 2006, primary due to 50% expansion of mine output. Cash costs increased in 2007, primarily due to the imposition of the Sustainable Development Fund, which was introduced to Shanxi coal producers beginning in 2007. Overall, 2007 operating costs (labor, materials, power, etc.) exhibited increases that are consistent with current inflationary increases in the Chinese coal industry, but were offset by the 25% increase in raw coal output.

Following this page are:

Figures
5.1: Jinjiazhuang Mine, No. 3 Seam
5.2: Jinjiazhuang Mine, No. 4 Seam

Figure 5.1: Jinjiazhang Mine, No. 3 Seam

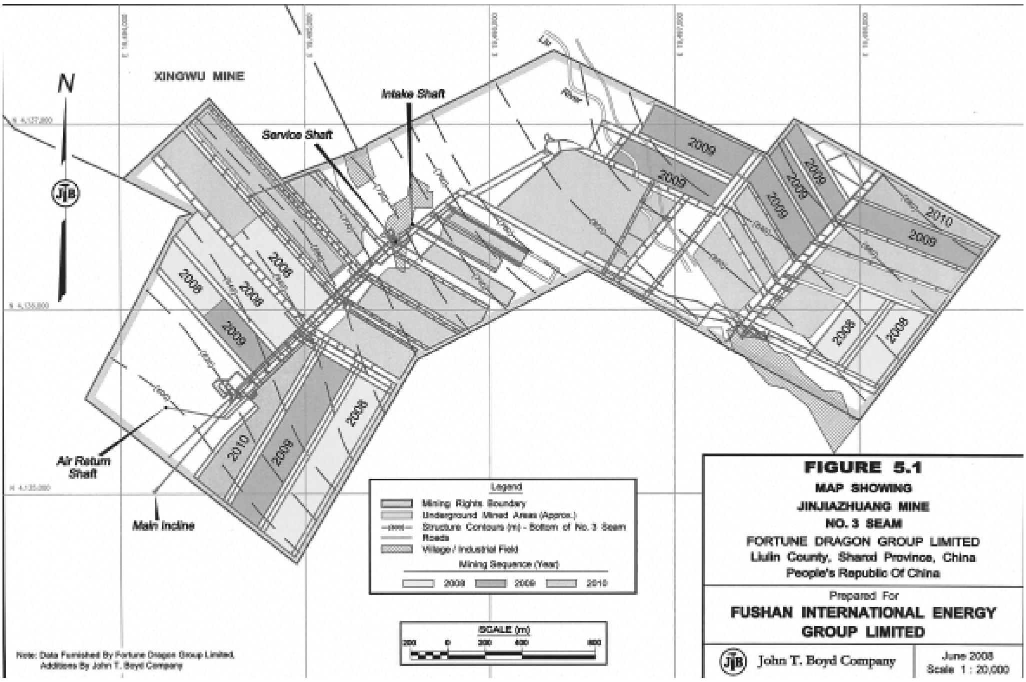
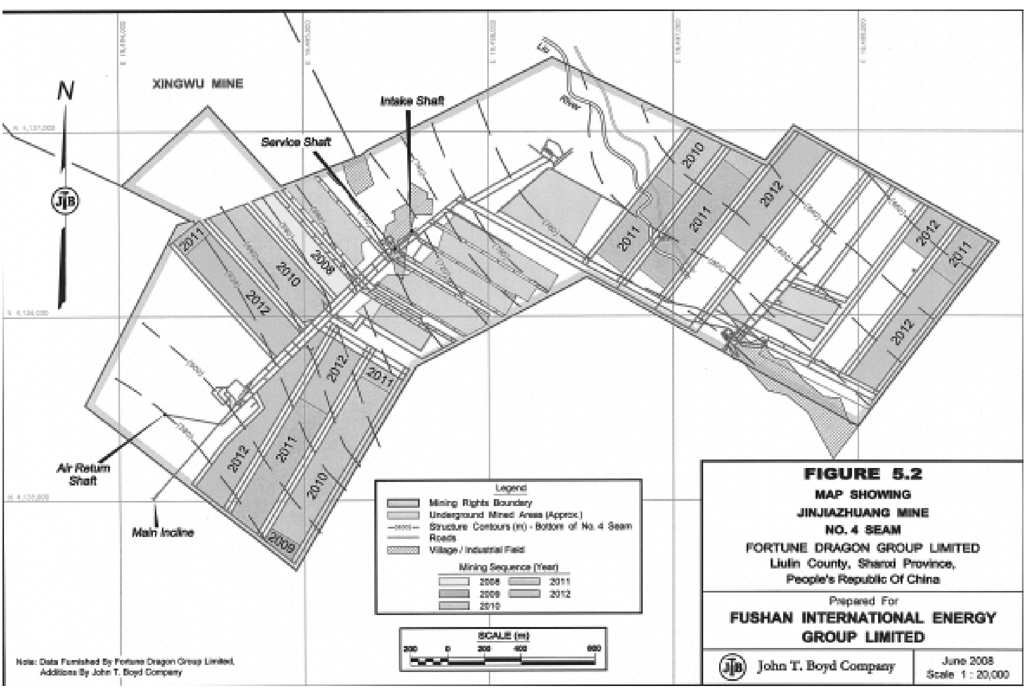


Figure 5.2: Jinjiazhang Mine, No. 4 Seam



6.0 XINGWU

6.1 Introduction

Xingwu Mine (Xingwu), located 6km south of Liulin City, began operation in 1968 and has been rebuilt and expanded since then. The mining right area, shown in Figure 6.1, extends over 11.6 square km, and measures approximately 4.5 km east to west and 4.5 km north to south. Xingwu is located adjacent to FDG's Jinjiazhuang mining right area. Vehicular access to the mine site is provided by the Liulin-Shilou highway. Currently, the mine operates one (1) domestic FM LW face and one (1) Con-Mech face, producing approximately 2.1 Mtpa. The Xingwu preparation plant is adjacent to the mine's surface facilities. Xingwu's current authorized output capacity is 1.2 Mtpa.

The domestic FM LW face, operating in the No.4 Seam, uses single pass shearer cutting and retreating LW face methods. Sublevel caving techniques are not employed at this mine. A Con-Mech LW face operates in the No.5 Seam. Seam gradients (dip) range from 3 to 8 degrees. Overburden cover ranges from 150 m to 350 m. Four (4) development faces, employing roadheader methods since April 2006, are utilized for gate road advancement in the No. 4 Seam. The No. 5 Seam has two drill and blast development faces. BOYD visited the mine on 14 January 2006, 25 October 2006 and 25 October 2007 touring both the FM LW face and the Con-Mech face, the coal processing plant and the methane power generation plant.

6.2 Mine Services

6.2.1 Mine Openings

Xingwu has one vertical shaft and three inclines for access into the mine.

Shaft Opening	**Description**	**Depth** *(m)*	**Diameter** *(m)*	**Vent. Type**	**Use**
1	Ventilation	200	3.5	Return	Air return

Incline Opening	**Description**	**Length** *(m)*	**Incline** *(degree)*	**Vent. Type**	**Use**
2	Production	880	10	Intake	Raw coal transport using belt conveyor (1,000 mm), air intake
3	Service	1,300	10, 3*	Intake	Hoisting material, equipment
4	Service	1,300	10, 3*	Intake	Worker access

* *The incline opening dips at 10 degree from the surface until reaching the coal seam, and then follows the seam dip angle at about 3 degrees.*

The stone-lined belt conveyor incline, 4.0 m width and 3.4 m height, exhibited good construction standards.

6.2.2 Underground Coal Haulage

The underground coal transportation on the No. 4 Seam horizon consists of a series of belt conveyors, which connect to the incline belt. The incline belt conveyor is 0.8 m width, 2.5 m/sec. operating speed and 350 tph capacity. The main level (trunk) road conveyors are 1.2 m width, operate at a speed of 2.5 m/sec., and have a nominal maximum capacity of 1,000 tph. The gate belt conveyors are 1.0 m width with operating speed of 2.5 m/sec.

Coal transportation on the No. 5 Seam horizon consists of a rail system in the main roadways, which transfers coal from the development gates and LW face to a belt conveyor terminating in the No. 4 Seam. The battery locomotive driven train sets (3 to 5) are comprised of 22 1-tonne capacity cars. Maximum capacity is rated at 300 tph. Gate belt conveyors in the No. 5 Seam have 0.8 m width, operating speed of 2.0 m/sec. and 400 tph capacity.

6.2.3 Underground Material and Personnel Transport

Personnel walk to the various production faces. Typical travel time from the surface to the LW face is approximately 30 minutes to 40 minutes. An overhead man riding cable system was recently installed to improve travel times. A rail transport system is used for transporting supplies and equipment. A narrow gauge track is installed with railcars moved using 7-tonne locomotives powered by a 540-V DC overhead trolley system. The railway is double-tracked in places to facilitate movements.

