THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

ARTFIELD GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1229)

VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF 51% EQUITY INTEREST IN STAR FORTUNE INTERNATIONAL INVESTMENT COMPANY LIMITED

Financial adviser to the Company

BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

A notice convening the special general meeting of the Company (the "SGM") to be held at Suites 1003-1006, 10/F., Two Pacific Place, 88 Queensway, Hong Kong on Monday, 29 June 2009 at 11:00 a.m. is set out on pages 255 to 256 to this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend at the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Union Registrars Limited at Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof (as the case maybe). Completion and deposit of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish.

12 June 2009

CONTENTS

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

"Acquisition"	the acquisition of 51% equity interest in the Target Company by the Purchaser
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day on which licensed banks in Hong Kong are open for normal banking business throughout their normal business hours (excluding Saturdays and Sundays)
"BVI"	the British Virgin Islands
"Coal Mines"	Kaiyuan Open Pit Coal Mine (凱源露天煤礦) and Zexu Open Pit Coal Mine (澤旭露天煤礦), both are situated at Bei Ta Mountain, Qi Tai County, Xinjiang Uygur Autonomous Region, the PRC (中國新疆維吾爾自治區奇台縣北塔山)
"Company" or "Purchaser's Guarantor"	Artfield Group Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares
"Completion Date"	within 5 Business Days after all the conditions precedent have been fulfilled or waived by the Purchaser or the Vendor (or such later date as the parties to the Sale and Purchase Agreement may agree in writing)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	HK$100,000,000.00, being the consideration for the Sales Shares, subject to adjustment
"Director(s)"	the directors of the Company, including the independent non-executive directors
"Earnest Money"	a sum of HK$2,000,000.00 as refundable earnest money for the proposed Acquisition deposited by the Purchaser into an escrow account with the Purchaser's solicitors upon signing of the MOU

"Encumbrances"	any mortgage, charge, pledge, lien, equities, hypothecation or other encumbrance, priority of security interest, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-lease back arrangement whatsoever over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same
"Enlarged Group"	together, the Group and the Target Group
"Escrow Agreement"	the escrow agreement to be entered into on Completion, between the Purchaser, the Purchaser's solicitors (as escrow agent) and the Vendor in respect of the escrow of the remaining balance of the Consideration, being HK$28,000,000.00, in the escrow account with the Purchaser's solicitors
"Event of Force Majeure"	there shall have developed, occurred, existed or come into effect any event or series of events, matters or circumstances on and/or after Completion including an event or change in relation to or a development of an existing state of affairs concerning or relating to (i) new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, which have material adverse effect on the operation of the Coal Mines; or (ii) any event of force majeure including, without limiting the generality thereof, act of God, war, riot, social or public disorder, civil commotion, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out (whether or not covered by insurance) in Xinjiang Uygur Autonomous Region, the PRC, which may materially affect the operation of the Target Group
"Exploration Permit"	the exploration permit granted by the relevant authorities to conduct exploration activities in the Zexu Open Pit Coal Mine (澤旭露天煤礦) by Subsidiary B
"Final Net Profit"	the audited net profit after tax of Subsidiary A attributable to the Subsidiary A's shareholder for the period from 1 January 2009 ending 31 December 2009 in accordance with the HKGAAP

"First Annual Period"	the first 12 months ending immediately after the Completion Date
"Former Agreement"	the sale and purchase agreement dated 3 July 2007 entered into between Ming Kei International Holding Co. Limited, Mr. Wong Wai Sing, Mr. Wong Wai Ngok and the Target Company in respect of the acquisition of the entire issued share capital in Ming Kei Kai Yuan by the Target Company
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
"Group"	the Company and its subsidiaries
"HKGAAP"	accounting principles, standards, and practices generally accepted in Hong Kong, including but not limited to Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards, and Interpretations issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Technical Adviser"	John T. Boyd Company, an independent mining and geological consultant, being the independent technical adviser appointed by the Company in respect of the Coal Mines and being a person with experience in the mining industry
"Lasting Power" or "Purchaser"	Lasting Power Investments Limited (力恒投資有限公司), a wholly-owned subsidiary of the Company
"Latest Practicable Date"	8 June 2009, being the latest practicable date before the printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
"Loan Facilities Agreement"	a loan facilities agreement in relation to the provision of unsecured loan facilities in the maximum principal amount of approximately RMB25 million to the Target Group by the Vendor and the Vendor's Guarantor for the daily operation of the Target Group, to be entered into between the Target Company, the Vendor and the Vendor's Guarantor

"Long Stop Date"	31 July 2009 (or such later date to be agreed by the parties to the Sale and Purchase Agreement in writing)
"Ming Kei Kai Yuan"	Ming Kei Kai Yuan Investment Company Limited (明基凱源投資有限公司), a company incorporated in Hong Kong and legally and beneficially owned as to 100% by the Target Company
"Mining Rights"	the mining rights granted by the relevant authorities to conduct mining activities in the Kaiyuan Open Pit Coal Mine (凱源露天煤礦) by Subsidiary A
"MOU"	the memorandum of understanding entered into between the Purchaser and the Vendor on 13 March 2009 concerning the Acquisition
"Output Accounts"	separate statements for each of a 12-month period certifying the actual sales volume of coal sold (based on the coal sold as stated on the value-added tax invoices) by Subsidiary A for each of the First Annual Period and the Second Annual Period
"Performance Guarantee"	the performance guarantee, where the Vendor and the Vendor's Guarantor jointly, severally, unconditionally and irrevocably guarantee to the Purchaser that the volume of coal sold (based on the coal sold as stated on the value-added tax invoices) by Subsidiary A for each of the First Annual Period and the Second Annual Period shall not be less than 900,000 tonnes
"PRC"	The People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Profit Guarantee"	the profit guarantee, where the Vendor and the Vendor's Guarantor jointly, severally, unconditionally and irrevocably guarantee to the Purchaser that the Final Net Profit shall not be less than HK$40 million
"Profit Shortfall"	the amount equivalent to the difference between the Profit Guarantee and the Final Net Profit times a price to earnings ratio of 4.90 and the percentage of equity interest in the Target Company held by the Purchaser

"Sale and Purchase Agreement"	the sale and purchase agreement in respect of the Acquisition
"Sale Shares"	51 shares of US$1.00 each in the share capital of the Target Company, representing 51% equity interest in the Target Company, held by the Vendor immediately before the Completion
"Second Annual Period"	the 12 months ending immediately after the First Annual Period
"SFID" or "Vendor"	Star Fortune International Development Company Limited (星力富鑫國際發展有限公司), an indirect wholly-owned subsidiary of the Vendor's Guarantor
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be held on 29 June 2009 at 11:00 a.m. to consider and, if thought fit, approve the Sale and Purchase Agreement and the transaction contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.10 each in the existing share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Shareholders' Agreement"	a shareholders' agreement relating to the management and organization of the Target Company to be entered into on Completion between the Purchaser, the Company, the Vendor, the Vendor's Guarantor and the Target Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary A"	木壘縣凱源煤炭有限責任公司(transliterated as Mulei County Kai Yuan Coal Company Limited), a wholly-owned foreign enterprise established in the PRC and beneficially owned as to 100% by Ming Kei Kai Yuan
"Subsidiary B"	奇台縣澤旭商貿有限責任公司(transliterated as Qitai County Zexu Trading Company Limited), a company established in the PRC and beneficially owned as to 100% by Subsidiary A

"Target Company"	Star Fortune International Investment Company Limited (星力富鑫國際投資有限公司), a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Vendor
"Target Group"	the Target Company and its subsidiaries, and details of which are disclosed in the section headed "Information on the Vendor, the Target Group and the Coal Mines" of this circular
"Vendor's Guarantor"	Ming Kei Energy Holdings Limited, a company incorporated in Cayman Islands with limited liability and the issued shares of which are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8239)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"mm"	millimeter
"%"	per cent.

ARTFIELD GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1229)

Directors:
Ms. Lo Fong Hung
(Chairperson and Managing Director)
Mr. Wang Xiangfei
Mr. Kwan Man Fai
Mr. Wong Man Hin, Raymond#
Mr. Lam Ka Wai, Graham#
Mr. Chan Yiu Fai, Youdey#

Independent non-executive Director

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Suites 1003-1006, 10/F
Two Pacific Place
88 Queensway
Hong Kong

12 June 2009

To the Shareholders,

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF 51% EQUITY INTEREST IN STAR FORTUNE INTERNATIONAL INVESTMENT COMPANY LIMITED

INTRODUCTION

On 7 May 2009, the Board announced that, after trading hours on 30 April 2009, the Purchaser (a wholly-owned subsidiary of the Company) and the Company (as the Purchaser's Guarantor) entered into a conditional Sale and Purchase Agreement with the Vendor and the Vendor's Guarantor, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire 51% equity interest in the Target Company at the consideration of HK$100 million (subject to adjustment).

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As no Shareholder has any material interest in the Acquisition, no Shareholder is required to abstain from voting at the SGM in respect of the resolution(s) to approve the Sale and Purchase Agreement and the transaction contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition; (ii) financial information on the Group and the Target Group; (iii) unaudited pro forma financial information on the Enlarged Group; (iv) the valuation report in respect of the properties of the Enlarged Group; (v) the technical report in respect of the Coal Mines prepared by the Independent Technical Adviser; (vi) a notice of SGM and (vii) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date

30 April 2009

Parties

Vendor:	SFID	
Purchaser:	Lasting Power	
Guarantors:	(i)	Ming Kei Energy Holdings Limited, as guarantor of the Vendor; and
	(ii)	the Company, as guarantor of the Purchaser

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, SFID, the Vendor's Guarantor and their respective ultimate beneficial owners(s) are third parties independent of the Company and connected persons of the Company.

The Company came to know the Vendor through a social occasion. The Group had no prior transaction with SFID, the Vendor's Guarantor and their associates before entering into the Sale and Purchase Agreement.

Assets to be acquired

The Sale Shares represent 51% issued share capital of the Target Company. The Sale Shares will be acquired free from any Encumbrances and together with all rights attaching to them on or after the date of the Sale and Purchase Agreement (including all rights to any dividend or other distribution declared, made or paid after the date of the Sale and Purchase Agreement). There is no restriction on subsequent sale of the Sale Shares.

Consideration

The consideration for the Sale Shares is HK$100 million (subject to adjustment as mentioned under the paragraph headed "Profit Guarantee, Performance Guarantee and the adjusted Consideration"), which shall be settled by the Purchaser from its internal resources in the following manner:

1. HK$12 million in cash as a refundable deposit, out of which HK$2 million has been paid from the Earnest Money on the date of signing of the Sale and Purchase Agreement;

2. HK$60 million in cash on Completion; and

3. HK$28 million in cash shall be deposited into an escrow account with the Purchaser's solicitors (as escrow agent) on Completion and shall be released to the Vendor subject to the Escrow Agreement, pursuant to which:

   (a) HK$18 million (subject to adjustment) in cash shall be paid within 5 Business Days upon the Purchaser in receipt of the profit guarantee certificate certifying that the Profit Guarantee has been achieved and receipt of irrevocable instruction letter jointly signed by the Vendor and the Purchaser confirming fulfillment of the Profit Guarantee; and

   (b) HK$10 million in cash shall be paid within 5 Business Days upon the Purchaser in receipt of the Output Accounts and receipt of irrevocable instruction letter jointly signed by the Vendor and the Purchaser confirming fulfillment of the Performance Guarantee for the First Annual Period.

In respect of 3(a) above, in the event that the Profit Guarantee has not been achieved, the Purchaser's solicitors shall release an amount equivalent to HK$18 million minus the Profit Shortfall to the Vendor and return an amount of Profit Shortfall to the Purchaser pursuant to the Escrow Agreement.

Basis of determination of the Consideration

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor with reference to, among other things, (i) the controlling interest in the Target Company to be held by the Company by the Acquisition; (ii) the Profit Guarantee and the Performance Guarantee provided by the Vendor and the Vendor's Guarantor, details of which are stated in the section headed "Profit Guarantee, Performance Guarantee and the adjusted Consideration" below; (iii) a price to earnings ratio ("**P/E**") of the Consideration of 4.90 times to the Profit Guarantee which is comparable to other mining issuers listed on the Stock Exchange; and (iv) the internal group reorganization of the Target Group which will slightly reduce the net assets value of the Target Group and has minimal impact on the Consideration and the Acquisition.

The Consideration is determined mainly with reference to the Profit Guarantee based on Subsidiary A (which does not include the potential revenue contribution from Subsidiary B from the estimated measured coal resources and the estimated indicated coal resources of Zexu Open Pit Coal Mine (澤旭露天煤礦)). The only asset of Subsidiary B is the Exploration Permit. At present, Subsidiary B does not generate any revenue from that coal mine. In this regard, the Profit Guarantee is related to Subsidiary A only. Therefore, despite the facts that the Exploration Permit will expire on 4 September 2009 and is subject to renewal, the Directors consider that the Acquisition is fair and reasonable.

Given that coal plays a vital role in the PRC's power generation industry and it is expected that its important role will continue in the future, the Directors have positive view on the future prospect of the coal mining industry in the PRC. Taking into account that the P/E ratio of 4.90 is within the range of the P/E ratios of other mining issuers listed on the Stock Exchange, and the profit and the performance of the Target Group will be guaranteed in the coming one and two years respectively, the Directors are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Profit Guarantee, Performance Guarantee and the adjusted Consideration

Profit Guarantee

According to the Sale and Purchase Agreement, the Vendor and the Vendor's Guarantor jointly, severally, unconditionally and irrevocably guarantee that the audited net profit after tax of Subsidiary A attributable to the Subsidiary A's shareholder shall not be less than HK$40 million for the period from 1 January 2009 to 31 December 2009 in accordance with the HKGAAP.

If the Final Net Profit is less than the Profit Guarantee and the Profit Guarantee is not achieved, an amount equivalent to the difference between the Profit Guarantee and the Final Net Profit times a P/E ratio of 4.90 and the percentage of equity interest in the Target Company held by the Purchaser (i.e. the Profit Shortfall) shall be set off against the remaining balance of the Consideration of HK$28 million. The Profit Shortfall shall be calculated as follows:

$$\mathbf{S = (G - N) \times 4.90 \times P}$$

G = Profit Guarantee
N = Final Net Profit
S = Profit Shortfall
P = Percentage of the Purchaser's equity interest in the Target Company as of Completion (i.e. 51%)

The maximum amount of the Profit Shortfall shall be HK$28 million. The Purchaser is entitled to reduce the remaining balance of the Consideration of HK$28 million by the amount of the Profit Shortfall and the amount of Profit Shortfall shall be returned to the Purchaser pursuant to the Escrow Agreement. For the avoidance of doubt, should Subsidiary A record a loss, the Final Net Profit shall be deemed as zero and the Consideration shall be adjusted by the amount of the Profit Shortfall.

Performance Guarantee

The Vendor and the Vendor's Guarantor jointly, severally, unconditionally and irrevocably guarantee that the volume of coal sold (based on the coal sold as stated on the value-added tax invoices) by Subsidiary A for each of the First Annual Period and the Second Annual Period shall not be less than 900,000 tonnes. In the event that the Performance Guarantee is not achieved, the Vendor and the Vendor's Guarantor shall, at their own cost, jointly and severally within one month from the date of notice from the Purchaser to the Vendor, deliver to the Purchaser a quantity of middle size coal (80-150mm) (中塊煤), with quality not substantially different from that of the existing production of the Coal Mines, equivalent to the difference between the Performance Guarantee and the 12-month volume of coal sold (based on the coal sold as stated on the value-added tax invoices) sold by Subsidiary A for each of the First Annual Period and the Second Annual Period at the same location of the Coal Mines.

Taking into account of the future prospects relating to natural resources industry and the optimistic view on the future coal price and that the middle size coal is the main product of Subsidiary A in 2009, the Directors are of the view that the delivering of the middle size coal (80-150mm) (中塊煤) (in the event the Performance Guarantee is not achieved) for further sale by the Purchaser is fair and reasonable.

If there occurs, in the reasonable opinion of the Vendor, an Event of Force Majeure, which may materially and adversely affect the achievement of the Profit Guarantee and the Performance Guarantee, the Vendor may, within 14 calendar days upon notice of such Event of Force Majeure, by written notice to the Purchaser extend the Profit Guarantee period and Performance Guarantee period.

The period covered by the Profit Guarantee commences from 1 January 2009 to 31 December 2009 while the period covered by the Performance Guarantee commences from the Completion Date up to the twenty four months ending immediately after Completion Date. Taking into consideration that the future selling price of coal is market driven and is uncertain in the coming two years, it is difficult for the parties to the Sale and Purchase Agreement to set the Profit Guarantee for a prolonged period. Therefore, the parties agreed on the Performance Guarantee under which the Vendor will guarantee the amount of coal sale instead of the profit of Subsidiary A which will be affected by the coal price in the future. In view of the fact that both Profit Guarantee and Performance Guarantee can provide revenue guarantee to the Group, the Directors consider that both Profit Guarantee and Performance Guarantee are in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is conditional upon the following conditions having been fulfilled or waived:

1. the Vendor has a good title to the Sale Shares free from Encumbrances and the Vendor is the sole registered and beneficial owner of the Sale Shares;

2. all necessary consents and approvals required to be obtained on the part of the Vendor, the Purchaser, the Vendor's Guarantor and the Purchaser's Guarantor as required under the Listing Rules or the GEM Listing Rules (as the case may be) having been obtained;

3. all approvals, consents, authorizations and licenses including but not limited to the exploration and exploitation permits necessary for the business and operation of the Target Group not having been revoked or withdrawn and are still valid and effective;

4. the Purchaser being satisfied with the results of the due diligence investigations including but not limited to the financial, accounting, legal, contractual, taxation and trading position of the Target Group and the title of the Target Group to all its assets;

5. the obtaining of a PRC legal opinion (in form and substance reasonably satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to, among other things, the PRC legal aspects of the Sale and Purchase Agreement and the transaction contemplated thereunder and certain matters incidental to the entering into of the Sale and Purchase Agreement and other agreements of the Acquisition;

6. the obtaining of a BVI legal opinion (in form and substance reasonably satisfactory to the Purchaser) from a BVI legal adviser appointed by the Purchaser covering matters in relation to, among other things, the BVI legal aspects of the Sale and Purchase Agreement and the transaction contemplated thereunder;

7. the obtaining of a Hong Kong legal opinion (in form and substance reasonably satisfactory to the Purchaser) from a Hong Kong legal adviser appointed by the Purchaser covering matters in relation to, among other things, the Hong Kong legal aspects of the Sale and Purchase Agreement and the transaction contemplated thereunder;

8. the Purchaser having satisfied with the independent technical report prepared by the Independent Technical Adviser (in form and substance reasonably satisfactory to the Purchaser) and that the recoverable reserves of coal in the Coal Mines are not substantially deviated from the quantity as provided by the Vendor;

9. the Vendor's and Purchaser's warranties contained in the Sale and Purchase Agreement remaining true and correct in all material respect;

10. the passing by the shareholders of the Vendor's Guarantor at an extraordinary general meeting to be convened and held of any ordinary resolutions approving, among other things, the Sale and Purchase Agreement and the transaction contemplated thereunder, the supplemental agreement to the Former Agreement (the "**Supplemental Agreement**") and the revision of the promissory note as mentioned in the Supplemental Agreement;

11. the passing by the Shareholders at the SGM of the ordinary resolution(s) approving the Sale and Purchase Agreement and the transaction contemplated thereunder;

12. the completion of the internal group reorganisation of the Target Group, which includes (i) payment of pre-acquisition dividends; (ii) waiver of the unaudited current account due to the Vendor or the Vendor's Guarantor or their respective subsidiaries by the Target Group; (iii) transfer of certain assets to other subsidiary of the Vendor's Guarantor; and (iv) making of provision for any contingent liabilities before Completion;

13. the Vendor having complied fully with the pre-completion obligations and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement; and

14. all necessary consents being granted by third parties (including governmental or official authorities) for the sale and purchase of the Sale Shares and other transactions contemplated herein, and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority.

The Purchaser may waive conditions 2 (in respect of the consents and approvals required to be obtained on the part of the Vendor and the Vendor's Guarantor as required under the GEM Listing Rules only), 3 to 8, 9 (in respect of the Vendor's warranties only), 13 and 14 above and conditions 1, 10, 11 and 12 above could not be waived. The Vendor may waive conditions 2 (in respect of the consents and approvals required to be obtained on the part of the Purchaser and the Purchaser's Guarantor as required under the Listing Rules only) and 9 (in respect of the Purchaser's warranties only) above. In the event that any of the conditions are not satisfied or waived on or before 31 July 2009 (or such later date to be agreed by the parties to the Sale and Purchase Agreement in writing), neither party shall be bound to proceed with the purchase of the Sale Shares and the Vendor shall return all the moneys already paid as deposit (with interest) to the Purchaser within 3 Business Days after the Long Stop Date.