6.2.4 Coalbed Methane

Xingwu is characterized as a high methane mine with 106 m^3/min (2007 average) generated from all sources. In order to minimize methane liberation, horizontal holes are drilled into the LW panel to remove excess methane in advance of mining. Holes are positioned along the LW panel every 15 m to a depth of 70 to 100 m. Methane is collected through a network of pipes and transported to the surface where it is used to generate electricity. Once the methane concentration drops below 30%, methane collection from the drill holes is stopped. After drainage is completed, the horizontal holes are injected with water to help control dust when the face is mined. Approximately half of the methane generation is captured in the underground methane pipeline network. Pipeline methane concentration ranges from 55% to 58%.

The methane drainage is used for power generation. The Xingwu methane power generation plant has five generator sets, 625 kVA each. About 75,000 kWh power is generated and sent to the state grid each day.

The exhaust type ventilation system has 3 main intakes (the three inclines) and one main return (vertical shaft). The mine uses one exhaust fan and one standby fan with two-450 kw motors to ventilate the mine. Mine air volume is 8,700 to 9,000 m^3/min;

maximum capacity is 12,000 m^3/m. A ventilation volume of 2,300 m^3/min of air is directed across the LW face.

6.2.5 Water Management

Typical mine water generation at Xingwu is relatively low at 2,700 m^3/d, with reported maximum rate of 4,820 m^3/d. The mine's central pumping station is equipped with three sets of 160 kw pumps with combined capacity of 840 m^3/hour or 20,160 m^3/d providing significant redundancy. Mine services include a surface based air compressor station.

6.2.6 Electrical Power

Electrical power is provided from the regional grid at 35 kV. The mine has two power transformers installed on the surface; one for the underground mine operations and the second for the surface facilities, hoists, etc. Incoming power is distributed underground at 6,000 V power to the underground distribution system; utilization voltages are 660 V for the roadheader faces and 1,140 V for the LW faces.

6.3 Mining Operations

6.3.1 LW Development

LW development is accomplished using four (4) sections utilizing roadheaders in the No. 4 Seam. Roadway advance rate using roadheaders is typically 4 m to 5 m per shift, 12 m to 15 m per day. Methane constrains roadheader advance and pre-mining horizontal drilling is utilized for methane drainage ahead of the advancing face. Two drill and blast faces are utilized to develop gates in the No. 5 Seam. Gate development rates are 3 m/shift and 9 m/day.

LW gateroad layouts have two gate designs for the headgate and tailgate developments. Gates are developed on 30 m centers with crosscuts spaced an estimated 80 to 100 m apart. A 20 m wide barrier is maintained between adjacent panels. LW faces vary in length according to reserve configuration while the current LW face is 2,500 m long. The three main gates consist of belt conveyor roadway, service roadway, and return airway. Main roadways are 4.0 m wide and 3.5 m high. Tailgates are 3.5 m in width and generally 2.8 m high; headgates are 4.2 m wide and also 2.8 m to 3.5 m high.

During BOYD's visit in October 2007, a new fault was found in No.4 Seam development. It was reported the displacement is about 3 m and the fault zone was 30 m wide.

6.3.2 LW Operations

BOYD visited the active FM LW face in the No. 4 Seam in October 2006. The FM face was 160 m width with face strike length of 2,500 m. Seam thickness ranging from 2.6 to 3.0 was fully recovered by shearer cutting. Cut depth is 0.6 m. Typical LW face retreat rate is reported at 1,700 m to 1,800 m per year. Assuming a work schedule of 300 days/year, this corresponds to an average LW mining rate of approximately 6.0 m/day. AFC capacity (with 630 mm width) is reported at 750 tph, 14 to 15 personnel are assigned to the LW crew per shift.

In October 2007 BOYD visited the Con-Mech LW face in the No. 5 Seam which has single hydraulic supports for the 150 m length face. A thin seam, dual head shearer is employed for full seam cutting ranging from 1.2 m to 2.2 m. Mesh is placed over the hydraulic supports for roof control. The gates of the this face are 3 m wide and 2.2 m high and belt in the head gate is 0.8 m wide, 300 m long and has the capacity of 400 tph. The AFC for this face is 630 mm wide and is powered by 90 kW motor with the capacity of 400 tph. The shearer cuts 0.6 m deep each cycle.

6.3.3 BOYD Observations

General LW face and gate mining conditions (roof and floor, face line, water generation, etc.) were favorable and LW face mining practices were proficient. Mining height of 3.0 to 3.5 m was observed at the face. Methane content in the return area was observed at 0.3% at the tailgate.

Roof support in the gateroads consisted of roof bolts, which were installed with four to five bolts per row on 0.8 m spacing using 2.5 m length resin grouted bolts. In addition 6.0 m cable bolts were installed in the center of the entry on 2 m centers. Where necessary, steel straps were installed for added roof support and meshing was also installed to minimize the potential for roof strata falling out between the steel straps. Rib bolts were installed three per row, on one meter spacing.

Areas of the mine observed during the BOYD team transit from the hoist shaft bottom area to the LW face were well-maintained, dry, well ventilated, and exhibited stable roof conditions.

6.4 Coal Processing/Preparation Plant

Construction of the Xingwu CPP began in June 2001 and the facility was put into operation in October 2002. The Xingwu CPP operates independently of Xingwu Mine, and maintains its own financial accounting system. At times, up to 10 local mines have sold raw coal to Xingwu for processing and the plant also washes raw coal on a merchant plant basis according to client requirements. Approximately 1.174 Mt raw coal, of which 0.88 Mt was from Xingwu Mine, was sent to the plant for processing in 2007 producing clean tonnage of 0.83 Mt at a processing yield of 71%. A minor amount of coal was purchased from nearby mines such as Chenjiawancun and FDG's Zhaiyadi for blending with Xingwu Mine coal.

The 215 tph facility is computer controlled with the ability to automatically adjust for product ash requirements. Plant circuitry includes dense media cyclones and froth flotation and has a processing capacity of 0.9 Mtpa to 1.2 Mtpa depending on operating schedule. Product coal recovery from the plant typically ranges from 60% to 70%, although plant yields vary according to raw coal ash content. Reject from the plant is trucked to a nearby power plant. The plant's higher ash middlings product is also used for power generation. Coal is dispatched to market by rail except for local deliveries which are shipped by truck. Coal middlings and slimes are shipped to the nearby Liulin power generation plant.

Xingwu plant raw coal stockpile capacity is 8,000 tonnes (open storage). Raw coal delivered by belt conveyor from Xingwu Mine and by trucks from local mines is stockpiled using a system of belt conveyor stations. Raw coal is reclaimed from the stockpile by way of a tunnel reclaim system fed by dozers. The reclaim system equipped with feeders and belt conveyors transports the raw coal into the plant structure. In the plant the raw coal is sized and crushed to 50 mm x 0, with the 0.5 mm x 0 size fraction separated for flotation processing. The 50 x 0.5 mm fraction is processed in a single-stage heavy media cyclone circuit producing a low-ash clean coal, high ash middlings and refuse. The 0.5 mm x 0 material is classified and drained prior to froth flotation. Clean coal and refuse tailings are recovered and dried using pressure filtration. Filter cakes are commingled with clean coal and refuse streams. Three new coal storage silos were constructed recently to store clean coal and middlings, each with the capacity of 5,000 tonnes.

Operating schedule for the plant is 300 days annually, with two shifts for washing coal and one shift for maintenance daily. Plant circuits operate approximately 14 hours per day. But due to an extended road washout in 2007, Xingwu plant operated one 10-hour shift per day for a period, reducing the clean coal production. Plant staff totaled 153 personnel at the end of December 2007 and is projected at 160 in the future. The CPP maintains its own coal quality testing laboratory.