Completion

Completion of the Acquisition shall take place within 5 Business Days after all the above conditions precedent have been fulfilled and/or waived by the Purchaser or the Vendor (or such later date as agreed by the parties in writing). Upon Completion, the Target Company will be held as to 51% by the Purchaser and 49% by the Vendor and the Purchaser and the Vendor shall on Completion enter into, among others, (i) the Shareholders' Agreement, (ii) the Escrow Agreement and (iii) the Loan Facilities Agreement.

Shareholders' Agreement and Loan Facilities Agreement

It is proposed that the Shareholders' Agreement shall be entered into among the Company, the Purchaser, the Target Company, the Vendor and the Vendor's Guarantor to regulate their respective responsibilities towards the financial contributions to, management of, and business of the Target Group, of which (i) for management aspect, the board of director of each of the companies under the Target Group, will comprise three directors, two of which will be nominated by the Purchaser and one director will be nominated by the Vendor; (ii) for financial contribution, the Loan Facilities Agreement will be entered into, pursuant to which the Vendor and the Vendor's Guarantor will provide unsecured loan facilities to the Target Group in the maximum principal amount of approximately RMB25 million for the daily operation of the Target Group; and (iii) for business aspect, the Target Group will continue to engage in coal mining business.

As at the Latest Practicable Date, no concrete term relating to the Loan Facilities Agreement has been finalized. In any event that the transaction contemplated under the Loan Facilities Agreement will constitute any notifiable transaction under Chapter 14 of the Listing Rules, the Company will notify the Stock Exchange and publish an announcement accordingly.

Non-competition and non-solicitation

For a period of 2 years following the date of the Sale and Purchase Agreement, except for the Vendor's interest in the Target Group and as otherwise authorized by the Sale and Purchase Agreement or agreed to in writing by the Purchaser, none of the Vendor or the Vendor's Guarantor will on behalf of itself or any other person, either as principal, agent, partner, member, shareholder, employee, consultant, representative, director or officer or in any other capacity (i) directly own, manage, operate or control, or be employed by, engaged in or assist anyone to engage in, or have a financial interest in, any business in Bei Ta Mountain, Qi Tai County, Xinjiang Uygur Autonomous Region, the PRC (中國新疆維吾爾自治區奇台縣北塔山) (the "**Region**") which competes with the business of the Target Company or the Target Group in the Region; or (ii) solicit or entice away any person who is or has been a customer of the Target Company or the Target Group within one year before the Completion Date.

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in marketing and trading of clocks and other office related products as well as the provision of management services related to oil trading. The Company intends to continue its current business after the Acquisition.

According to the 2009 annual report of the Group, the Group recorded a net loss (excluding the discontinued business operations of metals trading) of approximately HK$27.02 million for the financial year ended 31 March 2009. During the period in 2007 and 2008, the Group ceased the business segment of marketing of energy saving lighting products and metals trading. As disclosed in the composite offer document of the Company dated 20 March 2008, it is the intention of the Group to actively seek for investment opportunities in order to broaden and expand the business and operations of the Group, particularly in natural resources and/or the PRC properties areas. Despite that the Target Group incurred a net loss of approximately HK$836.34 million for the year ended 31 March 2009 (which was mainly resulted from the recognition of the impairment loss of approximately HK$1,160.22 million) and the recent downturn of the global economic situation, the Directors are optimistic about the long term prospect of the natural resources industry and the rich coal resources and reserves contained in the Coal Mines. In this connection, taken into consideration of (i) the future prospects relating to natural resources industry, (ii) the experiences of the existing management of the Target Group in mining business, and (iii) the experiences of the existing management of the Company in the areas of exploring and developing energy resources in overseas countries, the Directors believe that it is beneficial for the Group to participate in the natural resources industry. The Directors are of the view that the Acquisition provides the Group with a good opportunity to diversify its business into the natural resources mining industry and to enjoy a potential prospective profit.

Taking into account of the above reasons, the relatively low P/E ratio of 4.90, the Profit Guarantee and the Performance Guarantee, the Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE VENDOR, THE TARGET GROUP AND THE COAL MINES

The Vendor is an indirect wholly-owned subsidiary of the Vendor's Guarantor (a company listed on the Growth Enterprise Market of the Stock Exchange) which, through the Vendor and the Target Group, is principally engaged in mining, sale and distribution of coals in the PRC. The Target Company acquired the entire equity interests in Subsidiary A and Subsidiary B by acquiring Ming Kei Kai Yuan through the Former Agreement and the details of which are set out in the circular of the Vendor's Guarantor dated 15 October 2007.

The Target Group is principally engaged in mining, sale and distribution of coal. The Target Company is an investment holding company with limited liabilities incorporated in BVI. As at the Latest Practicable Date, the Target Company directly holds 100% equity interest in Ming Kei Kai Yuan, an investment holding company with limited liabilities incorporated in Hong Kong, which in turn holds 100% equity interest in Subsidiary A, which in turn holds 100% equity interest in Subsidiary B. The Target Company, through its wholly-owned subsidiaries, is the beneficial owner of the entire interest in the Mining Rights granted by the relevant PRC authorities to conduct mining activities in the Kaiyuan Open Pit Coal Mine (凱源露天煤礦) and the Exploration Permit granted by the relevant PRC authorities to conduct exploration activities in the Zexu Open Pit Coal Mine (澤旭露天煤礦).

Subsidiary A, a wholly foreign-owned enterprise with limited liability established in the PRC on 17 October 2006 with a registered capital of RMB30 million, is principally engaged in the operation and management of the Kaiyuan Open Pit Coal Mine (凱源露天煤礦).

Subsidiary B, a limited company established in the PRC on 5 February 2005 with a registered capital of RMB2 million, is principally engaged in the operation and management of the Zexu Open Pit Coal Mine (澤旭露天煤礦). Save for holding the Exploration Permit, Subsidiary B has not yet commenced production, sale and distribution of coals since its incorporation. At present, Subsidiary B does not generate any revenue from that coal mine.

Kaiyuan Open Pit Coal Mine

Kaiyuan Open Pit Coal Mine (凱源露天煤礦), situated at Bei Ta Mountain, Qi Tai County, Xinjiang Uygur Autonomous Region, the PRC (中國新疆維吾爾自治區奇台縣北塔山), is presently in operation with a general mining area of 1.158 square kilometers. It is owned and operated by Subsidiary A. The Mining Rights of Kaiyuan Open Pit Coal Mine (凱源露天煤礦) granted by the Department of Land and Resources of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國土資源廳) to Subsidiary A to conduct mining activities in the Kaiyuan Open Pit Coal Mine (凱源露天煤礦) is valid from June 2008 until June 2018.

As mentioned in the independent technical report as set out in Appendix V to the circular, the estimated proved coal reserves and the estimated probable coal reserves of Kaiyuan Open Pit Coal Mine (凱源露天煤礦) was approximately 17.63 million tonnes and 4.58 million tonnes respectively as of 29 March 2009.

Also, according to the independent technical report, the coal type in Kaiyuan Open Pit Coal Mine (凱源露天煤礦) is non-caking by using the Chinese standard classification and is Bituminous B by using the American Society for Testing materials (ASTM), and the coal is to be utilized in the industrial and domestic coal markets. Mining progresses in stages or benches beginning with top soil layer removal and working through overburden rock and coal seam. In addition, the current equipment fleet has sufficient capacity to achieve overburden stripping and coal loading requirements for an annual coal output of 1.8 million tones in 2009.

Zexu Open Pit Coal Mine

Zexu Open Pit Coal Mine (澤旭露天煤礦), situated at Bei Ta Mountain, Qitai County, Xinjiang Uygur Autonomous Region, the PRC (中國新疆維吾爾自治區奇台縣北塔山) with an area of approximately 2.87 square kilometers, is presently in exploration stage. The Exploration Permit issued by the Department of Land and Resources of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國土資源廳) allows Subsidiary B to conduct exploration work in Zexu Open Pit Coal Mine and is valid from 4 September 2008 until 4 September 2009.

The prior Exploration Permit which expired on 21 June 2008 has been successfully extended for one year from 4 September 2008 to 4 September 2009. The renewal of the Exploration Permit issued to Subsidiary B, upon its expiry on 4 September 2009, is subject to the approval of the relevant government authorities in the PRC. As advised by the management of Subsidiary B, the Exploration Permit can only be renewed when it is expired. Therefore, the Target Group did not submit any renewal application so far. According to the management of Subsidiary B, such application is a procedural matter subject to Subsidiary B having satisfied with the required standards and other requirements under the relevant rules and regulations and by the relevant government authorities. The Directors will file the renewal application upon the expiry date and use all reasonable endeavors to renew the Exploration Permit after Completion.

The Zexu Open Pit Coal Mine (澤旭露天煤礦) is in greenfield status at present. As mentioned in the independent technical report as set out in Appendix V to the circular, the estimated measured coal resources and the estimated indicated coal resources of Zexu Open Pit Coal Mine was approximately 56.58 million tonnes and 62.8 million tonnes respectively as of 29 March 2009.

The coal extracted from the Coal Mines can be used for steel production, coal-fired electricity generation, power generation and for domestic purpose. The Coal Mines are open pit coal mines, which in general are safer than the coal mines applied underground mining method as open pit mines induce less risk of occurrence of accidents, according to the management of the Target Group.

The Independent Technical Adviser

The independent technical adviser, John T. Boyd Company, is an independent consultant firm exclusively serving the mining, financial, utility, power and related industries and has conducted reserve certifications, technical studies and economic evaluations, and advisory work for various listed companies all over the world. The experts that have been directly involved in the independent technical report are experienced geologists with appropriate professional qualifications. The Independent Technical Adviser has conducted numerous mining technical due diligence programs for several listed companies on the Stock Exchange and had experiences in preparing technical reports relating to mining including the technical report in respect of the acquisition of the Coal Mines by the Vendor's Guarantor.

Funding Requirement

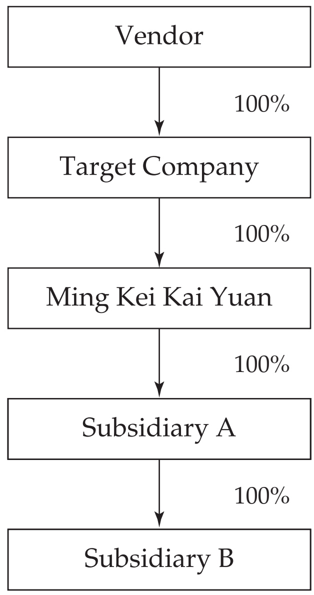
It is expected that the Target Group may generate cash inflow from the sales of coal and incur cash outflow for production costs, administrative expenses and sales tax. The estimated funds required of the Target Group for the two years period following the issue of this circular (assuming Completion will take place) is approximately HK$16.2 million.

The Directors estimated that, for the two years following the issue of this circular, the Enlarged Group will have cash inflows of approximately HK$275.39 million from the income of provision of management services related to oil trading to China Sonangol International Limited and coal mine operation, and will have cash outflows of approximately HK$343.21 million for the payment of administrative fees, purchase of new mining equipments, payment of mining rights fee and the coal production costs.

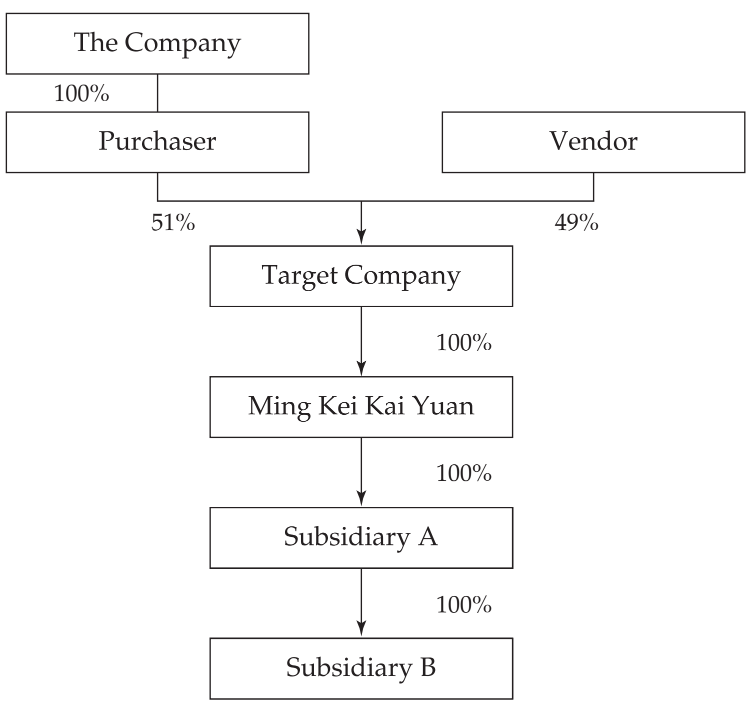
SHAREHOLDING STRUCTURE OF THE TARGET GROUP

Set out below is the shareholding structure of the Target Group immediately before and after Completion:

Immediately before Completion:



Immediately after Completion:



Financial information on the Target Group

Set out below is the summary of the audited financial information on the Target Group:

	For the period from 12 April 2007 (date of incorporation) to 31 March 2008	For the year ended 31 March 2009
	HK$'000	*HK$'000*
Turnover	35,071	127,705
Profit/(loss) before tax	51,259	(1,128,483)
Profit/(loss) after tax	53,233	(836,342)

	As at 31 March 2008	As at 31 March 2009
	HK$'000	*HK$'000*
Net assets/(liabilities)	116,465	(766,670)

FINANCIAL EFFECTS OF THE ACQUISITION

Immediately after Completion, the Company will indirectly own 51% equity interest in the Target Company which indirectly holds the entire equity interest in Subsidiary A and Subsidiary B. The Target Company will become a 51%-owned subsidiary of the Company upon Completion and its consolidated financial results will be consolidated with those of the Group.

The audited consolidated net assets value of the Group was approximately HK$213.47 million as at 31 March 2009. The Acquisition would lead to an overall increase in the net assets value of the Group. Based on the unaudited pro forma financial information on the Enlarged Group set out in Appendix III to this circular, the total assets of the Group would be increased from HK$385.98 million to HK$629.97 million and the total liabilities of the Group would be increased from HK$172.51 million to HK$272.45 million.

There is no variation to the remuneration payable to and benefits in kind receivable by the Directors as a result of the Acquisition.

Taken into account the net assets value of the Enlarged Group will be approximately HK$357.53 million upon the completion of the Acquisition, the Directors are of the view that the Acquisition will diversify the Group's business profile and revenue source to capture the domestic and international natural resources demand, which is in the interests of the Company and the Shareholders as a whole.

RISK FACTORS

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

Investments in new business

The Acquisition constitutes an investment in the new business sector, including the business of coal exploration and exploitation. The new business, coupled with the regulatory environment, may pose significant challenges to the Company's administrative, financial and operational resources. Since the existing management of the Company only has the experiences in the areas of exploring and developing energy resources in overseas countries, the Company may not be in a position to assure the timing and amount of any return or benefits that may be received from the new business except for the Profit Guarantee and Performance Guarantee. If any exploration or exploitation projects, in which the Company attempts to develop, do not progress as planned, the Company may not recover the funds and resources it has spent.

Potential accidents in the mining process

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there had been no record of fatal accident in the Coal Mines. Although open pit mining as adopted by the Coal Mines is relatively safer than the underground mining, the Company is unable to assure no future occurrence of accident at the Coal Mines. The occurrence of accidents may result in substantial disruptions of the coal mining operations and financial losses, damage to the Company's reputation, lawsuits and other compensatory claims and payouts, fines, penalties and mandatory suspension of production.

Natural disasters and operational risks

The coal mining, transportation and sales are subject to significant risks and hazards (including but not limited to natural disasters such as earthquakes, severe weather conditions such as storms and tornados, lack of water supplies, geological variations in coal quality, seam thickness and the amount and characteristics of rock and soil overlying and surrounding coal deposits) beyond the Company's control that can adversely affect the coal production and transportation capacities, cause significant business interruptions, personal injuries, property or environmental damage, as well as increase the mining costs.

Fluctuations in coal prices

The fluctuations in supply and demand of coal, which will affect the price of coal, are caused by numerous factors beyond the Company's control, which include but not limited to:

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

(ii) The rate of growth and expansion in industries with high coal demand.

There is no assurance that the international or domestic demand for coal and coal-related products will continue to grow, or that the international or domestic demand for coal and coal-related products will not experience excess supply or that coal price would not decrease.

Significant and continuous capital investment

The coal mining business requires significant and continuous capital investment. Major coal exploration and exploitation projects may not be completed as planned, may exceed the original budgets and may not achieve the intended economic results or commercial viability. Actual capital expenditures for the new business may significantly exceed the Company's budgets because of various factors beyond the Company's control, which in turn may affect the Company's financial condition.

Policies and regulations

The new business is subject to extensive governmental regulations, policies and controls. There is no assurance that the PRC government will not change such laws and regulations or impose additional or more stringent laws or regulations. The PRC government regulates many aspects of the coal mining industries in the PRC, including, among others, the following aspects:

(a) the granting and renewal of exploration permits;

(b) the granting of coal production licences;

(c) pricing of coal transport services;

(d) allocation of the coal transportation capacity on the national rail system;

(e) coal export quotas, permits and value-added tax;

(f) resource recovery rate requirements;

(g) the adoption of temporary measures to limit increases in coal prices;

(h) environmental, safety and health standards; and

(i) taxes, duties and fees.

The Company cannot assure that the results of the operations of the Target Group will not be materially adversely affected by any future changes in government regulations and policies.

Renewal of the Mining Rights and the Exploration Permit

The Mining Rights and the Exploration Permit issued to Subsidiary A and Subsidiary B will expire in June 2018 and September 2009 respectively and their renewals are subject to the approval of the relevant government authorities in the PRC. As the Exploration Permit will expire in September 2009, according to the management of Subsidiary B, the renewal application is a procedural matter subject to Subsidiary B having satisfied with the required standards and other requirements under the relevant rules and regulations and by the relevant government authorities. In the event that the Mining Rights and the Exploration Permit issued to Subsidiary A and Subsidiary B respectively cannot be renewed, Subsidiary A and Subsidiary B will lose its mining rights and the exploration rights respectively in the Coal Mines which will materially and adversely affect the operations of the Target Group.

Coal reserves decline upon continuous exploitation

As the estimated total coal reserve would decline upon continuous exploitation, the Company cannot assure that it can guarantee an acquisition of new coal reserves, develop of new coal mining projects and expansion of existing coal mining operations in the future.

Country risk

The Company is entering into a new business in Xinjiang Uygur Autonomous Region (新疆維吾爾自治區), where the Company does not have any business. There can be risks on changes in the business environment in Xinjiang Uygur Autonomous Region which may reduce the profitability of the new business. The change of political and economic conditions in Xinjiang Uygur Autonomous Region may also adversely affect the Company.

Risks and uncertainties associated with the findings of the independent technical report

The coal reserve estimates may be inaccurate and may differ materially from the actual production results. There are inherent uncertainties in estimating coal reserves, including the factors, assumptions and variables applied by the Independent Technical Advisor. The actual volume of coal reserves, rates of production and coal characteristics may be different from the findings in the independent technical report.

LISTING RULES IMPLICATION ON THE ACQUISITION

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As no Shareholder has any material interest in the Acquisition, no Shareholders are required to abstain from voting at the SGM in respect of the resolution(s) to approve the Sale and Purchase Agreement and the transaction contemplated thereunder. The voting will be conducted by way of poll at the SGM.

SGM

The SGM will be held at Suites 1003-1006, 10/F., Two Pacific Place, 88 Queensway, Hong Kong on Monday, 29 June 2009 at 11:00 a.m.. The notice of SGM is set out on pages 255 to 256 to this circular. The purpose of SGM is, to consider and, if thought fit, approve ordinary resolutions in respect of, among other things, the Sale and Purchase Agreement and the transaction contemplated thereunder.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend at the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Union Registrars Limited at Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof (as the case maybe). Completion and deposit of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish.

RECOMMENDATION

The Directors are of the opinion that the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the resolutions as set out in the notice of SGM to approve the Sale and Purchase Agreement and the transaction contemplated thereunder.

GENERAL

Your attention is drawn to the information set out in the appendices to this circular and the notice of SGM.