Xingwu plant's processing results are summarized below:

	Raw Coal		**Clean Coal**		
Year	**Tonnage** *(millions)*	**Ash Content** *(% dry)*	**Tonnage** *(millions)*	**Ash Content** *(% dry)*	**Yield** *(%)*
2004	0.456	19.8	0.336	9.1	74
2005	0.572	25.0	0.380	9.4	67
2006	0.850	30.0	0.557	9.1	66
2007	1.174	–	0.830	–	71

6.5 Coal Quality

Xingwu coal, characterized as coking coal (Chinese JM coal classification), is currently and will generally continue to be sold primarily as a coking coal product. The mine produces both raw and washed coal products, which are loaded into 40-tonne trucks for transport to local customers and to Liulin Town for transloading to the NRC railway. Typical raw coal product quality for Xingwu is as follows:

			Parameter	
			No. 4	No. 5
Characteristics		**Basis**	**Seam**	**Seam**
Moisture	(%)	ad	0.9	0.3
Ash	(%)	d	11.3	10.1
Sulfur(total)	(%)	d	0.36	0.85
Volatile Matter	(%)	daf	21.6	23.4
Fixed Carbon	(%)	ad	68.6	67.0
Calorific Value	(Kcal/kg)	gr.v.d	7,500	7,200
FSI			7	7
Y	(mm)		17	13
Caking Index	(G)		86	75

Based on the coal quality tests that Xingwu did during January to December 2007, the average raw coal quality is summarized as below:

Characteristics		**Basis**	**Parameter**
Moisture (total)	(%)	ar	7.2
Moisture	(%)	ad	0.3
Ash	(%)	d	26.9
Volatile Matter	(%)	daf	24.4
Sulfur (total)	(%)	ad	0.52
Fixed Carbon	(%)		53.0
Calorific Value	(Kcal/kg)	gr.d	6,870
X	(mm)		22
Y	(mm)		11
Caking Index	GR.I		86
Char Residue Index			6

6.6 Operating Costs

Xingwu Mine's historical operating costs are as summarized as follows:

Category	2004	2005	2006	2007
Raw Coal Output *(Mt)*	0.68	1.28	1.51	1.64
	Operating Cost *(RMB/Raw Tonne)*			
Material	14.4	19.7	19.7	16.8
Salary	32.5	23.8	21.5	21.7
Welfare	4.6	3.2	3.0	3.0
Power & Fuel	7.4	5.5	4.8	3.9
Safety Fund	8.4	13.0	15.0	15.0
Production Maintenance Fee	8.5	10.0	10.0	10.0
Sustainable Development Fund	–	–	–	16.9
Depreciation	9.8	6.1	8.2	8.7
Other	19.7	8.0	13.0	5.5
Total – Production Cost	105.2	89.3	95.1	101.6
Mine Cash Cost*	78.5	60.2	61.9	67.9

* *Production cost less Production Maintenance and Safety Fund fees and Depreciation.*

Xingwu's mine unit cash costs in 2006 approximated 2005 results and increased about 10% in 2007. Excluding the Sustainable Development Fund, which was implemented beginning in 2007, cash operating costs declined RMB10.9/tonne (18%) in 2007 due principally to declines in the Material and Other cost categories. Xingwu CPP historical operating costs are summarized as follows:

	Operating Cost *(RMB/Clean Tonne)*			
Category	**2,004**	**2,005**	**2,006**	**2,007**
Raw Coal Input*				
Third Party Purchases	4.4	242.4	157.2	18.8
Xingwu Mine	208.9	59.3	85.4	138.5
Material	–	5.2	2.6	5.4
Salary	5.0	6.1	4.8	4.5
Welfare	0.7	0.8	0.7	0.7
Power	3.9	2.6	2.4	2.4
Other	3.5	13.4	9.6	5.9
Total	226.3	329.8	262.7	177.4

* *Average cost basis*

The major part of operating costs of CPP is raw coal purchase costs which rely highly on the market price. Processing costs on a clean tonne basis in 2007 excluding raw coal purchases were similar to 2006 cost experience, at about RMB19/clean tonne. On a raw tonne processed basis, plant processing costs are reasonable and representative of the larger, dense media plant facilities. Operating costs fluctuate significantly depending on the make-up of raw coal input between Xingwu Mine and third party purchases; raw coal costs comprise a major portion of the overall CPP operating costs.

Following this page are:

Figures
6.1: Xingwu Mine, No. 4 Seam
6.2: Xingwu Mine, No. 5 Seam

Figure 6.1: Xingwu Mine, No. 4 Seam

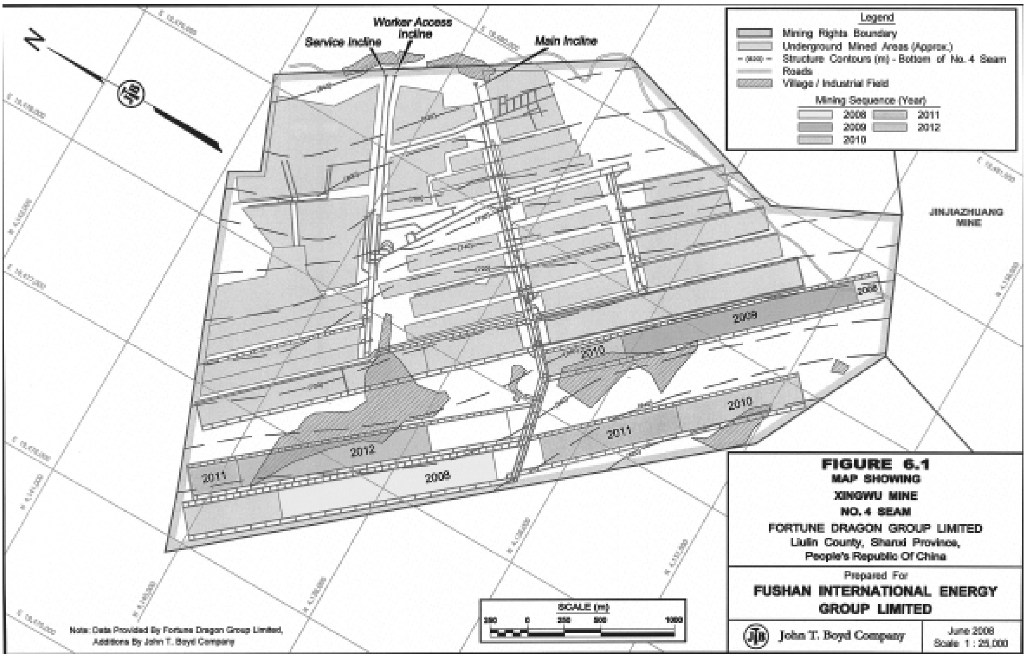
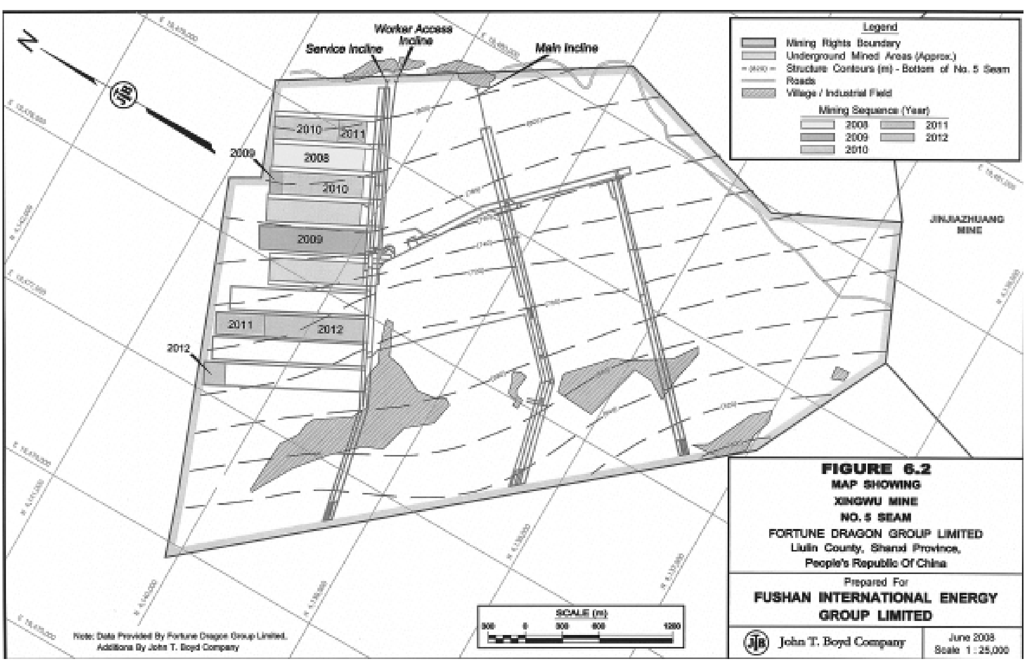


Figure 6.2: Xingwu Mine, No. 5 Seam



7.0 ZHAIYADI

7.1 Introduction

Zhaiyadi Mine (Zhaiyadi), located 16 km southwest of Liulin City, was purchased by FDG from a local owner in 2002. In 2007, the former Baicao'er and Shipanshang mines and Zhaiyadi expansion area were consolidated into Zhaiyadi. Since purchasing the mine, FDG has built a mine facility complex and restructured the underground mining operation. The current mining right area covers over 13.9 square km, as shown in Figure 7.1, and measures approximately 5.5 km east to west and 5.0 km north to south. Vehicular access is provided by township roads. The Xiaoliu Railway Station in Liulin City is used by the mine for rail shipments on the Liulin – Shilou Line, which interconnects with the NRC. Currently, the mine operates one Con-Mech face and one FM LW face in the No. 9 Seam, both utilizing sublevel caving techniques. Present production is approximately 2.1 Mtpa; Zhaiyadi's current authorized production capacity is 1.2 Mtpa.

Two (2) development faces with road headers and two (2) development faces using drill and blast method are utilized for gate road advancement and mains development. Seam gradients (dips) are approximately 3 to 5 degrees. Depth of cover is approximately 80 m to 100 m. BOYD visited the Con-Mech sublevel caving faces in the No. 9 Seam at Zhaiyadi on 15 January 2006 and 24 October 2006; the FM LW face in No. 9 Seam was visited on 24 October 2007.

7.2 Mine Services

7.2.1 Mine Openings

Zhaiyadi has one shaft and two incline openings:

Shaft Opening	**Description**	**Depth** *(m)*	**Diameter** *(m)*	**Vent. Type**	**Use**
1	Ventilation	148	5.0	Return	Air return

Incline Opening	**Description**	**Length** *(m)*	**Incline** *(degree)*	**Vent. Type**	**Use**
2	Service	250	17	Intake	Air-intake, worker access
3	Production	350	15	Intake	Coal hoisting, air-intake

The main access incline, constructed in July 2005, exhibits high standards of construction with stone lining its entire length. The opening, with dimensions of 4.7 m width and 3.9 m height, houses a 600 mm rail and the main incline belt in side-by-side configuration. The older service incline has dimensions of 3.2 m width and 2.6 m height.

7.2.2 Underground Coal Haulage

Underground coal transportation uses a series of belt conveyors. The main incline belt is 1.0 m wide and operates at a speed of 4.5 m/sec. The incline belt system extending to the No. 9 Seam has a capacity of 1,000 tph, and is powered by 2 x 315 kw motors. Raw coal mined from Con-Mech LW face operations and gate development faces is conveyed to the trunk road conveyors. The main level (trunk) road conveyors are 1.0 m wide and operate at a speed of 4.5 m/sec. Nominal maximum coal conveyance capacity is 1,000 tph. The initial 1,000 m of trunk road conveyor included in the underground restructuring program exhibited high construction standards. The gate belt conveyors are 0.8 m to 1.0 m in width, with 2.5 m/sec speed and 500 to 630 tph capacity.

7.2.3 Underground Material and Personnel Transport

The underground rail transport system is narrow gauge (600 mm). Fixed winches are utilized to move railcars (used for supplies, materials, equipment, etc.) about the mine. Workers travel on foot from surface to their underground working faces. Travel time is approximately 30 minutes.

7.2.4 Coalbed Methane

Zhaiyadi is characterized as a low methane generation mine. Based on the monitoring data in December 2007, the average methane generation is 3.3 m^3/min. or 0.04% of the air volume (7,410 m^3/min). Main exhausting and spare fans are each equipped with two 250 kw motors and diesel generator back-up system. Methane control for underground operations includes KJ80 mine monitoring system and monitoring personnel. A methane drainage system has not been installed in Zhaiyadi due to the low methane conditions.

7.2.5 Water Management

Zhaiyadi water generation is relatively low. Mine water drainage is handled at centralized underground pumping facilities. Capacity of the facility is approximately 800 m^3/hour; mine water generation was reported to be 1,200 m^3/day in December 2007. Mine services include an air compressor station located on the surface.

7.2.6 Electrical Power

The mine, powered by 10 kV service from the regional grid, has two power transformers located on the surface; one for the underground mine operations and the second for the surface facilities, hoists, etc. Incoming power to the underground mine is 6,000 V; utilization voltages are 660 V for the roadheader faces and 1,140 V for the LW faces.

7.3 Mining Operations

7.3.1 LW Development

Gateroads have been developed using both drill and blast methods and roadheaders. A road-header set is used to develop the tailgate roads and is planned for use in the next LW face development. Roadheader development rate is 15 m to 20 m/day on a 3 shift basis. Road-header sets include chain conveyor for coal haulage from the working face to the gateroad belt conveyor.

Single gateroad layouts are utilized for the LW faces. A 30 m wide barrier is maintained between adjacent panels. LW faces vary in strike length according to reserve configuration, ranging from 800 to 1,900 m. Headgate roads are designed at 4.0 m width and generally 2.5 m to 3.0 m height; the main belt conveyor and travel roads are 4.5 to 5.0 m wide and approximately 3.0 m high.

7.3.2 LW Operations

The domestic sub-level caving Con-Mech LW face, visited during the BOYD mine tour in the No. 9 Seam was equipped with "walking supports." Face length was 200 m; LW strike length was 900 m. Front and rear AFC capacity (with 630 mm width) is 500 tph. Typical LW face retreat rate was reported at 2.4 m/operating day or 1.2 m/operating shift. Mining height was 3.2 m out of the 4.1 m seam thickness. Shearer cutting height was 2.2 m and sub-level caving recovers an estimated 1.1 m. Shearer cutting depth was 0.6 m. Average daily raw coal production is estimated at 2,400 t. A single LW crew comprises 40 to 50 personnel, with 125 face personnel over a 3-shift rotation of two production shifts and one maintenance shift.

The FM LW face with sub-level caving capacity was visited by BOYD on 24 October 2007. Face length was 200 m and the face was supported by 132 regular shields and 4 face-end shields. Approximately 770 m strike of length were remaining at the time of the BOYD mine tour. Capacity of the front AFC capacity was 1,000 tph; the rear AFC had a capacity of 450 tph. Face retreat rate was 3.6 m/operating day (6 cuts at 0.6 m cutting depth). Shearer cutting height was 2.8 m.; recovery of the top coal ranging in thickness from 1.2 m to 1.6 m through sublevel caving, was reported at 60% to 65%. The immediate roof above the No.9 Seam was sandy mudstone. Normally a complete mining cycle including one cut and one sub-level caving cycle requires 2 to 3 hours, depending on the characteristics of the seam and roof.

The mining activity in the No.3 Seam of former Shipanshang Mine was stopped in June 2007 after mining of the last LW face (3103) was completed. FDG reports that Zhaiyadi will not mine No.3 and No.4 Seams before the year 2012. Based on BOYD's study, the integrity and mineability of these seams is not likely to be damaged by the mining activity in No.9 Seam due to the large interburden thickness between the No.4 and No.9 Seams (approximately 90 m).

Zhaiyadi plans to move the villages and other buildings in the mining plan before undermining them. According to the schedule provided by FDG, Zhaizeshang Village will be moved in 2008 and the industrial facilities of former Baicao'er Mine will be moved in 2012. Other villages will be moved later based on the mining sequence.

7.3.3 BOYD Observations

General LW face and gate mining conditions (roof and floor, face line, water generation, etc.) were favorable and LW face mining practices were proficient. Observed methane liberation was low. Face ventilation air quantity was 900 m^3/min for the Con-Mech face and 1,650 m^3/min for the FM LW face.

Headgate roof support consisted of 2.4 m long roof bolts and steel strips installed on 800 mm centers, and steel meshing of roof and ribs. Rib bolts, 1.6 m length, were installed on 800 mm centers, 3 to a row. Cable bolts, 3 m length, are also installed on 6 m centers for supplemental roof support. The tailgate roof and rib support was similar to that installed in the headgate. As needed, additional support (mesh) was installed to minimize the potential for roof strata falling out between the steel strips and roof bolts.

Areas of the mine observed by the BOYD team during transit from the incline bottom area to the LW face were well-maintained, dry, well ventilated, and had stable roof conditions. Recently installed infrastructure and main roadways exhibited high standards of care.

7.4 Coal Processing/Preparation Plant

Present coal processing facilities consist of a basic screening facility. ROM or raw coal received from the mine is screened at 50 mm. Minus 50 mm coal material is sent directly to the product stockpile. Plus 50 mm material is sent to a rotary breaker for additional classification and removal of large rock impurities.

FDG plans to construct a 500 tph coal preparation facility employing heavy media circuitry depending on market conditions. Nominal plant processing capacity will be 3.0 Mtpa based on 6,000 processing hours annually. Annual clean coal output is projected at 2.1 Mtpa assuming 70% yield from the plant. According to the FDG plan, 40% of raw coal will be supplied by Zhaiyadi Mine while the rest will be purchased from nearby mines. At the time of BOYD's October 2007 visit, the plant Preliminary Design study had not been completed and no onsite construction work began.

Capital expenditures of RMB84 million are projected by FDG for 2008 plant construction. Staffing of 192 personnel is projected in the coal processing plant from the year 2009 onward.