By order of the Board of
Artfield Group Limited
Kwan Man Fai
Executive Director

A. FINANCIAL SUMMARY

A summary of the published consolidated financial results, assets and liabilities of the Group as extracted from the respective annual reports of the Company is set out below:

(i) Consolidated income statement

For the three years ended 31 March 2009

	Year ended 31 March		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	23,105	129,940	153,649
Cost of sales and services provided	(17,134)	(118,053)	(140,914)
Gross profit	5,971	11,887	12,735
Other operating income	5,874	14,030	5,105
Net gain on deregistration of subsidiaries	2,618	215	–
Selling and distribution expenses	(3,508)	(7,811)	(7,930)
Administrative expenses	(21,408)	(41,600)	(36,647)
Finance costs	(16,640)	(959)	(2,812)
Allowance for doubtful debts of trade receivables	–	–	(28,992)
Write down for inventories	–	–	(27,648)
Gain on disposal of subsidiaries	–	–	3,227
Impairment loss recognised in respect of intangible asset	–	–	(46,440)
Impairment loss recognised in respect of goodwill	–	–	(3,963)
Loss before tax	(27,093)	(24,238)	(133,365)
Income tax credit (expense)	77	(515)	3,327
Loss for the year from continuing operations	(27,016)	(24,753)	(130,038)
Discontinued operations			
(Loss) profit for the year from discontinued operations			
– Trading operation	(1,748)	3,288	–
– Lighting products operation	–	(780)	5,336
– Electroplating services operations	–	–	(93)
Loss for the year	(28,764)	(22,245)	(124,795)

	Year ended 31 March		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Attributable to :			
Equity holders of the Company	(28,764)	(22,245)	(124,577)
Minority interests	–	–	(218)
	(28,764)	(22,245)	(124,795)
Dividend	–	–	–
(LOSS) EARNINGS PER SHARE – BASIC (in Hong Kong cents)			
From continuing operations	(3.53)	(7.61)	(42.69)
From discontinued operation	(0.23)	0.77	1.73
From continuing and discontinued operations	(3.76)	(6.84)	(40.96)

(ii) Consolidated Balance Sheet
As at 31 March 2007, 2008 and 2009

	As at 31 March		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Investment properties	–	–	4,220
Property, plant and equipment	157	600	14,417
Intangible assets	–	–	–
Goodwill	–	–	–
	157	600	18,637
Current assets			
Inventories	1,644	3,491	12,024
Deposits for acquisition of subsidiaries	2,000	–	–
Trade and other receivables	3,179	16,099	20,685
Amounts due from related companies	–	–	33,113
Tax recoverable	–	127	219
Bank balances and cash	378,997	383,413	1,857
	385,820	403,130	67,898
Current liabilities			
Trade and other payables	7,414	21,042	22,942
Amounts due to related companies	3,224	260	–
Tax payable	–	43	1
Obligations under finance leases – due within one year	–	3	346
Bank borrowings	–	2,984	10,382
	10,638	24,332	33,671
Net current assets	375,182	378,798	34,227
Total assets less current liabilities	375,339	379,398	52,864
Capital and reserves			
Share capital	76,537	76,537	30,448
Reserves	136,931	157,624	21,390
Equity attributable to equity holders of the Company	213,468	234,161	51,838
Minority interests	–	–	(211)
	213,468	234,161	51,627
Non-current liabilities			
Convertible loan notes	161,871	145,237	–
Obligations under finance leases – due after one year	–	–	106
Deferred tax liabilities	–	–	1,131
	161,871	145,237	1,237
	375,339	379,398	52,864

The independent auditor's report on the consolidated financial statements of the Group for the two years ended 31 March 2008 were qualified in view of the limitations of the scope of audit resulted from the insufficiency of supporting documentation and explanations with respect to (i) the fair value of the under development on-line game intellectual property rights held by Matrix Software Inc. ("Matrix"); (ii) the goodwill arised from the acquisition of Matrix; (iii) the full impairment loss made in respect of such goodwill and (iv) incomplete books and records of Matrix. Details of which are set out in the section headed "Basis of qualified opinion" in the independent auditor's report of the Company for the two years ended 31 March 2008.

The independent auditor's report of the Company for the year ended 31 March 2009 is set out in Section B of Appendix I.

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

Set out below is the reproduction of the text of the independent auditor's report with qualified opinion and the audited financial statements of the Group together with accompanying notes extracted from pages 28 to 106 of the annual report of the Company for the year ended 31 March 2009 ("2009 Annual Report") contained in the Company's 2009 Annual Report. The page references in this report are the same as those in the 2009 Annual Report.

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF ARTFIELD GROUP LIMITED
(Incorporated in Bermuda with Limited Liability)

We have audited the consolidated financial statements of Artfield Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 106 which comprise the consolidated balance sheet as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

BASIS OF QUALIFIED OPINION

Our report on the consolidated financial statements of the Group for the year ended 31 March 2008 was qualified in view of the limitations of the scope of our audit resulting from insufficiency of supporting documentation and explanations with respect to the carrying amounts of an under development on-line game intellectual property rights ("Intangible Asset") held by Matrix Software Inc. ("Matrix"), a then subsidiary of the Group, and the goodwill ("Goodwill") arising from the acquisition of Matrix; the full impairment loss recognised in respect of the Goodwill and Intangible Asset; and incomplete books and records of Matrix.

Any adjustments found to be necessary to the opening balances of the above items as at 1 April 2008 would have consequential effects on the loss of the Group for the year ended 31 March 2009.

As further explained in note 32a to the consolidated financial statements, on 3 February 2009 (the "Disposal Date"), the Group disposed of its entire interest in Matrix, to an independent third party. Due to lack of complete books and records of Matrix, we were unable to obtain sufficient evidence regarding the value of the net liabilities of Matrix disposed of by the Group at the Disposal Date and hence the gain on disposal arising therefrom. Any adjustments found to be necessary to the amount would affect the amount recorded in the consolidated income statements in respect of Matrix up to the Disposal Date, with a corresponding effect on the gain on disposal and the related disclosures thereof in the consolidated financial statements.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for any adjustments that might have been found necessary had we been able to satisfy ourselves regarding the matter as set out in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2009 and of the Group's loss and cash flow for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
1 June 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

	NOTES	2009 HK$'000	2008 HK$'000
Continuing operations			
Turnover	7	23,105	129,940
Cost of sales and services provided		(17,134)	(118,053)
Gross profit		5,971	11,887
Other operating income		5,874	14,030
Net gain on deregistration of subsidiaries		2,618	215
Selling and distribution expenses		(3,508)	(7,811)
Administrative expenses		(21,408)	(41,600)
Finance costs	9	(16,640)	(959)
Loss before tax		(27,093)	(24,238)
Income tax credit (expense)	10	77	(515)
Loss for the year from continuing operations		(27,016)	(24,753)
Discontinued operations			
(Loss) profit for the year from discontinued operations			
– Trading operation	11(a)	(1,748)	3,288
– Lighting products operation	11(b)	–	(780)
Loss for the year attributable to equity holders of the Company	12	(28,764)	(22,245)
Dividend	13	–	–
(LOSS) EARNINGS PER SHARE – BASIC (in Hong Kong cents)	14		
From continuing operations		(3.53)	(7.61)
From discontinued operations		(0.23)	0.77
From continuing and discontinued operations		(3.76)	(6.84)

CONSOLIDATED BALANCE SHEET
As at 31 March 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Investment properties	16	–	–
Property, plant and equipment	17	157	600
Intangible assets	18	–	–
Goodwill	19	–	–
		157	600
Current assets			
Inventories	20	1,644	3,491
Deposits for acquisition of subsidiaries	21	2,000	–
Trade and other receivables	22	3,179	16,099
Tax recoverable		–	127
Bank balances and cash	23	378,997	383,413
		385,820	403,130
Current liabilities			
Trade and other payables	24	7,414	21,042
Amounts due to related companies	25	3,224	260
Tax payable		–	43
Obligations under finance leases – due within one year	26	–	3
Bank borrowings	27	–	2,984
		10,638	24,332
Net current assets		375,182	378,798
		375,339	379,398
Capital and reserves			
Share capital	29	76,537	76,537
Reserves		136,931	157,624
Equity attributable to equity holders of the Company		213,468	234,161
Non-current liability			
Convertible loan notes	31	161,871	145,237
		375,339	379,398

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

	Attributable to equity holders of the Company												
	Share capital	Share premium	Convertible loan notes reserve	Share options reserve	Other reserve	Property revaluation reserve	Capital reserve	Reserve and enterprise expansion funds	Exchange translation reserve	Accumu-lated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2007	30,448	86,681	–	–	–	7,446	36,053	2,424	(2,610)	(108,604)	51,838	(211)	51,627
Exchange difference arising on translation of overseas operation and net expenses directly recognised in equity	–	–	–	–	–	–	–	–	(6,443)	–	(6,443)	(6)	(6,449)
Loss for the year	–	–	–	–	–	–	–	–	–	(22,245)	(22,245)	–	(22,245)
Transfer to accumulated losses on disposal of properties	–	–	–	–	–	(7,446)	–	–	(118)	9,168	1,604	–	1,604
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	110	–	110	217	327
Total recognised income and expenses for the year	–	–	–	–	–	(7,446)	–	–	(6,451)	(13,077)	(26,974)	211	(26,763)
Issue of shares	40,000	40,000	–	–	–	–	–	–	–	–	80,000	–	80,000
Recognition of equity component of convertible loan notes	–	–	55,495	–	–	–	–	–	–	–	55,495	–	55,495
Issue of share options to directors and consultant	–	–	–	2,251	–	–	–	–	–	–	2,251	–	2,251
Issue of share options to an independent third party	–	–	–	–	609	–	–	–	–	–	609	–	609
Exercise of share options granted to an independent third party	–	–	–	–	(609)	–	–	–	–	609	–	–	–
Cancellation of share options granted to directors and consultant	–	–	–	(1,525)	–	–	–	–	–	1,525	–	–	–
Issue of shares upon exercise of share options granted to an independent third party	6,089	64,853	–	–	–	–	–	–	–	–	70,942	–	70,942

	Attributable to equity holders of the Company												
	Share capital *HK$'000*	Share premium *HK$'000*	Convertible loan notes reserve *HK$'000*	Share options reserve *HK$'000*	Other reserve *HK$'000*	Property revaluation reserve *HK$'000*	Capital reserve *HK$'000* *(Note)*	Reserve and enterprise expansion funds *HK$'000*	Exchange translation reserve *HK$'000*	Accumu-lated losses *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 31 March 2008	76,537	191,534	55,495	726	–	–	36,053	2,424	(9,061)	(119,547)	234,161	–	234,161
Exchange difference arising on translation of overseas operation and net income directly recognised in equity	–	–	–	–	–	–	–	–	10,705	–	10,705	–	10,705
Loss for the year	–	–	–	–	–	–	–	–	–	(28,764)	(28,764)	–	(28,764)
Deregistration of subsidiaries	–	–	–	–	–	–	–	–	(2,618)	–	(2,618)	–	(2,618)
Reserves realised upon disposal of subsidiaries	–	–	–	–	–	–	(21,171)	(1,795)	(16)	22,966	(16)	–	(16)
Total recognised income and expenses for the year	–	–	–	–	–	–	(21,171)	(1,795)	(2,634)	(5,798)	(31,398)	–	(31,398)
Cancellation of share options granted to directors	–	–	–	(726)	–	–	–	–	–	726	–	–	–
At 31 March 2009	76,537	191,534	55,495	–	–	–	14,882	629	(990)	(124,619)	213,468	–	213,468

Note: In accordance with the regulations of the Peoples' Republic of China (the "PRC"), all of the Group's subsidiaries in the PRC are required to transfer part of their profit after tax to the reserve and enterprise expansion funds, which are non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies in accordance with their articles of association. No transfer of reserve was made for both years as the PRC subsidiaries were loss making in both years.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2009

	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES		
Loss before tax	(27,093)	(24,238)
(Loss) profit before tax from discontinued operations	(1,748)	2,517
	(28,841)	(21,721)
Adjustments for :		
Allowance for doubtful debts of other receivables	–	28
Allowance for doubtful debts of trade receivables	–	421
Bad debts directly written off	3,728	593
Depreciation of property, plant and equipment	453	1,096
Depreciation of investment properties	–	83
Finance costs	16,640	974
Gain on disposal of subsidiaries	(3)	(669)
Wavier of long outstanding trade payables	(4,162)	–
Net gain on deregistration of subsidiaries	(2,618)	(215)
Loss (gain) on disposal of property, plant and equipment	3	(452)
Gain on disposal of investment properties	–	(544)
Impairment loss recognised in property, plant and equipment	–	619
Interest income	(1,230)	(963)
Share-based payments expense	–	2,251
Write back of allowance for doubtful debts of trade receivables	–	(3,249)
Write down of inventories	264	5,421
Operating cash flow before movements in working capital	(15,766)	(16,327)
Decrease in inventories	1,328	4,092
Decrease in trade and other receivables	18,996	6,902
Decrease in trade and other payables	(8,360)	(9,034)
Decrease in trust receipt loans	–	(1,488)
Increase in amounts due to related companies	194	260
Cash used in operations	(3,608)	(15,595)
Hong Kong Profits Tax refund	224	12
Overseas taxes refund	2	7
Overseas tax paid	(65)	–
NET CASH USED IN OPERATING ACTIVITIES	(3,447)	(15,576)

	NOTE	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Deposits paid for acquisition of subsidiaries		(2,000)	–
Purchases of property, plant and equipment		(66)	(267)
Interest received		1,230	963
Proceeds on disposal of property, plant and equipment		35	10,084
Repayments from related companies		–	33,113
Proceeds on disposal of investment properties		–	4,579
Disposal of subsidiaries (net of cash and cash equivalent disposed of)	32	–	3,584
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(801)	52,056
FINANCING ACTIVITIES			
Repayment of bank loan		(3,644)	(19,251)
Interest paid		(6)	(242)
Repayment of obligations under finance leases		(3)	(449)
Advance from related companies		2,770	–
New bank loans raised		1,365	17,945
Proceeds on issue of convertible loan notes		–	200,000
Proceeds on issue of shares		–	80,000
Proceeds from exercise of share options		–	70,942
Proceeds from issue of share options		–	609
NET CASH FROM FINANCING ACTIVITIES		482	349,554
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(3,766)	386,034
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		382,708	(3,467)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		55	141
CASH AND CASH EQUIVALENTS AT END OF YEAR		378,997	382,708
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS, represented by:			
Bank balances and cash		378,997	383,413
Bank overdrafts		–	(705)
		378,997	382,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2009

1. GENERAL

Artfield Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

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

The principal activities of the Company and its subsidiaries (the "Group") are marketing and trading of clocks and other office related products as well as the provision of management services related to oil trading.

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

In the current year, the Group has applied the following amendments and interpretations ("INTs") (herein collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certificated Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)- INT 12	Service Concession Arrangements
HK(IFRIC)- INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible hedged items[4]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Financial Instrument Disclosures – Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC)- INT 9 & HKAS 39 (Amendments)	Embedded Derivatives[7]
HK(IFRIC)- INT 13	Customer Loyalty Programmes[5]
HK(IFRIC)- INT 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC)- INT 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)- INT 17	Distribution of Non-cash Assets to Owners[4]
HK(IFRIC)- INT 18	Transfers of Assets from Customers[8]

[1] Effective for annual periods on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1 January 2009.
[4] Effective for annual periods beginning on or after 1 July 2009.
[5] Effective for annual periods beginning on or after 1 July 2008.
[6] Effective for annual periods beginning on or after 1 October 2008.
[7] Effective for annual periods ending on or after 30 June 2009.
[8] Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of consolidation

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

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

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

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

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

(b) Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity before 1 January 2005, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisition on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

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

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

(c) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

(d) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Patents and trademarks

Cost incurred on the acquisition of patents and trademarks are capitalised in the consolidated balance sheet and are amortised by equal annual instalments over the estimated useful life of five years. Patents and trademarks are not revalued as there is no active market for these assets.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

(e) Property, plant and equipment

Property, plant and equipment including land and building held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 “Property, Plant and Equipment” from the requirement to make regular revaluations of the Group’s land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

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

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

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

(f) Investment properties

Investment properties are properties held to earn rentals, and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

(g) Financial instruments

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

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and others receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

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

For all the Group's financial assets, objective evidence of impairment could include:

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

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

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

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

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

Financial liabilities and equity

Impairment loss on financial assets

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

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

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

Effective interest method

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

Interest expenses is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related companies, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

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

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

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

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

Equity instruments

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

Share options granted to independent third parties (other than employees/suppliers/consultants)

An issued share options that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument.

Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity.

At the time when the share options are exercised, the consideration received previously recognised in equity will be transferred to accumulated loss.

Derecognition

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

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(i) Impairment losses on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

(j) Revenue recognition

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

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Revenue from provision of management services is recognised when the services are rendered.

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

Operating lease rental income is recognised on a straight-line basis over the period of the relevant lease terms.

(k) Equity settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

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

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses with a corresponding increase in equity (share options reserve) when the counterparties render services, unless the services qualify for recognition as assets.

(l) Taxation

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

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

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

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

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

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

(m) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period.

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

(n) Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

(o) Borrowing costs

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

(p) Retirement benefit costs

Payments to state-managed retirement benefits scheme and the defined contribution Mandatory Provident Fund Scheme are charged as an expense when the employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Allowance for doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has been identified. In addition, the Group will provide general provision based on the aging analysis of the trade debtors. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Write down of inventories

The management of the Group reviews an aging analysis of inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sales. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes convertible loan notes disclosed in note 31, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 31 March 2009.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2009	**2008**
	HK$'000	*HK$'000*
Loans and receivables (including cash and cash equivalents)	382,108	398,682
Financial liabilities at amortised cost	171,349	164,580

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amounts due to related companies, obligation under finance leases, bank borrowings and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Certain trade receivables, bank balances and cash, trade payables and bank borrowings of the Group are denominated in currencies other than HK$.

The following table shows the Group's exposure at the balance sheet date to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the function currency of the entity to which they relate.

	As at 31 March 2009		As at 31 March 2008	
	Euro ("EUR")	**United States Dollars ("USD")**	**EUR**	**USD**
	'000	*'000*	*'000*	*'000*
Assets	4	34	3	1,129
Liabilities	29	144	18	283

Sensitivity analysis

The Group is mainly exposed to the currencies of EUR and USD.

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in HK$ against the relevant foreign currencies and other variables were held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2008: 5%) change in foreign currency rates. The sensitivity analysis in 2008 includes external loans where the denomination of the loan is in a currency other than the currency of the borrower. A positive number below indicates an increase in loss where HK$ strengthen 5% (2008: 5%) against the relevant currency. For a 5% weakening of HK$ against the relevant currency, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	EUR		USD	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit or loss	(13)	(9)	(43)	330

Interest rate risk

The Group was exposed to cash flow interest rate risk relates to bank balances carried at prevailing market rate. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

The sensitivity analyses below had been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis was prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2009 would decrease/increase by approximately HK$1,895,000 (2008: HK$1,917,000). This was mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivatives financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weight average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount at 31 March
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009						
Non-derivative financial liabilities						
Trade and other payables	–	6,254	–	–	6,254	6,254
Amounts due to related companies	–	3,224	–	–	3,224	3,224
Convertible loan notes	11.14	–	200,000	–	200,000	161,871
		9,478	200,000	–	209,478	171,349
2008						
Non-derivative financial liabilities						
Trade and other payables	–	16,096	–	–	16,096	16,096
Amounts due to related companies	–	260	–	–	260	260
Bank borrowings	6.05	3,058	–	–	3,058	2,984
Obligation under finance leases	9.60	3	–	–	3	3
Convertible loan notes	11.14	–	–	200,000	200,000	145,237
		19,417	–	200,000	219,417	164,580

Credit risk

As at 31 March 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spreading across diverse industries and geographical areas.

6c. Fair value

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

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

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments; and as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and discounts allowed and provision of management services related to oil trading. An analysis of the Group's turnover for the year, for both continuing and discontinued operations is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Continuing operations		
Sales of goods	19,105	129,940
Management fee income	4,000	–
	23,105	129,940
Discontinued operations		
Trading of metal *(Note 11a)*	–	7,160
Sales of lighting products *(Note 11b)*	–	64
	–	7,224
	23,105	137,164

8. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the clocks and other office related products segment engages in the marketing of clocks and other office related accessories; and

(b) the provision of management services related to oil trading.

The Group was also involved in the trading of metals and marketing of energy saving lighting products in the year ended 31 March 2008. Those operations were discontinued during the year ended 31 March 2009.

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

(a) Business segments

The following tables present turnover, results and certain asset, liability and expenditure information for the Group's business segments.

For the year ended 31 March 2009

	Continuing operations			Discontinued operations	
	Clocks and other office related products *HK$'000*	**Provision of management services** *HK$'000*	**Sub-total** *HK$'000*	**Trading** *HK$'000*	**Total** *HK$'000*
SEGMENT TURNOVER :					
Sales to external customers	19,105	4,000	23,105	–	23,105
SEGMENT RESULTS	(17,045)	3,633	(13,412)	–	(13,412)
Interest income			1,230	–	1,230
Net unallocated income (expenses)			(892)	(1,748)	(2,640)
Finance costs			(16,640)	–	(16,640)
Gain on disposal of subsidiaries			3	–	3
Net gain on deregistration of subsidiaries			2,618	–	2,618
Loss before tax			(27,093)	(1,748)	(28,841)
Income tax credit			77	–	77
Loss for the year			(27,016)	(1,748)	(28,764)

For the year ended 31 March 2008

	Continuing operations	Discontinued operations			
	Clocks and other office related products *HK$'000*	**Trading** *HK$'000*	**Lighting products** *HK$'000*	**Sub-total** *HK$'000*	**Total** *HK$'000*
SEGMENT TURNOVER :					
Sales to external customers	129,940	7,160	64	7,224	137,164
SEGMENT RESULTS	(11,485)	3,303	(1,440)	1,863	(9,622)
Interest income	963			–	963
Net unallocated expenses	(12,972)			–	(12,972)
Finance costs	(959)			(15)	(974)
Gain on disposal of a subsidiary	–	–	669	669	669
Gain on deregistration of a subsidiary	215			–	215
(Loss) profit before tax	(24,238)			2,517	(21,721)
Income tax expense	(515)	–	(9)	(9)	(524)
(Loss) profit for the year	(24,753)			2,508	(22,245)

For the year ended 31 March 2009

	Continuing operations			Discontinued operations	
	Clocks and other office related products	**Provision of management services**	**Sub-total**	**Trading**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	5,057	–	5,057	–	5,057
Unallocated assets			380,920		380,920
Total assets			385,977		385,977
LIABILITIES					
Segment liabilities	10,205	–	10,205	–	10,205
Unallocated liabilities			162,304		162,304
Total liabilities			172,509		172,509
OTHER SEGMENT INFORMATION:					
Unallocated capital expenditure			66		66
Depreciation and amortisation	441	–	441	–	441
Unallocated depreciation and amortisation			12		12
			453		453
Bad debts directly written off	3,728	–	3,728	–	3,728
Write down of inventories	264	–	264	–	264
Loss on disposal of property, plant and equipment	3	–	3	–	3
Waiver of long outstanding trade payables	(4,162)	–	(4,162)	–	(4,162)

For the year ended 31 March 2008

	Continuing operations	Discontinued operations			
	Clocks and other office related products	Trading	Lighting products	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	16,950	3,200	5	3,205	20,155
Unallocated assets	383,542			33	383,575
Total assets	400,492			3,238	403,730
LIABILITIES					
Segment liabilities	17,275	7	101	108	17,383
Unallocated liabilities	152,186			–	152,186
Total liabilities	169,461			108	169,569
OTHER SEGMENT INFORMATION:					
Capital expenditure	201	–	–	–	201
Unallocated capital expenditure	66			–	66
	267			–	267
Depreciation and amortisation	1,040	–	86	86	1,126
Unallocated depreciation and amortisation	53			–	53
	1,093			86	1,179
Allowance for doubtful debts	449	–	–	–	449
Bad debts directly written off	491	–	102	102	593
Write down of inventories	5,421	–	–	–	5,421
Gain on disposal of property, plant and equipment	(452)	–	–	–	(452)
Impairment loss on property, plant and equipment	–	–	619	619	619
Write back of allowance for doubtful debts of trade receivables	(49)	(3,200)	–	(3,200)	(3,249)

(b) Geographical segments

The following table presents turnover and certain assets and expenditure information for the Group's geographical segments.

	North America		Europe		Hong Kong		PRC (other than Hong Kong)		Others		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment turnover:												
Sales to external customers	–	76,598	7,125	35,575	9,808	3,579	6,172	14,064	–	7,348	23,105	137,164
Other segment information:												
Segment assets	–	–	1,467	4,020	1,787	13,995	1,803	2,140	–	–	5,057	20,155
Capital expenditure	–	–	–	9	–	188	66	4	–	66	66	267

Revenue from the Group's discontinued operations was derived mainly from the PRC and Europe.

9. FINANCE COSTS

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest expenses on:						
– bank borrowings wholly repayable within five years	6	165	–	15	6	180
– bank overdrafts	–	39	–	–	–	39
– obligations under finance leases	–	23	–	–	–	23
–- effective interest expenses on convertible loan notes *(note 31)*	16,634	732	–	–	16,634	732
	16,640	959	–	15	16,640	974

10. INCOME TAX (CREDIT) EXPENSE

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The (credit) charge comprises:						
Hong Kong Profits Tax						
- current year	–	–	–	9	–	9
– over provision in prior years	(99)	–	–	–	(99)	–
Tax in other jurisdictions						
– current year	–	42	–	–	–	42
– under provision in prior years	22	–	–	–	22	–
	(77)	42	–	9	(77)	51
Deferred tax *(Note 28)*	–	473	–	–	–	473
	(77)	515	–	9	(77)	524

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived from Hong Kong for the year ended 31 March 2009.

Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for the year ended 31 March 2008.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the laws and regulations in the PRC, one of the Group's subsidiaries operating in the PRC is entitled to exemption from PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of PRC income tax for the following three years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rate for the Group's subsidiary in the PRC is 25% for the year ended 31 March 2009 (2008: 25% to 27%).

The tax (credit) charges for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2009	**2008**
	HK$'000	*HK$'000*
(Loss) profit before tax:		
– Continuing operations	(27,093)	(24,238)
– Discontinued operations	(1,748)	2,517
	(28,841)	(21,721)
Tax at domestic income tax rate of 16.5% (2008 : 17.5%)	(4,759)	(3,801)
Tax effect of expenses not deductible for tax purposes	4,758	6,234
Tax effect of income not taxable for tax purpose	(1,109)	(2,683)
Utilisation of tax losses previously not recognised	(15)	(231)
Tax effect of other temporary differences and tax losses not recognised	1,261	1,805
Over provision in prior years	(77)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(136)	(741)
Effect on tax exemption granted to PRC subsidiaries	–	(59)
Tax (credit) expense for the year	(77)	524

11. DISCONTINUED OPERATIONS

(a) Discontinued operation of trading of metal

During the year ended 31 March 2009, the Group ceased the operation of trading of metals. This was regarded as a discontinued operation and accordingly, the consolidated results and cash flows of the operation for the year ended 31 March 2009 were as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Turnover	–	7,160
Cost of sales	–	(6,996)
Gross profit	–	164
Other operating income	–	3,200
Administrative expenses	(1,748)	(61)
Finance costs	–	(15)
(Loss) profit for the year and attributable to equity holders of the Company	(1,748)	3,288

During the year ended 31 March 2009, the segment of trading of metal contributed approximately HK$3,194,000 (2008: HK$2,991,000) to the Group's net operating cash flows, and paid approximately HK$3,200,000 (2008: HK$3,018,000) in respect of financing activities.

(b) Discontinued operation of lighting products

During the year ended 31 March 2008, resulting from disposal and voluntary winding up of two of the major subsidiaries under the lighting products segment, the Group ceased the operation of marketing of energy saving lighting products. This was regarded as a discontinued operation and accordingly, the consolidated results and cash flows of the operation for the year ended 31 March 2008 were as follows:

	2008
	HK$'000
Turnover	64
Cost of sales	(101)
Gross loss	(37)
Other operating income	5
Gain on disposal of subsidiaries	669
Selling and distribution expenses	(37)
Administrative expenses	(1,371)
Loss before tax	(771)
Income tax expense	(9)
Loss for the year and attributable to equity holders of the Company	(780)

During the year ended 31 March 2008, the segment of lighting products contributed approximately HK$1,427,000 to the Group's net operating cash flows, contributed approximately HK$1,194,000 in respect of investing activities and paid approximately HK$2,570,000 in respect of financing activities.

12. LOSS FOR THE YEAR

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

	Continuing operations		Discontinued operations		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost of inventories sold	17,134	118,053	–	7,097	17,134	125,150
Staff costs (excluding directors' remuneration *(Note 15))* :						
Basic salaries and allowances	7,364	13,492	–	–	7,364	13,492
Retirement benefits scheme contributions	234	486	–	–	234	486
	7,598	13,978	–	–	7,598	13,978
Depreciation of property, plant and equipment	453	1,010	–	86	453	1,096
Depreciation of investment properties	–	83	–	–	–	83
Allowance for doubtful debts of trade receivables	–	421	–	–	–	421
Allowance for doubtful debts of other receivables	–	28	–	–	–	28
Auditors' remuneration	550	541	–	16	550	557
Bad debts directly written off	3,728	491	–	102	3,728	593
Impairment loss on property, plant and equipment	–	–	–	619	–	619
Operating leases charges on rented premises	879	2,343	–	–	879	2,343
Share-based payment expenses (excluding directors)	–	726	–	–	–	726
Net exchange loss (gain)	4,985	(7,264)	2	2	4,987	(7,262)
Write down of inventories (included in cost of sales)	264	5,421	–	–	264	5,421
Gain on disposal of subsidiaries	(3)	–	–	(669)	(3)	(669)
Loss (gain) on disposal of property, plant and equipment	3	(452)	–	–	3	(452)
Gain on disposal of investment properties	–	(544)	–	–	–	(544)
Waiver of long outstanding trade payables	(4,162)	–	–	–	(4,162)	–
Gross rental income from investment properties	–	(197)	–	(5)	–	(202)
Less: direct operating expenses that generated rental income	–	53	–	–	–	53
Net rental income from investment properties	–	(144)	–	(5)	–	(149)
Interest income	(1,230)	(963)	–	–	(1,230)	(963)
Write back of allowance for doubtful debts of trade receivables	–	(49)	–	(3,200)	–	(3,249)

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 March 2009, nor has any dividend been proposed since the balance sheet date (2008: Nil).

14. (LOSS) EARNINGS PER SHARE – BASIC

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the equity holders of the Company for the year is based on the following data:

	2009	2008
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the equity holders of the Company	28,764	22,245

	2009	2008
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	765,373,584	325,315,373

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to equity holders of the Company for the year is based on the following data:

	2009	2008
	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the Company	(28,764)	(22,245)
Less: (Loss) profit for the year from discontinued operations attributable to equity holders of the Company *(note 11)*	(1,748)	2,508
Loss for the year for the purpose of basic loss per share from continuing operations	(27,016)	(24,753)

The denominators used are the same as those detailed above for basic (loss) earnings for share.

From discontinued operation

Basic (loss) earnings per share for discontinued operations was HK0.23 cents per share (2008: earnings HK0.77 cents), based on the (loss) profit for the year from the discontinued operations attributable to the equity holders of the Company of approximately HK$1,748,000 (2008: profit of HK$2,508,000) and the denominators detailed above for basic (loss) earnings per share.

No diluted (loss) earnings is presented for the year ended 31 March 2009 as the conversion of the convertible loan notes during the year had an anti-dilutive effect on the basic (loss) earnings per share.

No diluted (loss) earnings per share was presented for the year ended 31 March 2008 as the exercise of the outstanding share options and the conversion of the convertible loan notes during the year had an anti-dilutive effect on the basic (loss) earnings per share.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the twelve (2008: twenty) directors were as follows:

For the year ended 31 March 2009

		Other emoluments			
	Fees	Salaries, allowances and other benefits	Retirement benefits scheme contributions	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Leung Heung Ying, Alvin[1]	–	1,392	1	–	1,393
Chung Oi Ling, Stella[1]	–	36	–	–	36
Lo Chi Ho, William[1]	–	–	–	–	–
Lo Fong Hung	–	245	12	–	257
Wang Xiangfei	–	245	12	–	257
Kwan Man Fai	–	245	12	–	257
Independent non-executive directors:					
Lo Ming Chi, Charles[1]	15	–	–	–	15
Orr, Joseph Wai Shing[1]	15	–	–	–	15
Wong Ngao San, Marcus[1]	14	–	–	–	14
Wong Man Hin, Raymond	244	–	–	–	244
Lam Ka Wai, Graham	244	–	–	–	244
Chan Yiu Fai, Youdey	244	–	–	–	244
	776	2,163	37	–	2,976

1 Resigned on 11 April 2008

For the year ended 31 March 2008

	Fees	Other emoluments: Salaries, allowances and other benefits	Other emoluments: Retirement benefits scheme contributions	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Liang Jin You[1]	–	344	3	–	347
Li Kwo Yuk[1]	–	94	3	–	97
Leung Kin Yau[1]	–	62	3	–	65
Ou Jian Sheng[1]	–	149	–	–	149
Deng Ju Neng[1]	–	234	–	–	234
Chen Vee Yong, Frederick[2]	–	–	–	–	–
Lee Sang Yoon[2]	–	–	–	–	–
Leung Heung Ying, Alvin[3]	–	1,612	7	725	2,344
Chung Oi Ling, Stella[3]	–	97	4	–	101
Lo Chi Ho, William[4]	–	–	–	800	800
Lo Fong Hung[5]	–	–	–	–	–
Wang Xiangfei[5]	–	–	–	–	–
Kwan Man Fai[5]	–	–	–	–	–
Independent non-executive directors:					
Lo Ming Chi, Charles[6]	77	–	–	–	77
Lo Wah Wai[7]	24	–	–	–	24
Orr, Joseph Wai Shing[6]	77	–	–	–	77
Wong Ngao San, Marcus[6]	77	–	–	–	77
Wong Man Hin, Raymond[5]	–	–	–	–	–
Lam Ka Wai, Graham[5]	–	–	–	–	–
Chan Yiu Fai, Youdey[5]	–	–	–	–	–
	255	2,592	20	1,525	4,392

1 Resigned on 4 July 2007
2 Resigned on 11 July 2007
3 Appointed on 14 June 2007 and resigned on 11 April 2008
4 Appointed on 14 September 2007 and resigned on 11 April 2008
5 Appointed on 25 March 2008
6 Resigned on 11 April 2008
7 Resigned on 24 September 2007

There was no arrangement under which directors waived or agreed to waive any emoluments during the two years ended 31 March 2009.

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, one (2008: two) was director of the Company whose emoluments are set out above. The emoluments of the remaining four (2008: three) highest paid individuals were as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries, allowances and other benefits	3,085	2,293
Retirement benefits scheme contributions	72	108
	3,157	2,401

The emoluments of the four (2008: three) highest paid employees fall in the following bands:

	Number of individuals	
	2009	2008
Emoluments bands		
Nil – HK$1,000,000	3	3
HK$1,500,001 – HK$2,000,000	1	–
	4	3

(c) Except for HK$1,266,000 in aggregate paid to five former directors of the Company for loss of office during the year ended 31 March 2009, no emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 March 2009.

16. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1 April 2007	4,831
Disposals	(4,511)
Disposal of a subsidiary	(320)
At 31 March 2008 and 31 March 2009	–
DEPRECIATION AND IMPAIRMENT	
At 1 April 2007	611
Provided for the year	83
Eliminated on disposals	(476)
Eliminated on disposal of a subsidiary	(218)
At 31 March 2008 and 31 March 2009	–
CARRYING VALUES	
At 31 March 2009	–
At 31 March 2008	–

Notes:

(a) The above investment properties were depreciated on a straight-line basis over the shorter of the term of the leases or 20 years.

(b) The carrying values of investment properties shown above comprised medium-term leasehold land and buildings situated in Hong Kong.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, equipment and motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION					
At 1 April 2007	18,253	1,757	24,390	32,804	77,204
Exchange realignment	–	12	197	70	279
Additions	–	–	–	267	267
Disposals	(14,552)	–	–	(681)	(15,233)
Disposal of a subsidiary	(3,701)	(1,658)	(282)	(140)	(5,781)
At 31 March 2008	–	111	24,305	32,320	56,736
Exchange realignment	–	1	(131)	(101)	(231)
Additions	–	–	–	66	66
Disposal	–	–	(139)	(332)	(471)
Deregistration of subsidiaries	–	–	(424)	(512)	(936)
Disposal of subsidiaries	–	–	–	(12)	(12)
At 31 March 2009	–	112	23,611	31,429	55,152
ACCUMULATED DEPRECIATION AND AMORISATION AND IMPAIRMENT					
At 1 April 2007	6,038	1,412	23,665	31,672	62,787
Exchange realignment	–	7	148	27	182
Charge for the year	195	73	299	529	1,096
Impairment loss recognised	–	–	329	290	619
Eliminated on disposals	(5,109)	–	–	(492)	(5,601)
Eliminated on disposal of a subsidiary	(1,124)	(1,401)	(282)	(140)	(2,947)
At 31 March 2008	–	91	24,159	31,886	56,136
Exchange realignment	–	1	(121)	(97)	(217)
Charge for the year	–	3	100	350	453
Eliminated on disposal	–	–	(114)	(319)	(433)
Eliminated on deregistration of subsidiaries	–	–	(424)	(512)	(936)
Eliminated on disposals of subsidiaries	–	–	–	(8)	(8)
At 31 March 2009	–	95	23,600	31,300	54,995
CARRYING VALUES					
At 31 March 2009	–	17	11	129	157
At 31 March 2008	–	20	146	434	600

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

Leasehold land and buildings	Over the shorter of the term of the leases or 5%
Leasehold improvements	Over the shorter of the term of the leases or 15%
Plant and machinery	20%
Furniture, equipment and motor vehicles	15% to 25%

The valuation of the leasehold land and buildings was carried out by Knight, Frank & Kan, an independent firm of professionally property valuers, on an open market, existing use basis as at 31 January 1995. No further valuation would be carried out on these land and buildings. The leasehold land and buildings were disposed of during the year ended 31 March 2008.

The carrying value of assets held under finance leases included in the total amount of plant and machinery and motor vehicles of the Group as at 31 March 2008 was amounted to approximately HK$79,000 (2009: Nil).

During the year ended 31 March 2008, the directors of the Company conducted a review of the Group's property, plant and equipment and determined that certain assets were impaired due to physical damage. Accordingly, an impairment loss of approximately HK$619,000 (2009: Nil) had been recognised in the consolidated income statement.

18. INTANGIBLE ASSETS

	On-line game intellectual property rights	**Patents and trademarks**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 April 2007	46,440	1,782	48,222
Exchange realignment	–	82	82
At 31 March 2008	46,440	1,864	48,304
Exchange realignment	–	(90)	(90)
Eliminated on disposal of subsidiaries	(46,440)	(1,122)	(47,562)
At 31 March 2009	–	652	652
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 2007	46,440	1,782	48,222
Exchange realignment	–	82	82
At 31 March 2008	46,440	1,864	48,304
Exchange realignment	–	(90)	(90)
Eliminated on disposal of subsidiaries	(46,440)	(1,122)	(47,562)
At 31 March 2009	–	652	652
CARRYING VALUES			
At 31 March 2009	–	–	–
At 31 March 2008	–	–	–

Patents and trademarks and on-line game intellectual property rights have definite useful lives and are amortised on a straight-line basis over five years.

19. GOODWILL

	HK$'000
COST	
At 1 April 2007 and 31 March 2008	20,967
Release upon disposal of subsidiaries	(3,963)
At 31 March 2009	17,004
IMPAIRMENT	
At 1 April 2007 and 31 March 2008	20,967
Release upon disposal of subsidiaries	(3,963)
At 31 March 2009	17,004
CARRYING VALUES	
At 31 March 2009	–
At 31 March 2008	–

20. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	45	1,398
Finished goods	1,599	2,093
	1,644	3,491

21. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES

Balances as at 31 March 2009 represent refundable deposits paid as earnest money by a wholly-owned subsidiary of the Company which entered into a memorandum of understanding on 13 March 2009 with an independent third party in relation to the acquisition of the 51% equity interest in Star Fortune International Company Limited ("Star Fortune") for a consideration of HK$100,000,000. Details of which are set out in Note 37.

22. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade and bills receivables	1,354	14,563
Less : Allowance for doubtful debts of trade receivables	(600)	(629)
	754	13,934
Prepayments, deposits and other receivables	2,425	2,193
Less: Allowance for doubtful debts of other receivables	–	(28)
	3,179	16,099

The Group's sales are on open account terms. Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to 180 days.