7.5 Coal Quality

Zhaiyadi output, characterized as medium ash, medium to high sulfur, lean coking coal (Chinese SM coal classification) is sold for coking coal blends, locally. Typical highest commercial grade product quality parameters for Zhaiyadi are as follows:

Characteristics		Basis	Typical Coal Quality Parameter No. 9 Seam
Moisture	(%)	ad	0.7
Ash	(%)	d	10.4
Sulfur (total)	(%)	d	1.65
Volatile Matter	(%)	daf	18.7
Fixed Carbon	(%)	ad	72.1
Calorific Value	(Kcal/kg)	Gr.v.d	7,540
FSI			7
Y	(mm)		8
Caking Index	(G)		72

Actual coal sales quality parameters will vary from the above parameters due to natural variability in the coal seam and the extent to which ash constituents are removed during coal processing (screening, crushing, partial washing, full washing, etc.).

Results of coal quality testing performed from January to December 2007 on Zhaiyadi's raw coal output is summarized below:

Characteristics		Basis	Parameter
Moisture (total)	(%)	ar	7.7
Moisture	(%)	ad	0.4
Ash	(%)	d	22.0
Volatile Matter	(%)	daf	21.1
Sulfur (total)	(%)	ad	1.31
Fixed Carbon	(%)		60.6
Calorific Value	(Kcal/kg)	gr.d	7,230
X	(mm)		21
Y	(mm)		9
Caking Index	GR.I		74
Char Residue Index			5

7.6 Operating Costs

Zhaiyadi's historical operating costs are as summarized as follows:

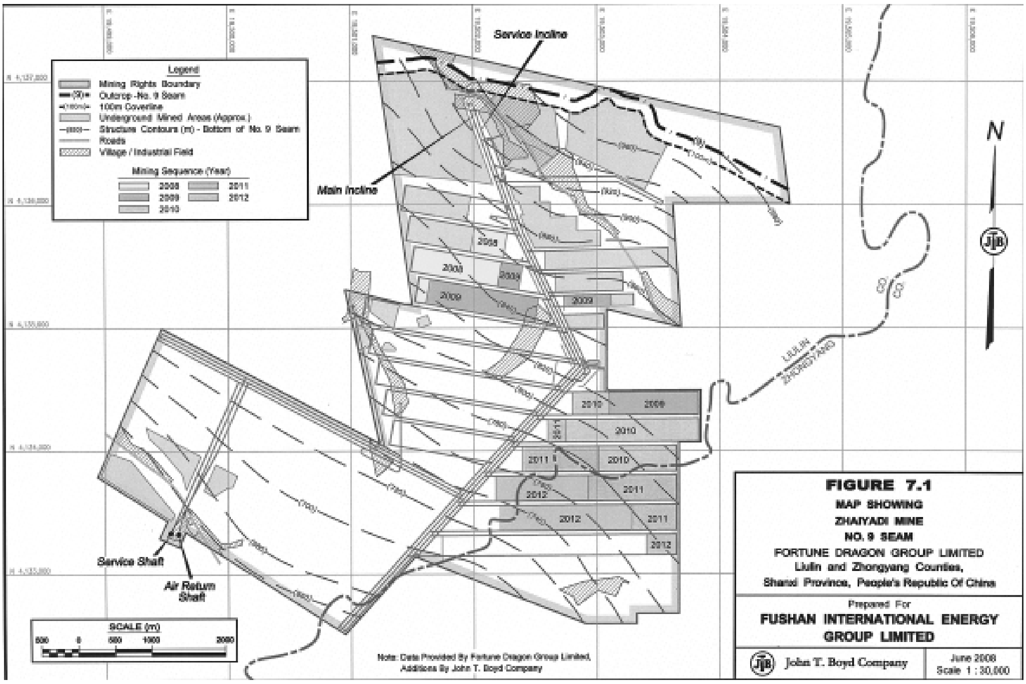
Raw Coal Output *(Mt)*	0.24	0.43	1.43	1.94
	Operating Cost *(RMB/Raw Tonne)*			
Category	**2004**	**2005**	**2006**	**2007**
Material	35.0	30.5	13.8	13.2
Salary	26.7	36.4	15.6	13.9
Welfare	3.7	5.1	2.2	1.9
Power & Fuel	4.8	8.7	3.2	3.3
Safety Fund	4.2	13.0	15.0	15.0
Production Maintenance Fee	7.9	10.0	10.0	10.0
Sustainable Development Fund	–	–	–	12.5
Depreciation	4.9	7.2	4.8	5.5
Other	0.3	3.0	2.6	0.2
Total – Production Cost	87.5	114.0	67.2	75.6
Mine Cash Cost*	70.5	83.8	37.4	45.1

* *Production cost less Production Maintenance and Safety Fund fees and Depreciation.*

Zhaiyadi's unit cash operating costs decreased 55% in 2006 as output expanded by 230%. Zhaiyadi's 2006 operating cost was unsustainably low and was likely influenced by the timing and booking of operating expenses. Cash operating costs increased 21% in 2007 but are still lower than typical of FDG mines. Excluding the Sustainable Development Fund, which was implemented in 2007, cash operating costs declined RMB4.8/tonne (13%) in 2007 due principally to the decline in the Salary and Other categories.

Following this page is Figure 7.1, Zhaiyadi Mine, No. 9 Seam.

Figure 7.1, Zhaiyadi Mine, No. 9 Seam.



8.0 ENVIRONMENTAL OVERVIEW

8.1 Introduction

Mining activities are inherently disruptive to the environment but their impact varies considerably depending on a number of factors including type of mining, location of mines, physical characteristics of the areas where mining is taking place, etc. The physical environment where the FDG mines operate can be characterized as having low precipitation, sparse vegetation, and with terrain that includes significant high relief ridges. Except for the surface footprint for the mines' facilities for offices, change-rooms, shafts, inclines, coal handling and stockpile areas, etc., the mines have little effect on the surface overlying the mining operations. Adverse impacts are largely related to surface land subsidence brought about by LW mining, generation and disposal of waste (refuse) materials resulting from coal processing, community byproducts (e.g., handling of sewage), power and heating plant emissions, fugitive dust and noise pollution.

Surface subsidence caused by LW mining is the principal environmental issue for FDG mines. Besides the adverse impacts to surface buildings, subsidence also adversely affects the local physical environment. Fractures due to LW subsidence may cut through cropland making it difficult for cultivation, and consequently reducing the efficiency of land usage. When the sub-surface fractures connect with the underground aquifer zones, surface water bodies and ground water may flow or seep away. As a result, the dynamic balance of the water system may be altered and surface soils may dry and become unfavorable for crop growing.

Another growing environmental issue that coal producing enterprises are facing is waste rock disposal. Unplanned disposal of waste rock can be a significant cause of environment deterioration and can accelerate water and soil losses.

8.2 The Guidelines of World Bank

The World Bank does not set explicit standards regarding environmental protection relating to mining activities. However, the Bank's guidelines and principles support the view that coal mining activities affect the environment, and that environmental protections must be provided. Responsible environmental management on the part of the mining enterprises includes establishing the policies and practices companies must employ to protect the environment and to minimize the impact of mining and related activities. Based on our site visits, we are satisfied that FDG recognizes its environmental responsibilities and acts accordingly. We recognize that while there are some areas of improvement for present environmental practices, FDG is making significant efforts towards protecting the environment as it relates to the company's mining practices.

8.3 Environment Protection Laws

The principal environment protection laws of the PRC, as they relate to mining operations, pertain to the following areas:

- Environmental protection.
- Air pollution control and treatment.
- Water pollution prevention and control.
- Solid waste pollution prevention and treatment.
- Ambient noise pollution control.
- Water conservation and preservation.
- Soil and water conservation.
- Environmentally responsible production practices (compliance to standards).
- Environmental impact evaluation.

During our review, FDG reported implementation of environmental protection measures in response to the above laws. We observed compliance with environmental statutes during site visits and believes FDG has made diligent efforts to incorporate responsible environmental protection policies and practices into their operations, and that the FDG mines' facilities and equipment are operating according to acceptable environmental protection practices. FDG's compliance with laws and environmental statutes from 2004 to YTD August 2007 was confirmed by local environmental protection authority.

8.4 Environmental Management

FDG's environmental protection work is overseen by the FDG chief (mine) engineer, who is also responsible for production and techniques. At the mine level, the deputy manager, responsible for mining techniques, oversees the mine's environmental management. The FDG mines have professional staffs that are responsible for environment management and upkeep of the facilities although every mine has a designated crew to manage and maintain the facilities. The mines have compiled Environmental Impact Reports based on pertinent regulations, and have submitted reports with the responsible regulatory bodies.

8.5 Surface Land Subsidence

Underground mining operations, especially LW face mining activities, change the stress field in the strata overlying the mining activities. Subsidence occurs when the coal seam extraction is sufficient to produce failure of the overlying strata that extends to the surface. Surface subsidence can damage surface structures and features.