At the balance sheet date, the aging analysis of the trade and bills receivables, net of allowance for doubtful debts was as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Within 90 days	565	9,620
91 – 365 days	26	1,002
Over 1 year	163	3,312
	754	13,934

(a) At 31 March 2009 and 2008, the aging analysis of trade receivables that were past due but not impaired are as follows:

			Past due but not impaired		
	Total	**Neither past due nor impaired**	**<90 days**	**91 to 365 days**	**Over 1 year**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009	754	565	11	15	163
2008	13,934	6,490	3,168	984	3,292

Trade receivables that were neither past due nor impaired relate to wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) Movements in the allowance for doubtful debts of trade receivables in aggregate during the year are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Balance at beginning of the year	629	29,227
Exchange realignment	(4)	8
Recognised during the year	–	421
Recovered during the year	–	(3,249)
Written off	(25)	(25,778)
Balance at end of the year	600	629

(c) Movements in the allowance for doubtful debts of other receivables in aggregate during the year are as follow:

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	28	244
Recognised during the year	–	28
Amounts written off as uncollectible	(28)	(244)
Balance at end of the year	–	28

At 31 March 2008, included in the impairment loss were individually impaired other receivables with an aggregate balance of approximately HK$28,000 (2009: Nil) which were due to long outstanding. The Group does not hold any collateral over these balances.

At 31 March 2008, the carrying amount of trade receivable, which had been pledged as security for the borrowing, was HK$1,567,000 (2009: Nil). The carrying amount of the associated liability was HK$1,338,000 (2009: Nil).

23. BANK BALANCES AND CASH

Bank balances and cash of the Group comprises bank balances and cash held by the Group and short-term deposits amounting to approximately HK$375,579,000 (2008: HK$380,143,000) with an original maturity of three months or less. The bank balances and bank deposits carried interest at market rates ranging from 0% to 0.36% (2008: 0.01% to 5.1%) per annum.

Included in bank balances and cash are the following amounts denominated in foreign currencies other than the functional currency of the entity to which they relate:

	2009	2008
	HK$'000	*HK$'000*
GBP	6	18
EUR	24	32
USD	22	838
RMB	–	22

24. TRADE AND OTHER PAYABLES

At the balance sheet date, the aging analysis of the trade payables were as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	1,212	6,958
91 – 365 days	488	1,112
Over 1 year	470	635
Trade payables	2,170	8,705
Other payables and accruals	5,244	12,337
	7,414	21,042

At 31 March 2009, a balance payable to Mr. Liang Jin You ("Mr. Liang"), a director of certain subsidiaries of the Group, amounting to HK$1,500,000 (2008: HK$1,700,000) was included in other payables. The amount was unsecured, non-interest bearing and repayable on demand.

25. AMOUNTS DUE TO RELATED COMPANIES

	2009 *HK$'000*	2008 *HK$'000*
Asia Peace Development Limited ("Asia Peace")	773	260
Ultra Good Electroplating Limited ("Ultra Good")	74	–
Artfield Industries (Shenzhen) Limited ("Artfield Industries (Shenzhen)")	2,377	–
	3,224	260

The amounts are unsecured, non-interest bearing and repayable on demand.

Mr. Liang has beneficial interests in these related companies.

26. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain equipment and motor vehicles under finance leases. The lease term ranged from 3 to 5 years. For the year ended 31 March 2008, the average effective borrowing rate was 9.60% (2009: Nil). Interest rates were fixed at the contract date. All leases were on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2009 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*
Amounts payable under finance leases				
Within one year	–	3	–	3
Less: Future finance charges	–	–	–	–
Present value of lease obligations	–	3	–	3

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets.

Finance leases obligations are denominated in HK$.

27. BANK BORROWINGS

	2009 *HK$'000*	2008 *HK$'000*
Bank loans	–	2,279
Bank overdrafts	–	705
	–	2,984
Analysed as:		
Secured	–	1,338
Unsecured	–	1,646
	–	2,984

At 31 March 2008, the above amounts bore interest at prevailing market rates and were repayable on demand or within one year. The bank borrowings were fully repaid during the year ended 31 March 2009.

At 31 March 2008, all bank borrowings were floating rate borrowings. The bank borrowings carried interest at LIBOR plus 2.5% and Base Rate plus 2% per annum.

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

	USD	**GBP**
	'000	*'000*
As at 31 March 2009	–	–
As at 31 March 2008	171	61

During the year ended 31 March 2009, the Group obtained new bank borrowing in the amount of approximately HK$1,365,000. The loans drawn during the year bore interest at prevailing market rates and was fully repaid as at 31 March 2009.

28. DEFERRED TAX

The following are the major deferred tax liabilities (assets) recognised and movement thereof during the current and prior reporting periods.

	Accelerated tax depreciation	**Revaluation of properties**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2007	(473)	1,604	–	1,131
Charge (credit) to consolidated income statement for the year	526	–	(53)	473
Released on disposal of leasehold land and building	–	(1,604)	–	(1,604)
At 31 March 2008	53	–	(53)	–
Change in tax rate	(3)	–	3	–
At 31 March 2009	50	–	(50)	–

At 31 March 2009, the Group has unused tax losses of HK$52,275,000 (2008: HK$47,250,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$302,000 (2008: HK$302,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$51,973,000 (2008: HK$46,948,000) due to the unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

As 31 March 2009, the Group has deductible temporary differences of HK$6,720,000 (2008: HK$6,488,000). No deferred tax assets has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

29. SHARE CAPITAL

	Number of ordinary shares of HK$0.10 each		Amount	
	2009	2008	2009	2008
			HK$'000	*HK$'000*
Authorised:				
Balance at beginning of year	5,000,000,000	900,000,000	500,000	90,000
Increase in authorised share capital *(Note a)*	–	4,100,000,000	–	410,000
Balance at end of the year	5,000,000,000	5,000,000,000	500,000	500,000
Issued and fully paid:				
Balance at beginning of year	765,373,584	304,478,584	76,537	30,448
Issued of shares *(Note b)*	–	400,000,000	–	40,000
Exercise of share options *(Note c)*	–	60,895,000	–	6,089
Balance at end of the year	765,373,584	765,373,584	76,537	76,537

Notes:

a. Pursuant to an ordinary resolution passed in the special general meeting held on 10 March 2008, the authorised share capital of the Company was approved to increase from HK$90,000,000 divided into 900,000,000 ordinary shares of HK$0.1 each to HK$500,000,000 divided into 5,000,000,000 ordinary shares of HK$0.1 each by the creation of an additional 4,100,000,000 ordinary shares of HK$0.1 each.

b. On 14 March 2008, 400,000,000 ordinary shares of HK$0.1 each were issued and allotted to Ascent Goal Investments Limited ("Ascent Goal"), an independent third party at a price of HK$0.2 per share. Since then Ascent Goal became the controlling shareholder of the Company. A sum of HK$80,000,000 was raised and used as working capital of the Group.

c. On 24 August 2007, the Company entered into an options subscription agreement with Mr. Wong Man Hin, Charles ("Mr. Wong"), an independent third party, whereby the Company agreed to grant and Mr. Wong agreed to subscribe from the Company 60,895,000 options ("Share Option") with the rights to require, the Company to issue and allot one ordinary share of HK$0.1 each in the capital of the Company upon exercise of each option at an exercise price of HK$1.165 per share. The options were exercisable in whole or in part within the period commencing from 31 October 2007 to 31 October 2008.

   On 25 March 2008, 60,895,000 Share Options were exercised by Mr. Wong, resulting in the issue of 60,895,000 ordinary shares of HK$0.1 each in the Company. Approximately HK$609,000 and HK$70,942,000 was paid by Mr. Wong in relation to the purchase of the Share Options and exercise of the Share Options respectively.

d. All the ordinary shares issued during the year ended 31 March 2008 ranked pari passu with the then existing ordinary shares in all respects.

30. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a share option scheme on 21 March 1995 (the "Old Scheme") for the purpose of providing incentives and rewards to directors and eligible employees and expired on 20 March 2005.

As a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") on 1 September 2001, certain terms of the Old Scheme are no longer in compliance with the Listing Rules and the Company can no longer grant any further options under the Old Scheme without being in breach of the Listing Rules. Accordingly, the Company terminated the Old Scheme and adopted a new share option scheme (the "New Scheme"), which was approved in the Company's annual general meeting on 28 August 2003, for the purpose of providing incentives to directors and eligible participants.

Except that no further options may be granted under the Old Scheme subsequent to its termination, all the other provisions of the Old Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the Old Scheme prior to 1 September 2001 and all such options will remain valid and exercisable in accordance with the provisions of the Old Scheme.

According to the New Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, customers, any technical, financial, and legal professional advisors who have contributed to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

Options granted should be accepted within 28 days from the date of grant. The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue at the date adoption of the New Scheme.

At the balance sheet date, there was no remained outstanding share options granted under the scheme (2008: the remained outstanding share options granted was 3,044,785, representing 0.4% of shares of the Company in issue at that date). The total number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to director, chief executive or substantial shareholder of the Company or any of their associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The directors may at their absolute discretion determine the period during which an option may be exercised, such period to expire not later than 10 years from the date of grant of the option. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's share on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the share.

During the year ended 31 March 2009, no option was granted under the New Schemes to directors of and consultants to the Group (2008: 9,129,570).

Movements of the Company's share options held by directors and consultant during the year are:

Grantee	Date of grant	Number of share options Outstanding at 31 March 2007 and 1 April 2007	Granted during the year	Cancelled during the year *(Note)*	Outstanding at 31 March 2008	Cancelled during the year *(Note)*	Outstanding at 31 March 2009	Exercised price per share
Directors								
Leung Heung Ying, Alvin ("Mr. Leung") (appointed on 14 June 2007 and resigned on 11 April 2008)	28 August 2007	–	3,044,785	–	3,044,785	(3,044,785)	–	HK$1.146
Lo Chi Ho, William ("Mr. Lo") (appointed on 14 September 2007 and resigned on 11 April 2008)	14 September 2007	–	3,040,000	(3,040,000)	–	–	–	HK$1.260
Consultant	28 August 2007	–	3,044,785	(3,044,785)	–	–	–	HK$1.146
Total		–	9,129,570	(6,084,785)	3,044,785	(3,044,785)	–	

Note: The share options were cancelled upon Mr. Lo, the consultant and Mr. Leung accepted the unconditional mandatory general cash offer by Ascent Goal, as detailed in the Company's announcement dated 20 March 2008, 26 March 2008 and 1 April 2008, respectively.

Further details of options granted during the year ended 31 March 2008 were as follows:

Date of grant	**Exercise period**	**Exercise price**	**Fair value at grant date**
28 August 2007	From date of grant to 27 August 2017	HK$1.146	HK$0.2383
14 September 2007	From date of grant to 13 September 2017	HK$1.260	HK$0.2631

In accordance with terms of the share-based arrangement, options issued vest at date of grant.

The fair value of the share options granted during the year ended 31 March 2008 had been arrived at on the basis of valuations carried out on the grant date by Asset Appraisal Limited, independent qualified professional valuer not connected with the Group. The fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	Share options granted on **28 August 2007**	**14 September 2007**
Weighted average share price	HK$1.38	HK$1.38
Exercise price	HK$1.146	HK$1.260
Expected volatility	70.72%	72.44%
Expected option period	6 months	6 months
Dividend yield	0%	0%
Risk-free interest rate	3.98%	3.74%
Option type	Call	Call

The variables and assumptions used in computing the fair value of the share options were based on the directors' best estimate. The value of an option varied with different variables of certain subjective assumptions.

The Group recognised the total expense of approximately HK$2,251,000 for the year ended 31 March 2008 (2009: Nil) in relation to the share options granted by the Company.

31. CONVERTIBLE LOAN NOTES

On 14 March 2008, the Company issued zero-coupon convertible loan notes with an aggregate principal amount of HK$200,000,000 to Ascent Goal simultaneously upon completion of the issue and allotment of 400,000,000 ordinary shares of HK$0.1 each The notes are denominated in HK$ and entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 13 March 2011 in multiples of HK$1,000,000 at a conversion price HK$0.20 (subject to adjustments) per share. The shares to be issued and allotted upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading ("convertible loan notes reserve"). The effective interest rate of the liability component is 11.14%.

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

	2009	**2008**
	HK$'000	*HK$'000*
Carrying amount at 1 April	145,237	–
Issue of convertible loan notes during the year	–	144,505
Effective interest expenses *(Note 9)*	16,634	732
Carrying amount at 31 March	161,871	145,237

32. DISPOSAL OF SUBSIDIARIES

(a) On 3 February 2009, the Group disposed of its 100% interests in Artfield Company Limited and its subsidiaries (including Matrix Software Inc.) ("Disposal Group") to an independent third party at a consideration of HK$100. The net assets of Disposal Group at the date of disposal were as follows:

	3 February 2009
	HK$'000
Net assets of Disposal Group disposed of:	
Property, plant and equipment	4
Trade and other receivables	9
	13
Exchange translation reserve realised on disposal of subsidiaries	(16)
Gain on disposal	3
Total consideration	–

The subsidiaries disposed of during the year had no significant impact on the turnover, cash flows and results of the Group.

(b) On 25 June 2007, the Group disposed of its 100% interests in Everbright Lighting Limited ("Everbright") and rights in the shareholder's loan advanced to Everbright amounting to approximately HK$1,990,000 to an independent third party, at a consideration of approximately HK$3,600,000. The net assets of Everbright at the date of disposal were as follows:

	25 June 2007
	HK$'000
Net assets of Everbright disposed of:	
Property, plant and equipment	2,834
Investment property	102
Tax recoverable	64
Trade and other receivables	21
Bank balances and cash	16
Other payables	(106)
Amount due to a shareholder	(1,990)
	941
Rights in shareholder's loan disposed of	1,990
Gain on disposal	669
Total consideration	3,600
Satisfied by:	
Cash	3,600
Net cash inflow arising on disposal:	
Cash consideration	3,600
Bank balances and cash disposed of	(16)
	3,584

The subsidiary disposed of during the year had no significant impact on the turnover and results of the Group.

33. DEREGISTRATION OF SUBSIDIARIES

(a) During the year ended 31 March 2009, the Group deregistered two of its subsidiaries, Ferdinand International (Marketing) Limited ("Ferdinand International (Marketing)") and 高明豐雅鐘錶有限公司("高明豐雅").

Net liabilities at the date of deregistration

	Ferdinand International (Marketing)	**高明豐雅**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Exchange translation reserve realised on deregistration of subsidiaries	(2,733)	115	(2,618)
Net gain on deregistration	2,733	115	2,618
	–	–	–

The subsidiaries deregistered during the year ended 31 March 2009 had no significant impact on the turnover and results of the Group.

(b) In January 2008, the Group deregistered one of its subsidiaries, Ferdinand International (Europe) Limited.

Net liabilities at the date of deregistration:

	HK$'000
Trade and other receivables	63
Trade and other payables	(605)
	(542)
Exchange reserves realised on deregistration of the subsidiary	110
Minority interests	217
Gain on deregistration	215
	–

The subsidiary deregistered during the year ended 31 March 2008 had no significant impact on the turnover and results of the Group.

34. RELATED PARTY TRANSACTIONS

(i) Except as disclosed elsewhere in the consolidated financial statements, the significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	2009 *HK$'000*	**2008** *HK$'000*
Royal Success Group *(Note a)*		
– purchase of wooden products	–	13,852
– disposal of property, plant and equipment	–	110
Asia Peace		
– purchase of clocks, timepieces, gifts and premium products	9,963	46,664
Ultra Good		
– purchase of electroplating services	74	634
German Time Limited *(Note b)*		
– rental expense paid	–	840
Artfield Industries (Shenzhen)		
– rental expenses paid	120	–
China Sonangol International Limited ("China Sonangol") *(Note c)*		
– management fee income received	4,000	–

Notes:

a. Mr. Liang has beneficial interests in these related companies.

b. Ms. Li Kwo Yuk was a director of the Group's certain subsidiaries during the year ended 31 March 2008, had beneficial interest in this company.

c. China Sonangol is the holding company of Ascent Goal, the controlling shareholder of the Company.

(ii) Compensation of key management personnel

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

	2009	2008
	HK$'000	*HK$'000*
Short-term benefits	2,939	3,823
Share-based payments	–	1,525
Post-employment benefits	37	29
	2,976	5,377

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group leases certain of its offices and staff quarters under operating lease arrangements. Lease for properties are negotiated for a term ranging from one to four years and rental are fixed.

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

	2009	2008
	HK$'000	*HK$'000*
Within one year	255	1,548
In the second to fifth years, inclusive	559	1,009
	814	2,557

36. RETIREMENT BENEFIT SCHEME

The Group operates a defined contribution Mandatory Provident Fund Scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee's basic salaries and are charged to the consolidated 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.

The Company's subsidiaries established in Mainland China are members of the state-managed retirement benefits scheme operated by the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the consolidated income statement in the year to which they are related and represented the amount of contributions payable by these subsidiaries to this scheme.

The total cost charged to the consolidated income statement of approximately HK$271,000 (2008: HK$506,000) represents contributions payable to the schemes by the Group in respect of the current financial year.

37. POST BALANCE SHEET EVENTS

On 30 April 2009, Lasting Power Investments Limited ("Lasting Power"), a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party, Star Fortune International Development Company Limited, pursuant to which Lasting Power has conditionally agreed to acquire 51% equity interest in Star Fortune at a consideration of HK$100,000,000. Star Fortune is an investment holding company with its subsidiaries engaged in mining, sale and distribution of coals in the PRC. Details of this transaction are stated in an announcement of the Company dated 7 May 2009.

38. BALANCE SHEET OF THE COMPANY

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
Non-current asset			
Property, plant and equipment		1	12
Investments in subsidiaries		–	–
		1	12
Current assets			
Trade and other receivables		9	9
Bank balances and cash		377,690	380,150
		377,699	380,159
Current liabilities			
Trade and other payables		512	386
Amount due to subsidiaries	*(a)*	–	3,600
Bank overdraft		–	705
		512	4,691
Net current assets		377,187	375,468
Total assets less current liabilities		377,188	375,480
Capital and reserves			
Share capital		76,537	76,537
Reserves	*(b)*	138,780	153,706
		215,317	230,243
Non-current liability			
Convertible loan notes		161,871	145,237
		377,188	375,480

(a) Amounts due from (to) subsidiaries

The amounts are unsecured, interest-free and repayable on demand.

(b) Reserves

	Share premium *HK$'000*	Convertible loan notes reserve *HK$'000*	Share options reserve *HK$'000*	Other reserve *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2007	86,681	–	–	–	128,013	(199,512)	15,182
Issue of shares	40,000	–	–	–	–	–	40,000
Issue of shares upon exercise of share options granted to an independent third party	64,853	–	–	–	–	–	64,853
Recognition of equity component of convertible loan notes	–	55,495	–	–	–	–	55,495
Issue of share options to directors and consultant	–	–	2,251	–	–	–	2,251
Issue of share options to an independent third party	–	–	–	609	–	–	609
Cancellation of share options granted to directors and consultant	–	–	(1,525)	–	–	1,525	–
Exercise of share options granted to an independent third party	–	–	–	(609)	–	609	–
Loss for the year	–	–	–	–	–	(24,684)	(24,684)
At 31 March 2008	191,534	55,495	726	–	128,013	(222,062)	153,706
Cancellation of share options granted to a director	–	–	(726)	–	–	726	–
Loss for the year	–	–	–	–	–	(14,926)	(14,926)
At 31 March 2009	191,534	55,495	–	–	128,013	(236,262)	138,780

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued shares of the companies being acquired and the value of net assets of the underlying companies acquired at the time of the Group's reorganisation in preparation for its listing in 1995. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus in certain circumstances.

39. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 March 2009 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Group	Principal activities
Directly held:					
Teamright Holdings Limited	Ordinary	BVI	US$1	100	Investment holding
Sunny Global Development Limited	Ordinary	BVI	US$1	100	Investment holding
Lasting Power	Ordinary	BVI	US$1	100	Investment holding
Indirectly held:					
Artfield Manufacturing Company Limited	Ordinary	Hong Kong	HK$1,000	100	Marketing of clocks
	Non-voting deferred shares		HK$2,000,000#		
Wehrle Uhrenfabrik GmbH	Ordinary	Germany	EUR255,646	100	Marketing of clocks
Right Time Group, Inc.	Ordinary	United States of America	US$10,000	100	Marketing of clocks
Lens Trading Inc.	Ordinary	BVI	US$1	100	Inactive
Artfield Trading (Hong Kong) Limited	Ordinary	Hong Kong	HK$10,000	100	Inactive
德力時鐘(深圳)有限公司(「德力」)	Contributed capital	PRC	HK$3,000,000	100	Manufacture of clocks
Progress Team Limited	Ordinary	Hong Kong	HK$1	100	Inactive

Notes:

The non-voting deferred shares are entitled to a fixed non-cumulative dividend at the rate of 5% per annum and a return of the paid-up capital after the distribution of HK$100,000,000, but carry no rights to receive notice of or to attend or vote at any general meeting of the company, or to participate in the profits or assets of the company.

德力 are wholly foreign-owned enterprises established in the PRC.

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

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

40. COMPARATIVE FIGURES

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

C. MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 March 2007

Business review

In order to reduce production costs so as to improve the competitiveness of the Group's products in the global market, the Group reviewed its manufacturing operations. During 2007, the Group disposed the manufacturing operations of the lighting products division in June 2006, the original equipment manufacturing operations and facilities of the clocks and office related products division as well as the entire operation of the electroplating services division in March 2007. After the disposals, the Group will focus on its existing marketing and trading of clocks, timepieces, gift and premium products and the trading of metal businesses.

Clocks and other office related products

The gross profit margin of clocks and other office related products was seriously hampered by increase in cost of materials such as copper, aluminum and plastic resin used in the production of this segment, couple with the surging labour cost and the persistent appreciation of Renminbi during the year under review. It recorded a segment trading loss of approximately HK$17,780,000 (included allowance for bad and doubtful debts in the amount of approximately HK$497,000) for the year ended 31 March 2007. The segment trading result for last year was a trading loss of approximately HK$20,072,000 (including allowance for bad and doubtful debts in the amount of approximately HK$1,668,000).

Lighting products

The Group had disposed the manufacturing operation of the lighting products division in June 2006. The disposal resulted a gain from the disposal of subsidiaries approximately HK$6,658,000. Following disposal of the manufacturing operation of the lighting products business, the Group carries on the lighting products business on trading basis mainly through its overseas offices. The lighting products division reported a turnover of approximately HK$8,519,000 and a segment trading loss of approximately HK$1,166,000 for the year ended 31 March 2007.

Trading

The trading division mainly engaged in trading of metal in the PRC market. For the year period under review, the business was inevitably affected by the PRC government's tightening of macro-economic policy. This division reported a turnover of approximately HK$19,037,000 and segment trading loss of approximately HK$30,094,000 as compared with a turnover of approximately HK$29,579,000 and a segment trading profit of HK$363,000 in last year.

Material acquisition of subsidiaries

The Group acquired the entire issued share capital of Matrix Software Inc. in April 2006. Matrix Software Inc. engages in the marketing and development of online computer games, it owns an intellectual property right in the online computer game known as "Shanghai Storm" in the PRC, Hong Kong and Macau and it is an MMORPG (massively multiplayer online role-playing game) with a unique 3D game engine. The aforesaid acquisition resulted in creation of an intellectual property in the amount of HK$46,440,000 and gave rise to a goodwill of HK$3,960,000.

Financial review

For the year ended 31 March 2007, the turnover of the Group decreased to approximately HK$173,410,000 (restated: HK$153,650,000), represented a reduction of approximately HK$47,730,000 as compared to the last year. The drop of the turnover was mainly caused by (i) the clocks and other office related products decreased by approximately HK$21,241,000 from that of last year; (ii) lighting products decreased by approximately HK$11,969,000 from that of the corresponding previous year; (iii) trading of metals decreased by approximately HK$10,542,000 from that of last year. The Group also incurred a net loss of approximately HK$124,795,000 for the year ended 31 March 2007 and was mainly attributable to the allowance for bad and doubtful debts against a customer in the metal trading business of approximately HK$30,386,000 and the write down of inventories of approximately HK$27,648,000 as a result of the disposal of the manufacturing operations and the impairment loss recognised in respect of intangible asset of approximately HK$46,440,000.

Liquidity and financial resources

As at 31 March 2007, the Group had total outstanding debts and finance lease obligations of approximately HK$10,834,000, of which approximately HK$5,346,000 was secured bank loans, approximately HK$5,324,000 as bank overdrafts, there was no unsecured other loan as at 31 March 2007 and approximately HK$452,000 was obligations under finance leases. The amount repayable within one year accounted for 99% of the total borrowings as at 31 March 2007. The gearing ratio of the Group (long term borrowings over shareholder's equity) was 0.2% as at 31 March 2007.

Charges on Group's assets

Certain of the Group's leasehold land and buildings and investment properties were pledged to secure general banking facilities granted to the Group.

Foreign exchange exposure

The Group mainly earned revenue and incurred costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group was minimal. The Group did not have any policy to use financial instruments, currency borrowings and/or other hedging instruments for hedging purposes and did not use any financial instruments, current borrowings and/or other hedging instruments for hedging purposes.

Treasury policies

The Group generally financed its operation with internal generated resources and banking and credit facilities provided by banks in Hong Kong and the United Kingdom. All borrowings were denominated in Hong Kong dollars, the US dollars, and British pounds. Borrowing methods used by the Group mainly include trust receipt loans, overdrafts facilities, invoice financing and bank loans. The interest rates of most of these borrowings were fixed by reference to the Hong Kong Dollar Prime Rate or foreign currency's Trade Finance Rates.

Contingent liabilities

As at 31 March 2007, the Group did not have contingent liabilities.

Employees

As at 31 March 2007, the Group had 114 employees spread among Hong Kong, the PRC, the US, Germany and the UK. The Group had adopted an extensive training policy for its employees. It has also sponsored senior executives for higher education programs. The Group had adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares of the Company.

For the year ended 31 March 2008

Business review

The inflationary pressure in the mainland China resulted in an increase in the Group's cost of production and the appreciation of Renminbi affected the competitiveness of the Group's products in the overseas market.

The Group ceased the operation of marketing of energy saving lighting products in the financial year ended 31 March 2008 which was resulted from disposal and voluntary winding up of two major subsidiaries under the lighting products segment. The Group also disposed of certain land and buildings and investment properties during the year.

In view of the prospects relating to natural resources industry, the Company entered into a subscription agreement with Ascent Goal Investments Limited ("Ascent Goal") in January 2008. The proceeds from the subscription will be used for future business investments particularly in the natural resources and/or PRC properties markets. Further in July 2008, the Company made its first step in participating in the oil industry by entering into a service agreement with China Sonangol International Limited ("China Sonangol"), the holding company of Ascent Goal, whereby the Group agreed to provide, among others, certain marketing analysis, news clipping, preparation of sales report, invoicing and preparation of management accounts services on oil trading to China Sonangol.

Clocks and other office related products

The marketing and trading of clock and other office related products division achieved a turnover of approximately HK$129,940,000 in the financial year of 2008, which represented a reduction of approximately HK$4,672,000 or 3.47% as compared with the same period of the previous financial year. It reported a segment trading loss of approximately HK$11,485,000 for the year ended 31 March 2008 represented a decrease of approximately HK$5,798,000 or 33.55% as compared with that of the previous year.

Lighting products

During the year ended 31 March 2008, the marketing operation of energy saving lighting products was discontinued. This business segment reported a turnover of approximately HK$64,000 and segment loss of approximately HK$1,440,000.

Trading

The trading division mainly engaged in trading of metal in the PRC market. During the financial year of 2008, the Group scaled down the business in view of the difficult operating environment. It reported a segment turnover of approximately HK$7,160,000 and segment trading profit of approximately HK$3,303,000 for the financial year of 2008 and a segment trading profit of HK$292,000 for the financial year of 2007. The segment trading profit for the financial year of 2008 included a write back of allowance for doubtful debts of trade receivable of HK$3,249,000.

Material acquisition of subsidiaries

There were no significant investments or material acquisitions during the year ended 31 March 2008.

Financial Review

For the year ended 31 March 2008, the Group recorded the turnover of approximately HK$137.16 million. The gross profit of the Group for the year ended 31 March 2008 was decreased to approximately 8.76%. Loss of the Group for the year ended 31 March 2008 significantly decreased 82.17% to approximately HK$22.24 million. This was mainly because no impairment loss in respect of intangible asset and goodwill was recognised, the allowance for doubtful debts of trade receivables was only amounted to approximately HK$421,000 and the Group wrote down the inventories value to approximately HK$5,421,000 during the period.

As at 31 March 2008, the Group had net current assets of approximately HK$378.8 million. The bank balances and cash of approximately HK$383.41 million which were the major components of the Group's current assets of approximately HK$403.13 million. The current liabilities of approximately HK$24.33 million were mainly composed of trade and other payables of approximately HK$21.04 million.

Liquidity and financial resources

As at 31 March 2008, the Group had bank borrowings of approximately HK$2,984,000, of which approximately HK$2,279,000 was bank loans and approximately HK$705,000 was bank overdrafts. The Group had obligations under finance leases which were due within one year of approximately HK$3,000. All bank borrowings of the Group were floating rate borrowings, carried interest at LIBOR plus 2.5% and Base Rate plus 2% and were repayable on demand or within one year. During the year ended 31 March 2008, the Group obtained new bank borrowings in the amount of approximately HK$17,945,000. Such loans drawn during the year bear interest at prevailing market rates and will be repayable within one year. Further, as a result of the issue of the convertible loan notes, the Group's gearing ratio (based on long-term borrowings of the Group divided by shareholder's equity before minority interests) was approximately 62.02% as at 31 March 2008.

Charges on Group's assets

For the financial year ended 31 March 2008, except for HK$1,567,000 of trade receivables being pledged for securing the borrowings, no leasehold land and buildings or investment properties of the Group were pledged to secure general banking facilities granted to the Group.

Significant investments and material acquisitions

There were no significant investments or material acquisitions during the year ended 31 March 2008.

Discontinued operation

During the year ended 31 March 2008, resulting from disposal and voluntary winding up of two major subsidiaries under the lighting products segment, the Group ceased the operation of marketing of energy saving lighting products.

Foreign exchange exposure

The Group mainly earned revenue and incurred costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group was minimal so long as the Government of the Hong Kong Special Administrative Region's policy to peg the Hong Kong dollars with the US dollars remains unchanged. The Group does not have any policy to use financial instruments, currency borrowings and/or other hedging instruments for hedging purposes and did not use any financial instruments, current borrowings and/or other hedging instruments for hedging purposes.

Treasury policies

The Group generally financed its operation with internal generated resources and banking and credit facilities provided by banks. All borrowings were denominated in Hong Kong dollars, the US dollars, and British pounds. Borrowing methods used by the Group mainly include overdrafts facilities, invoice financing and bank loans. The interest rates of most of these borrowings were fixed by reference to the Hong Kong Dollar Prime Rate or foreign currency's Trade Finance Rates.

Fund raising

During the year, the Company raised the net proceeds of approximately HK$0.6 million through the grant of call options to an independent third party. In March 2008, the holder of the call options exercised the call options in full resulting in an issue of 60,895,000 new shares at HK$1.165 per share. Further, the Company issued a total of 400 million new shares at the issue price of HK$0.20 per share for cash for the net proceeds of HK$80 million and convertible note in the principal amount of HK$200 million in March 2008 to Ascent Goal.

Contingent liabilities

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

Employees

As at 31 March 2008, the Group had 110 employees spread among Hong Kong, the PRC and Germany. The Group had adopted an extensive training policy for its employees. It had also sponsored senior executives for higher education programs. The Group had adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares of the Company.

For the year ended 31 March 2009

Business review

In its financial year ended 31 March 2009, the Company continues to operate the marketing and trading of clocks and other office related products as well as the provision of management services related to oil trading. During this financial year, the Group underwent a restructuring, including termination of the metals-trading business and the deregistration of a loss-making subsidiary in the United Kingdom as a result of the strategic reasons.

Clocks and other office related products

The marketing and trading of clocks and other office related products division achieved a turnover of approximately HK$19,105,000 in the year under review, which represents a reduction of approximately HK$110,835,000 or 85.30% as compared with the same period last year. A segment trading loss of approximately HK$17,045,000 for the year ended 31 March 2009 representing an increase of approximately HK$5,560,000 or 48.14% from last year of approximately HK$11,485,000.

Management fee income

For the year ended 31 March 2009, the Group recorded a turnover of HK$4,000,000 from providing the management services on oil trading to China Sonangol.

Trading of metals

The Group had ceased the operation of trading metals during the year ended 31 March 2009.

Significant investment and material acquisition

There were no significant investments and material acquisition during the year ended 31 March 2009.

Financial review

For the year ended 31 March 2009, the Group recorded a turnover of approximately HK$23,105,000, represented a decrease of approximately HK$114,059,000 or 83.16% as compared with last year. The gross profit ratio for the year ended 31 March 2009 was increased to approximately 25.84%. Loss of the Group for the year ended 31 March 2009 was increased 29.31% to approximately HK$28,764,000 and was mainly because of the increase in finance costs.

As at 31 March 2009, the Group had bank balances and cash of approximately HK$379 million. The Group had net current assets of approximately HK$375.18 million and the current liabilities of approximately HK$10.64 million.

Liquidity and financial resources

As at 31 March 2009, the Group had no bank borrowings and no obligations under finance leases which were due within one year. The Group had non-current liability of approximately HK$161.87 million, which was composed of the convertible loan notes. The gearing ratio (based on long-term borrowings of the Group divided by equity attributable to equity holders of the Company) of the Group was approximately 75.83%.

Charges on Group's assets

None of trade receivables was pledged to secure the borrowing for the financial year ended 31 March 2009.

Discontinued Operation

During the year ended 31 March 2009, the Group ceased the operation of trading of metals.

Foreign Exchange Exposure

The Group mainly earned revenue and incurred costs in Euro dollars, US dollars and Hong Kong dollars. Foreign exchange exposure of the Group was minimal so long as the Government of the Hong Kong Special Administrative Region's policy to peg the Hong Kong dollars with the US dollars remains unchanged. The fluctuation of Euro dollars was minimal as the Group had scaled down of the operation of Germany subsidiary. The Group does not have any policy to use financial instruments, currency borrowings and/or other hedging instruments for hedging purposes and did not use any financial instruments, current borrowings and/or other hedging instruments for hedging purposes.

Treasury Policies

The Group generally finances its operation with internal generated resources.

Contingent Liabilities

As at 31 March 2009, the Group did not have any contingent liabilities.

Employees

As at 31 March 2009, the Group had 62 employees spread among Hong Kong, the PRC and Germany. The Group has adopted an extensive training policy for its employees. It has also sponsored senior executives for higher education programs. The Group had adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares of the Company.

D. INDEBTEDNESS

As at the close of business on 30 April 2009, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Enlarged Group had unsecured bills payables of HK$3,453,000.

In addition, the Enlarged Group had outstanding convertible bonds with principal amount of approximately HK$200,000,000, which are convertible into the Company's share at the prevailing conversion price of HK$0.2 per conversion share from the date of issue of the convertible bonds and ending on a date falling 36 months of the date of issue of the convertible bonds. The carrying amount of the convertible bonds as at 30 April 2009 was approximately HK$163,353,000.

Commitment

As the close of business on 30 April 2009, the Enlarged Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK$798,000.

Contingent liabilities

As at the close of business on 30 April 2009, the Enlarged Group had no significant contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rate of exchange prevailing the close of business on 30 April 2009.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the close of business on 30 April 2009, the Enlarged Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

E. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into account its internal resources of the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements in the next twenty four months from the date of this circular.

F. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date of which the latest audited financial statements of the Group were made up.

G. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Trading business and management services

At present, the principal business activities are trading of clock and related office products business as well as the provision of the management services to China Sonangol. The business performance of the existing clock and office related products trading business has deteriorated in light of the current financial tsunami. Coupled with the negative factors in the trading industries, such as the intense competition in the trading industries, the severe price increase of the raw materials and the continuous increase of the production costs, the prospect of the Enlarged Group in respect of the trading business still remains uncertain.

Mining business

In order to broaden its source of income and expand the business operations of the Group, the Directors believe that it is beneficial for the Group to diversity its business into the natural resources industry in the PRC. Despite the recent downturn of global economic situation, the Directors are still optimistic about the long term prospect of the natural resources industry in the PRC. Given that the Coal Mines contain rich coal reserves and resources and the Directors have confidence in the prospects of natural resources sector, the Directors believe that the Acquisition will allow the Enlarged Group to capitalize on the potential growth in the demands of coal, which may bring satisfactory returns to the Group.

In addition, the PRC government announced a domestic economy stimulation plan with an amount of RMB4,000 billion in November 2008 which will be benefited to, among others, the infrastructure and manufacturing industries. Based on the above, the Directors consider that the mining operation would be of benefit the Enlarged Group and maximize the interests of the Shareholders. Looking forward, the Board will continuously and proactively try its best endeavour to seek new viable business opportunities for the Enlarged Group. The Directors have confidence in the prospects of the energy and resources sector and believe that the Acquisition will allow the Group to capitalise on the potential growth in the demands of coal.

The following is the text of an accountants' report on the Target Group received from the independent reporting accountants, Shu Lun Pan Hong Kong CPA Limited, Certified Public Accountants, Hong Kong, for inclusion in this circular.

(A) ACCOUNTANTS' REPORT

Shu Lun Pan Hong Kong CPA Limited
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12 June 2009

The Board of Directors
Artfield Group Limited
Suites 1003-1006, 10th Floor
Two Pacific Place
88 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the consolidated financial information of Star Fortune International Investment Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for each of the period from 12 April 2007 (date of incorporation) to 31 March 2008 and year ended 31 March 2009 (the "Relevant Periods"), prepared on the basis set out in Note 1 of Section C below, for inclusion in the circular of Artfield Group Limited dated 12 June 2009 (the "Circular") in connection with, among other things, the proposed acquisition of the 51% equity interest in the Company by Lasting Power Investments Limited, a subsidiary of Artfield Group Limited.

The Company was incorporated in the British Virgin Islands on 12 April 2007 as an exempted Company with limited liability under the British Virgin Islands Business Companies Act, 2004 (No. 16 of 2004). The Company's registered office is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands and its principal place of business is Room 3308-09, 33/F., The Center, 99 Queen's Road Central, Hong Kong. During the Relevant Periods and up to the date of this report, the Company is a wholly-owned subsidiary of Ming Kei Energy Holdings Limited ("Ming Kei"), which was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors of the Company consider Ming Kei as the ultimate holding company of the Company during the Relevant Periods.

During the Relevant Periods and up to the date of this report, the Company has three wholly-owned subsidiaries, namely Ming Kei Kai Yuan Investment Company Limited, which was incorporated in Hong Kong on 27 June 2006, and Mulei County Kai Yuan Coal Company Limited and Qitai County Zexu Trading Company Limited, which were established in the People's Republic of China (the "PRC") on 17 October 2006 and 5 February 2005, respectively. During the Relevant Periods, the Group's principal activity is mining, sale and distribution of coals in the PRC.

The Company and Ming Kei Kai Yuan Investment Company Limited have adopted 31 March as their financial year end; and Mulei County Kai Yuan Company Limited and Qitai County Zexu Trading Company Limited have adopted 31 December as their financial year end for statutory reporting purposes. No audited financial statements have been prepared for the Company since its incorporation because there is no statutory requirement for the Company to do so. The statutory financial statements of Ming Kei Kai Yuan Investment Company Limited prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the period from 1 January 2007 to 31 March 2008 and for the year ended 31 March 2009 were audited by Shu Lun Pan Hong Kong CPA Limited (formerly known as Shu Lun Pan Horwath Hong Kong CPA Limited) in accordance with Hong Kong Standards on Auditing issued by the HKICPA; and the statutory financial statements of Mulei County Kai Yuan Company Limited and Qitai County Zexu Trading Company Limited prepared in accordance with the accounting principles generally accepted in the PRC for each of the years ended 31 December 2007 and 2008 were audited by Xinjiang TianLing Limited Liability Certified Public Accountants, which is a firm of certified public accountants registered in the PRC.

The directors of the Company and its subsidiaries have prepared the individual financial statements of each entity of the Group for each of the Relevant Periods in accordance with HKFRSs (the "HKFRS Financial Statements"). For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for each of the Relevant Periods in accordance with HKFRSs (together with the HKFRS Financial Statements, collectively referred to as the "Underlying Financial Statements").

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 March 2009.

The financial information and the notes thereto for the Relevant Periods (the "Financial Information") have been prepared based on the Underlying Financial Statements. For the purpose of this report, we have carried out additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectus and the reporting accountant" as recommended by the HKICPA.

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

It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Group as at 31 March 2008 and 2009 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Without qualifying our opinion, we draw attention to the Financial Information which indicates that the Group incurred a consolidated net loss of HK$836.3 million during the year ended 31 March 2009 and reported consolidated net current liabilities of HK$940.3 million and net deficiency in assets of HK$766.7 million as at that date. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Financial Information has been prepared on a going concern basis, the validity of which depends upon the Group's success in obtaining the ongoing financial support from its ultimate holding company and obtaining waiver of current account from its immediate holding company under the circumstances as set out in Note 3(a) of Section C below.

B. FINANCIAL INFORMATION

The Financial Information of the Group has been prepared on the basis set out in Note 1 of Section C.