In accordance with national laws, FDG mines have developed plans to prevent surface subsidence in protected areas and mitigate the impact to environment in areas where subsidence is observable. Generally high extraction LW mining is prohibited under certain features such as major surface civil structures (for example, bridges, villages, main rail corridors, etc.) and major water resources (e.g., rivers, major surface streams, substantive groundwater aquifers). Safety pillars are maintained in coal seams to protect surface buildings, railways and other major civil structures and protected features. In several instances village residents have been permanently relocated to other locations not affected by subsidence and convenient for habitation and employment. Monies for future village move compensation have been allocated in the FDG capital expenditure budgets.

For FDG's mines, due to mining depth, the nature of the overburden and topographic setting (hills), the main impacts observable on the surface from LW mining are cracks or narrow voids and depressions. The mines are responsible for filling the cracks and depressions and reclaiming the affected areas according to national regulations. In the FDG mining areas, the impact of subsidence is minimized to an extent by the thick loess layer, which easily conforms to surface depressions caused by LW mining and tends to be self-remedying in terms of cracks or voids. Damage caused by underground subsidence is compensated at the rate RMB0.60/tonne according to local government requirements.

BOYD's field visit did not identify obvious impact on surface civil structures and land usage due to surface subsidence. FDG's mining operations have avoided underground mining beneath villages in the recent past.

8.6 Soil and Water Conservation

In accordance with the soil and water conservation law, FDG uses effective methods to minimize the loss of soil and water. Examples include construction of a cinder dam to control water runoff at a refuse disposal site, building of retaining walls in steep slope areas, reclamation of areas affected by mine subsidence, and design and management of refuse disposal sites, and planned reclamation of these sites when no longer in use (earth backfill and seeding). These measures are capable of protecting the local environment and minimizing water and soil loss.

8.7 Refuse (Waste Rock Disposal)

According to our review, the FDG mines follow international practices for refuse disposal. FDG mines, as a whole, no not generate significant volumes of waste rock. Generally, waste rock generated by the mining operations, except for Xingwu Mine which has an adjacent CPP, is removed by screening or handpicking, and easily stored in surface disposal areas. Of the refuse material generated including waste from the Xingwu CPP, some material is utilized for site construction and road building; remaining refuse material is placed in designated disposal areas with refuse stowage compacted in layers with earth back stowing until it reaches the final reclamation elevation.

8.8 Water Resource Protection

Due to serious ongoing water shortages in Shanxi Province, water generated from underground mining operations are considered valuable resources. Although FDG mines are relatively dry and do not generate significant amounts of water, the mines are recognized as sources of water for use in surface activities both mining and non- mining related. In its mines, FDG has made provisions to protect water resources in the mining process, and recycle groundwater inflows into the mine workings after the water is pumped to the surface and processed. For these mines, plants for filtering mine water have been constructed. Filtered water is utilized for underground fire suppression systems and dust sprays or as a supplementary make-up water supply for preparation plant operation. The Xingwu CPP has complete slurry recycle facilities and slurry water processing facilities with a closed-circuit water system to conserve available water and eliminate discharges.

Sewage from the existing mines is processed through cesspool systems. After attaining the discharge requirements of the environment authority, sewage residues are then released for agricultural irrigation.

Due to their geologic setting, the FDG mines lie below drainage and for the most part mine down-dip so there is little possibility of post-mining water breakouts on the surface.

8.9 Air Pollution Control

Boiler exhaust and fugitive dust from coal processing, coal handling, and transportation activities comprise the primary sources of air pollution. The FDG mines are typically located in small towns and habitations, which have developed at or near the mines to house mine personnel and supporting services, a situation typical of much of the coal industry in China. Due to topography in the local FDG area of operations, most of habitations are dispersed, with towns or villages maintaining their own boilers to provide central heating (if available).

Approved environment protection practices require that mines install dust filtering and de-sulfurization equipment for all boilers and hot air furnaces, and install enclosures to reduce fugitive dust. The hot air furnaces in use at the FDG mine sites are equipped with multi-tube dust collectors to reduce contaminants for meeting the requirements of the environment authority. Recently, most steam or hot water boilers of FDG mines installed de-sulfurization and dust filtering equipment. BOYD's site visit indicated that the operation of the filter equipment is adequate. Operating mines have installed water sprays to control dust generation during coal transportation, processing and storage. Some mines have established barrier walls around coal stockpiles to control fugitive dust, thereby minimizing impact on the environment.

8.10 Noise

According to BOYD's site visits, each mine has adopted sound insulation and noise abatement practices for high-noise generation activities. Examples include reducing the vibration of crusher facilities and vibrating screens, and installing noise reduction equipment on ventilation fans. To the extent practicable, high noise generating equipment is located away from residential areas to minimize disturbance to inhabitants. Since most of the FDG mines are distant from densely populated areas, noise disturbance to the general populace is minimized.

8.11 Capital for Environmental Protection

FDG recognizes its environmental responsibilities and has been diligent in improving environmental protection facilities. Newly added facilities and corresponding capital costs for the period January to December 2007 are shown in the following table:

Facility	Capacity	Capital Cost *(RMB million)*
Jinjiazhuang		
Sewage Disposal Plant	60 m^3/day	0.30
Sewage Disposal Plant	180 m^3/day	0.45
Dust Prevention Mesh	–	0.45
UG Water Processing Plant	2,700 m^3/day	0.88
De-sulfurization and Dust Filtering System	5 sets	0.60
Cesspool	24 m^3	0.01
Subtotal – Jinjiazhuang		2.69
Xingwu		
Sewage Disposal Plant	60 m^3/day	0.30
Sewage Disposal Plant	180 m^3/day	0.60
UG Water Processing Plant	2,700 m^3/day	1.20
De-sulfurization and Dust Filtering System	5 sets	0.60
Subtotal – Xingwu		2.70
Zhaiyadi		
Sewage Disposal Plant	180 m^3/day	0.30
De-sulfurization and Dust Filtering System	2 sets	0.05
Earthwork	–	0.29
Dust Retaining Net	–	0.16
Subtotal – Zhaiyadi		0.80
Total – FDG		6.19

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries and that to the best of their knowledge and belief there are no other facts the omission of which would made any statement therein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Acquisition will be as follows:

Authorised:

5,000,000,000	Shares	HK$500,000,000.00

Issued and fully paid or credited as fully paid:

2,439,555,352	Shares in issue as at the Latest Practicable Date	HK$243,955,535.20
1,260,000,000	Consideration Shares to be issued	HK$126,000,000.00
3,699,555,352	Shares in issue immediately following completion of the Acquisition	HK$369,955,535.20

All of the Shares in issue and the Consideration Shares to be issued rank pari passu in all respects with each other, including in particular as to dividends, voting rights and capital.

As at the Latest Practicable Date, there are 104,000,000 outstanding options which confer the holders of the options to subscribe for a total of 104,000,000 Shares under the share option scheme of the Company at the exercise price of HK$1.5 per Share. Save as disclosed, the Company does not have any other outstanding derivatives, options, warrants and conversion rights or similar rights or securities in issue which are convertible or exchangeable into Shares.

The Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange. There is no arrangement under which future dividends are waived or agreed to be waived.

2. DISCLOSURE OF INTERESTS

Interest of Directors in the Company

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Division of Listed Companies in the Listing Rules to notified to the Company and the Stock Exchange were as follows:

Long position in Shares

	Number of Shares held			
Name	Personal interests	Corporate interests	Total	Percentage of shareholding
Mr. Wong Lik Ping	90,750,000	1,149,200,000 *(Note)*	1,239,950,000	50.83%

Note: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,149,200,000 Shares as at the Latest Practicable Date.

Directors' interests in associated corporation

Name	Nature of associated corporation	Capacity	Number shares	Percentage of shareholding
Mr. Wong Lik Ping	China Merit Limited	Beneficial Owner	100 ordinary shares	100%

Directors' interests in share options of the Company

On 26 April 2006, options to subscribe for a total of 10,900,000 Shares were granted under the share option scheme of the Company to Directors at the exercise price of HK$1.5 per Share. The options may be exercised from 26 April 2008 to 25 April 2013. As at the Latest Practicable Date, details of the options are as follows:

Name of Director	Number of Shares under outstanding options
Mr. Wong Lik Ping	2,000,000
Mr. So Kwok Hoo	6,500,000
Mr. Chan Pat Lam	800,000
Mr. Choi Wai Yin	800,000
Mr. Kee Wah Sze	800,000
	10,900,000

Save as disclosed above, as the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken pr deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Interests of substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the persons other than a Director or chief executive of the Company who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, who is expected, directly or indirectly, to be interest in 5 per cent, or more of the nominal value of ant class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital, were as follow:

Name of Shareholder	Capacity	Number of Shares	Percentage of shareholding
China Merit Limited	Beneficial Owner	1,149,200,000	47.11%

Note: Mr. Wong Lik Ping, the Chairman and executive Director of the Company, is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,148,200,000 Shares as at the Latest Practicable Date. Mr. Wong Lik Ping is the sole director and shareholder of China Merit Limited.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest of short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital.

Service Contracts

There is no existing or proposed service contract between any of the Directors and the Company or any of its members (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

Interests in other competing business

Each of the Directors has confirmed that he and their respective associates (as defined under Rthe Listing Rules) do not have any interests in a business apart from the Group's business which directly competes with and will have material adverse impact on the Group.

Interests in assets

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up.

Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors is materially interested in contract or arrangement subsisting which is significant in relation to the business of the Group.

3. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Enlarged Group.

4. EXPERTS AND CONSENTS

The qualifications of the experts who have given opinion in this circular is as follows:

Name	Qualification
First Shanghai	a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity
Grant Thornton ("GT")	Certified Public Accountants
Greater China Appraisal Limited ("GC")	Property valuer and business valuer
Assets Appraisal Limited ("AA")	Property valuer
BOYD	Mining and Geological Consultants
King & Wood PRC Lawyers ("K&W")	PRC Lawyers

As at the Latest Practicable Date, none of First Shanghai, GT, GC, AA, BOYD and K&W had any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up.

Each of First Shanghai, GT, GC, AA, BOYD and K&W has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarge Group within the two years preceding the date of this circular and are or may be material:

(i) On 30 September 2006, PRC Subsidiary C entered into a non-cancellable guarantee contract with China Construction Bank, to which the company act as the guarantor of a loan facility of RMB100 million granted to Zhongyang Limin Coal Company Limited. The guarantee contract remains valid as at the Latest Practicable Date;

(ii) Pursuant to a resource consolidation approval document, PRC Subsidiary B entered into an agreement on 30 December 2006 with Luensang A, to which the company acquired from the Luensang A the coal reserve of Shanxi Liulin Nangou Coal Company Limited and Shanxi Liulin Hejiashe Coal Company Limited, both operated by Luensang A, at a total consideration of approximately RMB480.79 million;

(iii) Pursuant to a resource consolidation approval document, PRC Subsidiary C entered into an agreement on 30 December 2006 with Luensang A acquired from Luensang A the coal reserve of Shanxi Liulin Shipanshang Coal Company Limited and Shanxi Liulin Baicaoer Coal Company Limited, both operated by Luensang A, at a total consideration of approximately RMB659.16 million; and

(iv) The Company and BOC International as the Placing Agent entered into a placing agreement on 15 March 2007 pursuant to which BOC International has conditionally agreed to procure placees for a maximum of 230,000,000 new shares, at a placing price of HK$2.00 per placing share, on a best effort basis. The placing Agreement was completed on 2 April 2007 and 230,000,000 placing shares had been placed. The details of the transaction are set out in the announcements of the Company dated 20 March 2007 and 2 April 2007;

(v) Maxease Limited, being a wholly-owned subsidiary of the Company, as issuer, the Company as guarantor, and BOC International as manager was entered into a subscription agreement on 15 March 2007 pursuant to which BOC International has conditionally agreed to subscribe for, or to procure subscriptions for, the convertible notes in an aggregate principal amount of HK$300,000,000. The subscription agreement was completed 20 April 2007. The details of the transaction are set out in the announcement of the Company dated 20 March 2007;

(vi) Luenshan, being a non-wholly owned subsidiary of the Company, as the borrower and Bao Tou City Commercial Bank Company Limited (包頭市商業銀行股份有限公司) as the lender entered into a loan agreement dated 19 April 2007, pursuant to which the lender agreed to grant an unsecured interest bearing loan at 8.541% per annum in the amount of RMB50,000,000 repayable in June 2008 to the borrower. The Group and a PRC Subsidiary B jointly and severally granted the guarantees for the loan;

(vii) On 19 April 2007, PRC Subsidiary B entered into a non-cancellable guarantee contract with Bao Tou Ctiy Commercial Bank Company Limited (包頭市商業銀行股份有限公司), to which the company act as the guarantor of a loan facility of RMB50 million granted to Luenshan (refer to above (vi)). The guarantee contract remains valid as at the Latest Practicable Date;

(viii) In connection with the resource consolidation stated in (iii) above, PRC Subsidiary C further entered into a compensation agreements with the original owner, the village committee of Shanxi Liulin Baicaoer Coal Company Limited on 20 April 2007. The compensation involve both one-off settlement and recurring payment to the villagers.

(ix) On 16 May 2007, PRC Subsidiary A entered into a non-cancellable guarantee contract with three local financial institutions in Shanxi Luliang, to which the company act as the guarantor of various loan facilities of aggregate RMB200 million granted to Shanxi Zhongyang Steel Company Limited, a major customer of the company. The guarantee contract remains valid as at the Latest Practicable Date;

(x) On 29 May 2007, PRC Subsidiary A entered into a non-cancellable guarantee contract with the Export-Import Bank of China, to which the company act as the guarantor of a loan facility of RMB200 million granted by the Export-Import Bank of China to Shanxi Datuhe Coalification Company Limited, a major customer of the company. The guarantee contract remains valid as at the Latest Practicable Date;

(xi) New Honest Limited, a wholly-owned subsidiary of the Company, entered into the supplemental sino-foreign equity joint venture agreement and the supplemental articles of association to increase the registered capital of Shanxi Yao Zin Coal and Coking Company Limited ("Yao Zin) from RMB80,000,000 to RMB320,000,000 with two minority investors of Yao Zin on 24 July 2007. The registered capital of Yao Zin was increased by RMB240,000,000, of which RMB170,400,00 and RMB69,600,000 shall be contributed by New Honest Limited and one of minority investors of Yao Zin and thus the effective shareholdings of the Company in Yao Zin was increased from 51% to 66%;

(xii) On 3 August 2007, PRC Subsidiary A entered into a non-cancellable guarantee contract with China Merchants Bank, to which the company act as the guarantor of a loan facility of RMB100 million granted by China Merchants Bank to Shanxi Datuhe Coalification Limited, a major customer of the company. The guarantee contract remains valid as at the Latest Practicable Date;

(xiii) Fushan Energy Group Limited ("Fushan Energy"), a wholly-owned subsidiary of the Company, entered into the supplemental sino-foreign equity joint venture agreement and the supplemental articles of association to increase the registered capital of Shanxi Energy Group Limited ("Shanxi Energy") from RMB100,000,000 to RMB400,000,000 with two minority investors of Shanxi Energy on 26 November 2007. The increase in the registered capital of RMB300,000,000 shall be contributed by Fushan Energy only and thus the effective shareholdings of the Company in Shanxi Energy was increased from 65% to 91.25%. The details of the transaction are set out in the announcement of the Company dated 27 November 2007;

(xiv) Yao Zin entered into a coal supply contract with PRC subsidiary A for the supply of coal for the period from 4 February 2008 to 31 December 2010 on 24 December 2007. The transaction constitutes a continuing connected transaction of the Company and has been approved at the extraordinary general meeting of the Company held on 4 February 2008. Details of the transaction are set out in the announcement of the Company dated 31 December 2007 and the circular dated 18 January 2008;

(xv) In relation with the resource consolidation stated in (iii) above, PRC Subsidiary C further entered into a compensation agreement with the original owner, the village committee of Shanxi Liulin Shipanshang Coal Company Limited on 1 February 2008. The compensation is a one-off settlement to the villagers.