CONSOLIDATED INCOME STATEMENTS

	Notes	Period from 12 April 2007 (date of incorporation) to 31 March 2008 HK$'000	Year ended 31 March 2009 HK$'000
Turnover	6	35,071	127,705
Cost of sales		(31,669)	(83,774)
Gross profit		3,402	43,931
Impairment loss on intangible assets	14	–	(1,160,219)
Excess of the Group's share of net fair value of the interests in subsidiaries acquired over the cost of the acquisition	23	50,777	–
Other income	6	152	336
Selling and distribution costs		(421)	(1,192)
Administrative expenses		(1,822)	(10,646)
Finance costs	8	(829)	(693)
Profit/(loss) before tax	7	51,259	(1,128,483)
Income tax	10	1,974	292,141
Profit/(loss) for the period/year attributable to equity holders of the Company		53,233	(836,342)
Dividend	11	–	–
Earnings/(loss) per share (HK$'000)	12		
– Basic		53,233	(418,171)
– Diluted		N/A	N/A

The notes in Section C form part of the Financial Information.

CONSOLIDATED BALANCE SHEETS

	Notes	2008 HK$'000	2009 HK$'000
		As at 31 March	
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	13	16,921	37,974
Intangible assets	14	1,430,193	187,385
		1,447,114	225,359
CURRENT ASSETS			
Inventories	16	2,877	49,494
Accounts and bills receivable	17	75,802	11,909
Prepayments, deposits and other receivables		32,870	13,870
Cash and cash equivalents	18	4,266	43,362
		115,815	118,635
CURRENT LIABILITIES			
Accounts and bills payable	19	44,842	18,415
Accrued expenses and other payables		24,360	28,127
Amount due to ultimate holding company	26(b)	8	–
Amount due to immediate holding company	26(b)	1,010,714	987,727
Amount due to a fellow subsidiary	26(b)	–	23,000
Amount due to a director and a shareholder of ultimate holding company	26(a)	11,430	–
Current tax payable		–	1,712
		1,091,354	1,058,981
NET CURRENT LIABILITIES		(975,539)	(940,346)
TOTAL ASSETS LESS CURRENT LIABILITIES		471,575	(714,987)

		As at 31 March	
		2008	2009
	Notes	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*20*	355,110	45,083
Provision for close down, restoration and environmental costs	*25*	–	6,600
		355,110	51,683
NET ASSETS/(LIABILITIES)		116,465	(766,670)
CAPITAL AND RESERVES			
Issued capital	*21*	–	1
Reserves	*22*	116,465	(766,671)
TOTAL EQUITY		116,465	(766,670)

The notes in Section C form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital	Statutory reserve fund	Exchange reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 21)	*(Note 22)*	*(Note 22)*		
Issue of share at incorporation date	–	–	–	–	–
Exchange difference arising on translation of foreign operation and total income for the year recognised directly in equity	–	–	63,232	–	63,232
Profit for the period	–	–	–	53,233	53,233
Total income for the period	–	–	63,232	53,233	116,465
Appropriation	–	862	–	(862)	–
Balance at 31 March 2008	–	862	63,232	52,371	116,465
Exchange difference arising on translation of foreign operation and total expense for the year recognised directly in equity	–	–	(46,794)	–	(46,794)
Loss for the year	–	–	–	(836,342)	(836,342)
Total expenses for the year	–	–	(46,794)	(836,342)	(883,136)
Appropriation	–	3,994	–	(3,994)	–
Issue of new shares	1	–	–	–	1
Balance at 31 March 2009	1	4,856	16,438	(787,965)	(766,670)

The notes in Section C form part of the Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Period from 12 April 2007 (date of incorporation) to 31 March 2008 HK$'000	Year ended 31 March 2009 HK$'000
Cash flow from operating activities			
Profit/(loss) before tax		51,259	(1,128,483)
Adjustments for:			
Impairment loss on intangible assets		–	1,160,219
Excess of the Group's share of net fair value of the interests in subsidiaries acquired over the cost of the acquisition		(50,777)	–
Depreciation	*7*	406	2,640
Amortisation of intangible assets	*7*	9,599	17,939
Loss on disposal of property, plant and equipment	*7*	–	765
Provision for close down, restoration and environmental costs	*7*	–	6,600
Interest income	*6*	(33)	(117)
Interest expenses	*8*	829	693
		11,283	60,256
Increase in inventories		(2,582)	(46,617)
(Increase)/decrease in accounts and bills receivable		(44,499)	63,893
(Increase)/decrease in prepayments, deposits and other receivables		(4,729)	19,000
Increase/(decrease) in accounts and bills payable		35,425	(26,427)
(Decrease)/increase in accrued expenses and other payables		(4,461)	3,767
Decrease in amount due to immediate holding company		(25)	(22,987)
Increase/(decrease) in amount due to a director and a shareholder of ultimate holding company		11,430	(11,430)
Increase in amount due to a fellow subsidiary		–	23,000
Increase/(decrease) in amount due to ultimate holding company		8	(8)

	Notes	Period from 12 April 2007 (date of incorporation) to 31 March 2008 HK$'000	Year ended 31 March 2009 HK$'000
Cash generated from operations		1,850	62,447
Interest received		33	117
Interest paid		(829)	(693)
Net cash inflow from operating activities		1,054	61,871
Cash flow from investing activities			
Acquisition of subsidiaries	23	2,407	–
Purchase of items of property, plant and equipment	13	(1,235)	(26,723)
Proceeds from disposal of property, plant and equipment		–	2,558
Additions to intangible assets	14	(38)	–
Net cash inflow/(outflow) from investing activities		1,134	(24,165)
Cash flow from financing activity			
Proceeds from issue of new shares		–	1
Net cash inflow from financing activity		–	1
Net increase in cash and cash equivalents		2,188	37,707
Cash and cash equivalents at beginning of period/year		–	4,266
Effect of foreign exchange rate changes, net		2,078	1,389
Cash and cash equivalents at end of period/year		4,266	43,362
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents		4,266	43,362

The notes in Section C form part of the Financial Information.

C. NOTES TO THE FINANCIAL INFORMATION

1. ORGANISATION AND OPERATIONS

The Company is incorporated in the British Virgin Islands as an exempted company with limited liability.

The Company is an investment holding company. The particulars of the Company's subsidiaries are set out in Note 15.

The Financial Information is presented in Hong Kong dollars, which is the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated. The Financial Information has 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) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Financial Information also complies with the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

2. ADOPTION OF NEW AND REVISED STANDARDS

Throughout the Relevant Periods, the Group has applied all of the HKFRSs issued by the HKICPA that are relevant to its operations and effective for the Relevant Periods. The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)
HKFRS 8	Operating segments	(i)
HK(IFRIC) – Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellations	(i)
HKFRS 7 (Amendment)	Improving disclosures about financial instruments	(i)
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKAS 39 (Amendment)	Eligible hedged items	(ii)
HKFRS 1 (Revised)	First-time adoption of HKFRSs	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners	(ii)
HK(IFRIC) – Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation	(iv)
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded derivatives	(v)
HK(IFRIC) – Int 18	Transfers of assets from customers	(vi)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	– HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41	(i)
	– HKFRS 5	(ii)

Effective dates

(i) Annual periods beginning on or after 1 January 2009
(ii) Annual periods beginning on or after 1 July 2009
(iii) Annual periods beginning on or after 1 July 2008
(iv) Annual periods beginning on or after 1 October 2008
(v) Annual periods ending on or after 30 June 2009
(vi) Transfers of assets from customers received on or after 1 July 2009

The Group is in the process of making an assessment of the impact of these new or revised HKFRSs, HKASs or Interpretations in the Relevant Periods of their initial application.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared under the historical cost convention.

The Financial Information has been prepared on a going concern basis notwithstanding the fact that the Group recorded net current liabilities of HK$940.3 million and net deficiency in assets of HK$766.7 million as at 31 March 2009 and incurred loss of HK$836.3 million for the year then ended.

As at 31 March 2009, the Group recorded aggregate amount due to its immediate holding and a fellow subsidiary amounting to HK$1,010.7 million. The ultimate holding company of the Company has undertaken that the ultimate holding company and its subsidiaries excluding the group entities of the Group (the "Remaining Group") will provide financial assistance as is necessary to maintain the Group as a going concern by not demanding for repayment of any amounts due by the Group to the Remaining Group until the Group has sufficient resources to meet its working capital sufficiency for at least twelve months after the date of this report in the event that the Remaining Group's disposal of equity interest of the Group is not completed. In the event that the Remaining Group's disposal of equity interest of the Group is completed, the Group estimated that the Group's aggregate amount due to its immediate holding company of not less than HK$941 million would be waived pursuant to a group reorganisation among the Group and the Remaining Group, which is further detailed in Note 31(i). Had the above waiver been completed on 31 March 2009, the Group would have recorded net current assets of not less than HK$0.7 million and net assets of not less than HK$174.3 million based on the Group's financial position as at 31 March 2009.

On the strength of the above the Financial Information has been prepared on the going concern basis by the directors.

(b) Basis of consolidation

The Financial Information incorporates the consolidated financial statements of the Company and its subsidiaries.

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

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

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

(c) Business combinations

Acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised in accordance with the accounting policy for goodwill in Note 3(e) below.

(d) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities.

(e) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

Where the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives of property, plant and equipment are as follows:

Land and buildings	30 years or the terms of land use rights, if shorter
Mining related machinery and equipment	10 years
Leasehold improvements	5 years or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 – 10 years

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

(g) Construction in progress

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

(h) Deferred overburden removal costs

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

(i) Intangible assets (other than goodwill)

(i) Mining rights

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

(ii) Exploration and evaluation assets

Exploration and evaluation assets comprise costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation assets also include the costs incurred in acquiring mining rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised as exploration and evaluation assets and not amortised, and transferred to mining rights if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the income statement. Exploration and evaluation assets are stated at cost less impairment losses, if any.

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 "Impairment of Assets" whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

– the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

– substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

– exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

– sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(j) Impairment of other assets excluding goodwill

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

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

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

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

(k) Inventories

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

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

Inventories of ancillary materials, spare parts and small tools used in production are stated at weighted average cost less impairment losses.

(l) Financial assets

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

(i) Loans and receivables

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

(ii) Impairment of financial assets

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

For the Group's financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

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

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

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

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

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

(iii) Effective interest method

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

(iv) Derecognition of financial assets

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

(m) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

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

(ii) Equity instruments

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

(iii) *Financial liabilities*

Financial liabilities, including accounts and bills payable and other payables are initially measured at fair value, net of transaction costs.

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

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

(iv) *Derecognition of financial liabilities*

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits at banks, and, for the purpose of consolidated cash flow statements, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(o) Leases

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

(p) Provision and contingent liabilities

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

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

Provision for close down, restoration and environmental costs

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

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

(q) Income tax

Income tax expense represents the sum of the current and deferred tax.

(i) Current tax

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

(ii) Deferred tax

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

(r) Foreign currencies

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

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

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

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

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

(s) Employees' benefits

(i) Short term benefits

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

(ii) Pension obligations

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statements as they become payable in accordance with the rules of the central pension scheme.

(t) Borrowing costs

All borrowing costs are recognised as expenses in the period in which they are incurred.

(u) Related parties

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

(v) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(i) Sale of coals

Revenue associated with the sale of coals is recognised when the coals have been delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the goods.

(ii) Interest income

Interest income is recognised on a time proportion basis by reference to the principal outstanding using the effective interest method.

(w) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments are presented as the secondary reporting format.

In respect of geographical segment reporting, revenue is based on the country where the customer is located, and total assets and capital expenditure are where the assets are located.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Carrying value of non-current assets and impairment of assets

Non-current assets, including property, plant and equipment and intangible assets, are carried at cost less accumulated depreciation and amortisation and impairment losses, where appropriate. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. Details of the impairment on intangible assets are set out in Note 14.

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Reserve estimates

Reserves are estimates of the amount of products that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

(i) Asset carrying values may be affected due to changes in estimated future cash flows.

(ii) Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

(iii) Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

(iv) The carrying value of deferred tax may change as a result of changes in the asset carrying values as discussed above.

(d) Accounts and bills receivable and other receivables

The Group's management determines the provision for impairment of accounts and bills receivable and other receivables. This estimate is based on the credit history of its customers and other debtors, and current market conditions. Management reassesses the provision at each balance sheet date.

(e) Income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of the future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future deferred tax assets and liabilities that could have a significant effect on earnings.

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

The provision for close down, restoration and environmental costs is determined by management based on their past experience and best estimation of future expenditures, after taking into account existing relevant PRC regulations. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time. Details of the Group's provision for close down, restoration and environmental costs are set out in Note 25.

5. SEGMENT INFORMATION

The Group is principally engaged in a single business segment of mining, exploration and sale of coal. The Group's turnover and operating results are earned within the PRC and all operating assets of the Group are located in the PRC. Therefore, no business segment or geographical segment is presented.

6. TURNOVER AND OTHER INCOME

Turnover is the Group's revenue, which represents the invoiced value of goods sold, net of rebates and discounts. All significant transactions amongst the companies comprising the Group have been eliminated on consolidation. An analysis of the Group's revenue and other income is as follows:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009
	HK$'000	*HK$'000*
Turnover:-		
Sale of coals	35,071	127,705
Other income:-		
Sundry income	119	219
Interest income	33	117
	152	336

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging the following:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009
	HK$'000	*HK$'000*
Cost of inventories sold	31,669	83,774
Auditors' remuneration	1	3
Depreciation of property, plant and equipment *(Note 13)*	406	2,640
Amortisation of intangible assets *(Note 14)**	9,599	17,939
Loss on disposal of property, plant and equipment	–	765
Provision for close down, restoration and environment costs *(Note 25)**	–	6,600
Staff costs (excluding directors' remuneration *(Note 9(a))*)		
Salaries and wages	959	3,854
Pension scheme contributions	91	338
	1,050	4,192
Minimum lease payments under operating lease for land and buildings	–	29

* *Amounts are also included in the "Cost of inventories sold" above.*

8. FINANCE COSTS

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009
	HK$'000	*HK$'000*
Interest on trade financing	829	693

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Details of directors' remuneration, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

2009

Name of Directors	Fees	Basis salaries, allowance and bonus	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Wong Wai Sing	173	–	–	173
Mr. Ho Cheuk Hang	–	–	–	–
Ms. Yick Mi Ching Dawnibilly	–	–	–	–
Mr. Cheung King Shan	–	–	–	–
	173	–	–	173

2008

Name of Directors	Fees	Basis salaries, allowance and bonus	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Wong Wai Sing	34	–	–	34
Mr. Ho Cheuk Hang	–	–	–	–
Ms. Yick Mi Ching Dawnibilly	–	–	–	–
Mr. Cheung King Shan	–	–	–	–
	34	–	–	34

There was no agreement under which a director waived or agreed to waive any remuneration during the Relevant Periods. In addition, no emolument was paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office during the Relevant Periods.

(b) **Five highest paid individuals**

Of the five highest paid individuals in the Group, one (2008: one) individual is a director of the Company whose emoluments is set out above. The emoluments of the remaining four (2008: four) individuals are as follows:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009
	HK$'000	*HK$'000*
Salaries and other benefits	121	750

The emoluments of each individual were all below HK$1,000,000 for each of the Relevant Periods.

10. INCOME TAX

(a) The amount of income tax in the consolidated income statement represents:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009
	HK$'000	*HK$'000*
Current tax – PRC	–	1,694
Deferred tax credit – PRC *(Note 20)*	(1,974)	(293,835)
	(1,974)	(292,141)

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for Hong Kong profits tax purposes for the Relevant Periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or places in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

In accordance with the approval from the relevant tax authorities, Mulei County Kai Yuan Coal Company Limited ("Kai Yuan Coal"), a subsidiary of the Group operating in the PRC, is entitled to two years' exemption from the PRC corporate income tax ("CIT") followed by three years' 50% relief from the CIT. The year ended 31 December 2007 is the first profit-making year of Kai Yuan Coal for the purpose of CIT exemption. Accordingly, no CIT was provided for the period ended 31 March 2008. From 1 January 2008, the standard CIT rate for enterprises in the PRC is 25%. Accordingly, CIT was provided at applicable rate of 12.5% on the assessable profit of Kai Yuan Coal for the period beginning from 1 January 2009 to 31 March 2009 in the year ended 31 March 2009.

(b) The tax credit for the Relevant Periods can be reconciled to the accounting profit/(loss) as follows:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	**Year ended 31 March 2009**
	HK$'000	*HK$'000*
Profit/(loss) before tax	51,259	(1,128,483)
Tax calculated at the rate of 16.5% for the year ended 31 March 2009 and 17.5% for the period ended 31 March 2008	8,970	(186,200)
Tax effect of tax rates of other jurisdictions	3,896	(95,917)
Profits exempted from income tax	(2,154)	(12,318)
Tax effect of income non-taxable for taxation purpose	(12,694)	–
Tax effect on expenses not deductible for taxation purpose	8	2,294
Income tax credit for the period/year	(1,974)	(292,141)

11. DIVIDEND

No dividend has been paid or declared by the Company during each of the Relevant Periods.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit of HK$53,233,000 for the period ended 31 March 2008 and loss of HK$836,342,000 for the year ended 31 March 2009 attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is 1 and 2 ordinary shares for the period ended 31 March 2008 and year ended 31 March 2009, respectively. No diluted loss per share is presented for each of the Relevant Periods as no diluting event existed during the Relevant Periods.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings located in PRC	Mining related machinery and equipment	Leasehold improve- ments	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:							
At date of incorporation	–	–	–	–	–	–	–
Additions	–	24	–	5	292	914	1,235
Acquisition of subsidiaries *(Note 23)*	8,276	6,832	–	132	3,146	1,303	19,689
Transfer	–	424	–	–	–	(424)	–
Exchange realignments	489	404	–	8	186	77	1,164
At 31 March 2008	8,765	7,684	–	145	3,624	1,870	22,088
Additions	17,495	576	2,577	426	2,188	3,461	26,723
Disposals	(21)	(4,136)	–	(49)	(2,113)	–	(6,319)
Transfer	–	2,927	–	–	–	(2,927)	–
Exchange realignments	183	118	–	3	54	39	397
At 31 March 2009	26,422	7,169	2,577	525	3,753	2,443	42,889
Accumulated depreciation:							
At date of incorporation	–	–	–	–	–	–	–
Acquisition of subsidiaries *(Note 23)*	874	1,600	–	68	1,942	–	4,484
Charge for the period *(Note 7)*	96	236	–	7	67	–	406
Exchange realignments	54	101	–	5	117	–	277
At 31 March 2008	1,024	1,937	–	80	2,126	–	5,167
Disposals	(19)	(1,197)	–	(43)	(1,737)	–	(2,996)
Charge for the year *(Note 7)*	1,279	690	384	61	226	–	2,640
Exchange realignments	34	35	4	2	29	–	104
At 31 March 2009	2,318	1,465	388	100	644	–	4,915
Carrying amount:							
At 31 March 2008	7,741	5,747	–	65	1,498	1,870	16,921
At 31 March 2009	24,104	5,704	2,189	425	3,109	2,443	37,974

14. INTANGIBLE ASSETS

	Exploration and evaluation assets	Mining right	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At date of incorporation	–	–	–
Acquisition of subsidiaries *(Note 23)**	1,094,430	267,425	1,361,855
Additions	–	38	38
Exchange realignments	64,747	15,821	80,568
At 31 March 2008	1,159,177	283,284	1,442,461
Exchange realignments	24,280	5,947	30,227
At 31 March 2009	1,183,457	289,231	1,472,688
Accumulated amortisation and impairment:			
At date of incorporation	–	–	–
Acquisition of subsidiaries *(Note 23)**	–	2,259	2,259
Amortisation for the period *(Note 7)***	–	9,599	9,599
Exchange realignments	–	410	410
At 31 March 2008	–	12,268	12,268
Amortisation for the year *(Note 7)***	–	17,939	17,939
Impairment loss ***	979,217	181,002	1,160,219
Exchange realignments	79,701	15,176	94,877
At 31 March 2009	1,058,918	226,385	1,285,303
Carrying amount:			
At 31 March 2008	1,159,177	271,016	1,430,193
At 31 March 2009	124,539	62,846	187,385

* *The mining right and the exploration right together with other exploration and evaluation assets purchased as part of a business combination during the period ended 31 March 2008 are initially recognised at their fair values on acquisition with reference to professional valuations performed by Greater China Appraisal Limited, an independent firm of professionally qualified valuers. At subsequent balance sheet dates, mining right and exploration and evaluation assets are measured using the cost model.*

** *Amortisation is provided to write off the cost of the mining right using the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining right till all proven and probable mineral reserves have been mined.*

The amortisation charge for the mining right for the year is included in the "cost of sales" in the consolidated income statements.