(xvi) Shanxi Energy entered into conditional sale and purchase agreement (the "Disposal Agreement") with Xishan Coal and Electricity (Group) Company ("Minority Investor") and Shanxi Xishan Coal and Electricity Power Company ("the Buyer") on 19 April 2008, pursuant to which the Buyer agreed to acquire (i) 70% equity interest of Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng"), being all equity interest of Risheng held by the Group) and (ii) 30% equity interest of Risheng from minority investor. This transaction under the Disposal Agreement constitutes a discloseable and connected transaction of the Company. The details of the transaction are set out in the announcements of the Company dated 23 April 2008 and 14 May 2008. As at the Latest Practicable Date, this transaction has not yet completed;

(xvii) the Agreement;

(xviii) the PRC Subsidiaries entered into the Tenancy Agreement with Luensang A on 2 June 2008, pursuant to which PRC Subsidiaries will continue to lease an office from Luensang A for a rental fee of RMB1,866,975 (approximately HK$2,079,000) per annum. Details of which are set out in the announcement of the Company dated 4 June 2008;

(xix) the Supply Contract;

(xx) the Mutual Coal Supply Contract;

(xxi) The Company entered into the placing agreement with BOCI Asia Limited as a placing agent to procure placee(s) for up to 450,000,000 Placing Shares at the placing price HK$4.6 per Placing Shares on a best efforts basis on 15 June 2008. The details of the transaction are set out in the announcement of the Company dated 17 June 2008;

(xxii) The Company entered into the Long Term Strategic Cooperation Agreement with Shougang Holding (Hong Kong) Limited (Shougang) on 15 June 2008. The details of the transaction are set out in the announcement of the Company dated 17 June 2008;

(xxiii) Fushan Energy entered into the supplemental sino-foreign equity joint venture agreement and the supplemental articles of association to increase the registered capital of Shanxi Energy from RMB400,000,000 to RMB600,000,000 with two minority investors of Shanxi Energy on 18 June 2008. The increase in the registered capital of RMB200,000,000 shall be contributed by Fushan Energy only and thus the effective shareholdings of the Company in Shanxi Energy was increased from 91.25% to 94.17%. As at the Latest Practicable Date, the transaction is not completed;

(xxiv) The Company entered into the Deed of Undertaking with Shougang on 15 June 2008. The details of the transaction are set out in the announcement of the Company dated 17 June 2008. Details of the transaction are set out in the announcement of the Company dated 17 June 2008; and

(xxv) The Company entered into the second placing agreement with BOCI Asia Limited as a placing agent to procure placees for 410,000,000 Second Placing Shares at the placing price HK$4.8 per Second Placing Shares on a fully underwritten basis on 20 June 2008. The details of the transaction are set out in the announcement of the Company dated 20 June 2008.

6. MATERIAL CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2007, being the date to which the latest audited consolidated financial statements of the Group were made up.

7. GENERAL

(a) The secretary and qualified accountant of the Company is Lam Lin Chu, member of Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong.

(c) The Company's share registrars is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. at the registered office of the Company at 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong up to and including 10 July 2008:

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

(b) the annual reports of the Company for the two years ended 31 December 2007;

(c) the letter from First Shanghai to the Independent Board Committee and the Shareholders, the text of which is set out on pages 57 to 98 of this circular;

(d) the accountant's report of Company A, the text of which is set out in Appendix I of this circular;

(e) the accountant's report of Company B, the text of which is set out in Appendix II of this circular;

(f) the accountant's report of Company C, the text of which is set out in Appendix III of this circular;

(g) the unaudited pro forma financial information of the Englarged Group, the text of which is set out in Appendix V of this circular;

(h) the property valuation report, the text of which is set out in Appendix VI of this circular;

(i) the valuation report of the Mines, the text of which is set out in Appendix VII of this circular;

(j) the Technical Review Report, the text of which is set out in Appendix VIII of this circular;

(k) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(l) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(m) the circulars of the Company which have been issued since 31 December 2007.

福　山　國　際　能　源　集　團　有　限　公　司
FUSHAN INTERNATIONAL ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)
(Stock Code: 639)

NOTICE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Fushan International Energy Group Limited (the "Company") will be held at the Falcon Room Basement Luk Kwok Hotel, No. 72 Gloucester Road, Wanchai, Hong Kong on Friday, 18 July 2008 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions:–

ORDINARY RESOLUTIONS

1. "**THAT:**

   (i) the conditional sale and purchase agreement dated 9 May 2008 (the "Agreement") in relation to the acquisition of the Sales Shares and the Sale Loans (both as defined and described in the circular of the Company dated 25 June 2008 to the shareholders of the Company (the "Circular") of which this notice forms a part) and the transactions contemplated thereunder (including but not limited to the arrangement regarding Mr. Xing's Net Indebtedness (as defined in the Circular)) be and are hereby approved, confirmed and ratified;

   (ii) the issue and allotment of 1,260,000,000 shares of HK$0.1 each in the capital of the Company credited as fully paid at HK$4.5 each share in partial satisfaction of the consideration payable under the Agreement be and is hereby approved; and

   (iii) the executive directors of the Company be and are hereby authorised on behalf of the Company to do all such acts and sign, seal, execute and deliver all such documents and take all such actions as they may consider necessary or desirable for the purpose of or in connection with or to give effect to the Agreement and the transactions contemplated thereunder."

2. "**THAT:**

   (i) the Supply Contract (as defined and described in the circular of the Company dated 25 June 2008 to the shareholders of the Company (the "Circular") of which this notice forms a part) entered between each of PRC Subsidiaries (as defined in the Circular) and Mr. Xing (as defined in the Circular) and his associates dated 2 June 2008 and the transactions contemplated thereunder be and are hereby approved on the condition that the annual caps on the amounts of coking coal, electricity and raw materials and fixed assets to be purchased or sold shall not exceed the amount shown below tables for the financial year ending 31 December 2008, 31 December 2009 and 31 December 2010.

The annual caps on the amounts of coking coal that may be purchased under the Supply Contract in monetary terms are as follows:

Supplier	Purchaser	For the financial year ending 31 December		
		2008	**2009**	**2010**
		RMB (exclusive of VAT)	*RMB (exclusive of VAT)*	*RMB (exclusive of VAT)*
Mr. Xing and his associates	PRC Subsidiary A (as defined in the Circular)	220,863,000	111,790,000	369,119,000
Mr. Xing and his associates	PRC Subsidiary B (as defined in the Circular)	–	–	165,335,000
Mr. Xing and his associates	PRC Subsidiary C (as defined in the Circular)	–	–	469,858,000
PRC Subsidiary A	Mr. Xing and his associates	13,009,000	–	–
PRC Subsidiary B	Mr. Xing and his associates	74,727,000	–	–
PRC Subsidiary C	Mr. Xing and his associates	68,978,000	–	–
Total		377,577,000	111,790,000	1,004,312,000

The annual caps on the amounts of the electricity in monetary terms that PRC Subsidiary A may sell to Party D (as defined in the Circular) under the Supply Contract are as follows:

Supplier	Purchaser	For the financial year ending 31 December		
		2008	**2009**	**2010**
		RMB	*RMB*	*RMB*
PRC Subsidiary A	Mr. Xing and his associates	2,651,000	2,863,000	3,092,000

The annual caps on the amounts of raw materials and fixed assets in monetary terms that the PRC Subsidiaries may purchase from Party D under the Supply Contract are as follows:

Supplier	**Purchaser**	**For the financial year ending 31 December**		
		2008	**2009**	**2010**
		RMB	*RMB*	*RMB*
Mr. Xing and his associates	PRC Subsidiary A	1,000,000	1,000,000	1,000,000
Mr. Xing and his associates	PRC Subsidiary B	1,000,000	1,000,000	1,000,000
Mr. Xing and his associates	PRC Subsidiary C	1,000,000	1,000,000	1,000,000
Total		3,000,000	3,000,000	3,000,000

(ii) the Mutual Coal Supply Contract (as defined and described in the Circular) entered among each of PRC Subsidiaries dated 2 June 2008 and the transactions contemplated thereunder be and are hereby approved on the condition that the annual caps on the amounts of coking coal to be purchased or sold shall not exceed the amount shown below table for the financial year ending 31 December 2008, 31 December 2009 and 31 December 2010.

Supplier	**Purchaser**	**For the financial year ending 31 December**		
		2008	**2009**	**2010**
		RMB (exclusive of VAT)	*RMB (exclusive of VAT)*	*RMB (exclusive of VAT)*
PRC Subsidiary A	PRC Subsidiary C	–	561,982,000	842,636,000
PRC Subsidiary B	PRC Subsidiary C	–	280,991,000	360,118,000
PRC Subsidiary C	PRC Subsidiary A	95,592,000	229,987,000	–
PRC Subsidiary C	PRC Subsidiary B	–	854,442,000	757,463,000
Total		95,592,000	1,927,402,000	1,960,217,000

(iii) the executive directors of the Company be and are hereby authorised on behalf of the Company to do all such acts and sign, seal, execute and deliver all such documents and take all such actions as they may consider necessary or desirable for the purpose of or in connection with or to give effect to the Supply Contract and the Mutual Coal Supply Contract and the transactions contemplated thereunder."

By Order of the Board
So Kwok Hoo
Executive Director

Hong Kong, 25 June 2008

Registered Office:
12th Floor
Kwan Charter Tower
6 Tonnochy Road
Wanchai
Hong Kong

Notes:

(1) Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf in accordance with the Company's Articles of Association. A proxy need not be a shareholder of the Company. A form of proxy for use at the meeting is enclosed herewith.

(2) Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.

(3) Where there are joint registered holders of any shares, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders is present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such shares shall alone be entitled to vote in respect thereof.

(4) To be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, No.28 Queen's Road East, Wanchai, Hong Kong at least 48 hours before the time appointed for holding the meeting or any adjournment thereof as the case may be and in default thereof the form of proxy and such power or authority shall not be treated as valid.

(5) The votes to be taken at the meeting will be taken by poll.