*** *In the period ended 31 March 2008, the Company acquired the 100% equity interests of the MKKY Group (defined in Note 23) on 19 November 2007 with a view that coal mining business is in a fast growing trend with immense potential and such acquisition would diversify the Group into a new* *business with significant growth potential. However, there are a number of unforeseeable and uncontrollable factors happened subsequent to such investment decision in the global economy in year 2008 and has been continuing which resulted in the prospect of the coal mining industry has not been growing as fast as expected.*

The prospect of coal mining business grows in line with the economy. The global recession and slower economic growth of the PRC are negatively hindering the manufacturing activities in the PRC which in turn affects the demand of, and put pressure on the market price of coals, the core natural resources used for generating electricity to support those manufacturing activities.

In view of the slower economic growth of the PRC and uncertainty in the economic recovery during this period of global recession, the prospect of the coal market will continue to be affected and the business in coal mining will continue to be difficult and challenging. The Group believes that the profitability potential of the MKKY Group will be reduced in the short and medium terms. The Group consider such decline indicates that the carrying amount of the Group's intangible assets has been impaired and an impairment loss of HK$1,160,219,000 (2008: HK$Nil) has been recognised in the consolidated income statement for the year ended 31 March 2009 to reduce the carrying value of the intangible assets to their estimated recoverable amounts. The estimated recoverable amounts of the intangible assets of the Group were determined based on a value-in-use calculation of the Group's coal mining business with reference to a valuation report issued by Greater China Appraisal Limited, an independent firm of professionally qualified valuers, in respect of the coal mining business of the Group.

Details of the Group's mining right and exploration right are as follows:-

Mines	**Locations**	**Expiry dates**	*Note*
Mining right			
Kaiyuan Open Pit Coal Mine (凱源露天煤礦)	Bei Ta Mountain (北塔山), Qitai County (奇台縣), Xinjiang Uygur Autonomous Region (新疆維吾爾自治區)	26 June 2018	–
Exploration right			
Zexu Open Pit Coal Mine (澤旭露天煤礦)	Bei Ta Mountain (北塔山), Qitai County (奇台縣), Xinjiang Uygur Autonomous Region (新疆維吾爾自治區)	4 September 2009	*(a)*

Note:

(a) The exploration right represent licence for the right for exploration in the specified location in the PRC, which is included in the exploration and evaluation assets of the Group and the period of this exploration right is within 1 year.

During the year ended 31 March 2009, the exploration right was renewed to 4 September 2009. As at the date of approval of the Financial Information, the Group has intention to apply for an extension of the relevant licence for the exploration right in the event that the related mining right for Zexu Open Pit Coal Mine has not yet been approved up to the expiry date of the existing exploration right. The Group is confident that the licence will be renewed by the relevant authorities.

15. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 March 2008 and 2009 are as follows:-

Name of Company	Country of incorporation and operation	Nominal value of issued ordinary share capital/paid-in capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ming Kei Kai Yuan Investment Company Limited ("MKKY")	Hong Kong/ Hong Kong	HK$60,000,000	100	–	Investment holding
Mulei County Kai Yuan Coal Company Limited *	PRC/PRC	RMB30,000,000	–	100	Coal mining and selling
Qitai County Zexu Trading Company Limited	PRC/PRC	RMB2,000,000	–	100	Coal mining and selling

* *The company is registered as wholly-foreign-owned enterprises with limited liability under the PRC law.*

16. INVENTORIES

	2008	2009
	HK$'000	*HK$'000*
Coals	2,507	49,315
Ancillary materials, spare parts and small tools	370	179
	2,877	49,494

17. ACCOUNTS AND BILLS RECEIVABLE

(i) The ageing analysis of the Group's accounts receivable as at the respective balance sheet date, based on invoice date, is as follows:

	2008	2009
	HK$'000	*HK$'000*
Within 90 days	7,870	5,190
91 to 180 days	–	1,709
181 to 365 days	–	1,565
Accounts receivable	7,870	8,464
Bills receivable	67,932	3,445
	75,802	11,909

(ii) The Group's sales to coal customers are mainly on cash basis, or with advanced receipts. For certain well-established customers with good repayment history and creditworthiness, the Group allows an average credit period of 90 days.

(iii) No allowance for doubtful debts was made during the Relevant Periods. All of the Group's accounts and bills receivable were neither past due nor impaired, which relate to a wide range of customers for whom there was no recent history of default.

(iv) At 31 March 2009, the Group's bills receivable of HK$3,445,000 (2008: HK$41,070,000)(Note 19) were discounted to banks with recourse. The Group continued to recognise the full carrying amount of the bills receivable and had recognised the cash received on the transfer as a secured borrowing which is included in bills payable.

18. CASH AND CASH EQUIVALENTS

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

	2008	2009
	HK$'000	*HK$'000*
Cash and cash equivalents were denominated in:		
Hong Kong Dollars	610	604
Renminbi ("RMB")	3,656	42,758
Total	4,266	43,362

19. ACCOUNTS AND BILLS PAYABLE

An ageing analysis of the accounts payable of the Group as at the respective balance sheet date, based on the invoice date, is as follows:

	2008	2009
	HK$'000	*HK$'000*
Within 90 days	3,575	11,615
91 to 180 days	197	2,150
181 to 365 days	–	1,205
Total accounts payable	3,772	14,970
Bills payable *(Note 17(iv))*	41,070	3,445
	44,842	18,415

The accounts and bills payable are non-interest-bearing and are normally settled on 30 day terms.

20. DEFERRED TAX LIABILITIES

The components of deferred tax liabilities recognised in the balance sheets and the movements are as follows:

	Intangible assets
	HK$'000
Balance at date of incorporation	–
Credited to consolidated income statement *(Note 10(a))*	(1,974)
Acquisition of subsidiaries *(Note 23)*	337,194
Exchange realignments	19,890
At 31 March 2008	355,110
Credited to consolidated income statement *(Note 10(a))*	(293,835)
Exchange realignments	(16,192)
At 31 March 2009	45,083

The Group and the Company have no material unprovided deferred tax as at 31 March 2008 and 2009.

21. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Authorised:		
Ordinary shares of US$1 each		
At beginning and end of period/year	50,000	390
Issued and fully paid:		
Issue of new share *(Note i)*	1	–
Balance at 31 March 2008	1	–
Issue of additional shares *(Note ii)*	99	1
Balance at 31 March 2009	100	1

Notes:

(i) The Company was incorporated with an authorised share capital of US$50,000 (equivalent to HK$390,000) divided into 50,000 share of US$1 each. 1 share of US$1 was issued to the subscriber to the Memorandum of Association at par for cash upon incorporation on 12 April 2007 to provide the initial capital.

(ii) On 27 March 2009, the issued share capital of the Company was increased to US$100 by the allotment of 99 shares of US$1 each at par for cash to provide additional working capital. Such shares rank pari passu in all respects with the existing share of the Company.

22. RESERVES OF THE GROUP

(i) Statutory reserve fund

According to Articles of Association of the Group's subsidiary operating in the PRC, the subsidiary is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity holders of the PRC subsidiary.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3(r).

23. BUSINESS COMBINATION

On 19 November 2007, the Group acquired 100% equity interests of MKKY and its subsidiaries (the "MKKY" Group) for a consideration of HK$1,000,000,000. This transaction has been accounted for by the acquisition method of accounting. The MKKY Group is mainly engaged in mining, sale and distribution of coals in the PRC. Further details are set out in the Ming Kei's circular dated 15 October 2007.

The consideration was satisfied (i) as to HK$70,000,000 in cash; (ii) as to HK$360,000,000 by allotment and issue of 400,000,000 shares of the ultimate holding company of the Company to the vendors; (iii) as to HK$288,000,000 by the issue of convertible bonds by the ultimate holding company of the Company; and (iv) as to HK$282,000,000 by the issue of promissory notes by the ultimate holding company of the Company. The above consideration with fair value of HK$1,010,739,000 on 19 November 2007 borne by the ultimate holding company was accounted for as the Group's amount due to the immediate holding company.

The net assets acquired in the transaction, and the excess of the Group's share of net fair value over cost of the acquisition arising therefrom, are as follows:

	Notes	**Acquiree's carrying amount before combination** *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired:				
Property, plant and equipment	*13*	15,205	–	15,205
Intangible assets	*14*	10,820	1,348,776	1,359,596
Inventories		295	–	295
Accounts and bills receivable		31,303	–	31,303
Other receivables		28,142	–	28,142
Bank and cash balances		2,407	–	2,407
Accounts and bills payables		(9,417)	–	(9,417)
Other payables		(28,821)	–	(28,821)
Deferred tax liabilities	*20*	–	(337,194)	(337,194)
		49,934	1,011,582	1,061,516
Excess of the Group's share of net fair value of the interests in subsidiaries acquired over the cost of the acquisition				(50,777)
Total consideration				1,010,739

	2008 *HK$'000*
Net cash inflow arising on acquisition:	
Cash and cash equivalent balances acquired	2,407

Included in turnover and profit for the period ended 31 March 2008 was HK$35,071,000 and HK$8,600,000 respectively attributable to the additional business generated by the MKKY Group since its acquisition in November 2007.

Had this business combination been effected at the beginning of the period ended 31 March 2008, the revenue of the Group would have been HK$78,814,000, and the profit for the period would have been HK$17,414,000.

24. OPERATING LEASE COMMITMENTS

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

At 31 March 2008 and 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	**2009**
	HK$'000	*HK$'000*
Within one year	–	54

25. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

The provision for close down, restoration and environmental costs, in relation to all of the two mines of the Group, amounted to HK$6,600,000 as at 31 March 2009 (2008: HK$Nil). It has been determined by the management charged to the consolidated income statement for the year ended 31 March 2009.

Mining activities may result in land subsidence, which could lead to losses to the residents of the mining areas. Pursuant to the relevant PRC regulations, the Group is required to make compensation payments to the residents for their losses resulting from land subsidence, or to restore the mining areas back to certain acceptable conditions.

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or results of operations of the Group. The PRC government, however, has moved and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainty which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to, coal mines and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites.

The provision for close down, restoration and environmental clean up costs has been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Amount due to a director and a shareholder of ultimate holding company as at 31 March 2008 was unsecured, interest free and repayable on demand. The amount due was repaid during the year ended 31 March 2009.

(b) The balances are unsecured, interest free and have no fixed terms of repayment.

(c) The key management of the Group comprises all directors of the Company, and the details of their remuneration are disclosed in Note 9(a).

27. SIGNIFICANT NON-CASH TRANSACTION

The consideration paid by the Group on the acquisition of equity interests of the MKKY Group of HK$1,010,739,000 was borne by the ultimate holding company of the Company and was accounted for as the Group's amount due from the immediate holding company.

28. CAPITAL RISK MANAGEMENT

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings as shown in the consolidated balance sheets, comprising amounts due to immediate holding company and a fellow subsidiary and bills payable. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus borrowings. The gearing ratios of the Group at 31 March 2008 and 2009 were as follows:

	2008	**2009**
	HK$'000	*HK$'000*
Total borrowings	1,051,784	1,014,172
Equity	116,465	(766,670)
Total capital	1,168,249	247,502
Gearing ratio	90%	410%

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

The Group has no plan to use special measures to adjust its gearing ratio in the foreseeable future.

29. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's business and financial instruments are market risk (including price risk, foreign currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group historically has no policy to use derivatives for hedging purposes. The majority of the financial instruments held by the Group are for purpose other than trading.

(a) Market risk

(i) Price risk – commodity price risk of coal

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

(ii) Foreign currency risk

The Group primarily operated in the PRC and most of its transactions are denominated and settled in RMB. The Group's sales are denominated mainly in the functional currency of the group entity making the sales, with the related costs mainly denominated in the same currency. Accordingly, there is no significant exposure to foreign currency risk.

The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group historically has not used any derivative instruments to hedge exchange rate of RMB and currently does not have a policy to do so in the foreseeable future.

(iii) Cash flow and fair value interest rate risk

The Group has no significant cash flow interest-rate risk as there are no significant borrowings which bear floating interest rates. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, accounts and bills receivable and other receivables except for prepayment included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

Majority of the Group's bank deposits are placed with renowned financial institutions and the credit risk is considered low. The Group has policies in place to ensure that sales of coals are made to customers with an appropriate credit history, and its major clients are large-scale companies with good credit. The Group's historical experience in collection of accounts and bills receivables and other receivables falls within the recorded allowance, if any, and the directors of the Company are of the opinion that adequate allowance for uncollectible receivables has been made in the Financial Information.

(c) **Liquidity risk**

The Group's policy to manage liquidity risk is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Due to the dynamic nature of the underlying businesses, the Group maintains a reasonable level of cash and cash equivalents. The Group's primary cash requirements have been for purchases of materials, machinery and equipment and payment of related debts. The Group finances its working capital requirements through funds generated from operations and financing from holding companies. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected future cash flows. Further details are set out in Note 3(a).

(d) **Fair values**

All financial instruments are carried at amounts not materially different from their estimated fair values as at 31 March 2009 and 2008.

30. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2008 and 2009 may be categorised as follows:

	2008	**2009**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	109,506	62,385
Financial liabilities		
Financial liabilities measured at amortised cost	56,061	32,478

31. SIGNIFICANT NON-ADJUSTMENT POST BALANCE SHEET EVENTS

As further detailed in the announcement of Ming Kei dated 7 May 2009, Ming Kei and the Group have the following significant non-adjusting post balance sheet date events:

(i) Star Fortune International Development Company Limited ("SFID"), an indirectly wholly-owned subsidiary of Ming Kei, entered into a conditional disposal agreement dated 30 April 2009 with Lasting Power Investments Limited, a wholly owned subsidiary of Artfield Group Limited, a company listed on the Main Board of the Stock Exchange, regarding the proposed disposal of 51% equity interest in the Company by SFID at a total cash consideration of HK$100 million. As one of the conditions for the completion of the disposal, a group reorganisation, which includes, among others, (i) waiver, settlement, set-off and elimination by the Group through inter-companies arrangement for the Group's aggregate current account due to the Remaining Group; (ii) transfer of the Group's property to the Remaining Group; and (iii) transfer of certain of the Group's motor vehicles to the Remaining Group, is to be implemented on or before the completion of the disposal.

(ii) On 30 April 2009, the former profit guarantee under the former agreement dated 3 July 2007 in relation to the purchase of the entire equity interest in MKKY, a wholly-owned subsidiary of the Company, shall be revised from not less than HK$60,000,000 (i.e. HK$120,000,000 in aggregate) for the two years ending 31 December 2008 and 31 December 2009 to not less than HK$20,000,000 (i.e. HK$40,000,000 in aggregate) for the two years ending 31 December 2008 and 31 December 2009 and all remaining references to "HK$60,000,000" and "HK$120,000,000" in the former agreement shall also be deleted and substituted by "HK$20,000,000" and "HK$40,000,000" respectively.

For further details referring to the above material post balance sheet events, reference is also made to the announcements of Ming Kei dated 9 July 2007, 13 February 2009 and 7 May 2009 respectively and the circular of Ming Kei dated 15 October 2007.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 31 March 2009 and up to the date of this report. No dividend or other distributions has been declared, made or paid by the Company in respect of any period subsequent to 31 March 2009.

Yours faithfully
For and on behalf of
Shu Lun Pan Hong Kong CPA Limited
Certified Public Accountants
Hong Kong

Chan Kam Wing, Clement
Director
Practising Certificate number P02038

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

The Target Company is a limited liability incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Vendor. The Target Company entered into the Former Agreement on 3 July 2007 with Ming Kei International Holding Co. Limited, Mr. Wong Wai Sing, Mr. Wong Wai Ngok in respect of the acquisition of the entire issued share capital in Ming Kei Kai Yuan by the Target Company. The Target Group comprises of the Target Company, Ming Kei Kai Yuan, Subsidiary A and Subsidiary B. Both the Target Company and Ming Kei Kai Yuan are investment holding companies and their subsidiaries, Subsidiary A and Subsidiary B, are responsible for the main business operation, with Subsidiary A principally engaged in the operation and management of the Kaiyuan Open Pit Coal Mine (凱源露天煤礦) and Subsidiary B principally engaged in the operation and management of the Zexu Open Pit Coal Mine (澤旭露天煤礦).

Business review

Benefited from the strong sales of coal and the increase in the average coal selling price, the Target Group recorded the turnover for the year ended 31 March 2009 of approximately HK$127.71 million, representing an increase by approximately HK$92.63 million as compared with the period from 12 April 2007 to 31 March 2008. The Target Group recorded a net loss of approximately HK$836.34 million for the year ended 31 March 2009. The net loss for the year was mainly as a result of recognizing the impairment loss of approximately HK$1,160.22 million in respect of the reduction of the carrying value of the intangible assets.

Financial Summary

Set out below is the financial information extracted from the accountants' report on the Target Group for the period from 12 April 2007 (date of incorporation) to 31 March 2008 and the year ended 31 March 2009:

	For the period from 12 April 2007 (date of incorporation) to 31 March 2008	**For the year ended 31 March 2009**
	(Audited)	(Audited)
	HK$'000	*HK$'000*
Turnover	35,071	127,705
Profit/(loss) before tax	51,259	(1,128,483)
Profit/(loss) after tax	53,233	(836,342)

Liquidity, financial resources and capital structure

Set out below is a summary of the audited financial information relating to the assets and liabilities of the Target Group extracted from the accountants' report on the Target Group as at 31 March 2008 and 2009:

	As at 31 March 2008 *HK$'000*	As at 31 March 2009 *HK$'000*
Total assets	1,562,929	343,994
Total borrowing	1,051,784	1,014,172
Total liabilities	1,446,464	1,110,664
Net assets/(liabilities)	116,465	(766,670)
Gearing ratio	90%	410%

The gearing ratio is calculated on the basis of total borrowing over total capital of the Target Group.

As at 31 March 2009, the Target Group's audited net liabilities and net current liabilities were approximately HK$766.67 million and HK$940.35 million respectively. The Target Group had total cash and bank balances of approximately HK$4.27 million as at 31 March 2008 and HK$43.36 million as at 31 March 2009, and the corresponding current ratios were approximately 0.106 and 0.112 (calculated as a ratio of current assets over current liabilities). As at 31 March 2008 and 31 March 2009, the total borrowings of the Target Group were approximately HK$1,051.78 million and HK$1,014.17 million respectively. The total borrowings of the Target Group as at 31 March 2009 include current and non-current borrowings, comprised amount due to immediate holding company of approximately HK$987.73 million, the amount due to a fellow subsidiary of approximately HK$23 million and bills payable of approximately HK$3.44 million. The borrowings due to the immediate holding company and a fellow subsidiary were unsecured, interest free and have no terms of fixed repayment.

Coal Mines

Kaiyuan Open Pit Coal Mine (凱源露天煤礦), situated at Bei Ta Mountain, Qi Tai County, Xinjiang Uygur Autonomous Region, the PRC (中國新疆維吾爾自治區奇台縣北塔山), is presently in operation with a general mining area of 1.158 square kilometers. It is owned and operated by Subsidiary A. The Mining Rights of Kaiyuan Open Pit Coal Mine (凱源露天煤礦) granted by the Department of Land and Resources of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國土資源廳) to Subsidiary A to conduct mining activities in the Kaiyuan Open Pit Coal Mine (凱源露天煤礦) is valid from June 2008 until June 2018.

Zexu Open Pit Coal Mine (澤旭露天煤礦), situated at Bei Ta Mountain, Qitai County, Xinjiang Uygur Autonomous Region, the PRC (中國新疆維吾爾自治區奇台縣北塔山) with an area of approximately 2.87 square kilometers, is presently in exploration stage. The

Exploration Permit issued by the Department of Land and Resources of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國土資源廳) allows Subsidiary B to conduct exploration work in Zexu Open Pit Coal Mine and is valid from 4 September 2008 until 4 September 2009.

Product mix

There are four major coal products of the Target Group, namely large size coal (larger than 150 mm), middle size coal (80-150 mm), small size coal (30-80 mm) and fine coal (less than 30 mm). The middle size coal is the main product of Subsidiary A in 2009. The coal extracted from the Coal Mines can be used for steel production, coal-fired electricity generation, power generation and for domestic purpose.

Segmental information

The Target Group is principally engaged in a single business segment of mining, exploration and sale of coal. Its turnover is earned within the PRC and all operating assets of the Target Group are located in the PRC. Therefore, there are no information for the business or geographical segment analysis of the Target Group.

Charges on assets

As at 31 March 2008 and 2009, the Target Group did not have any charges on assets.

Significant investment and material acquisition and disposal

Save for the fact that the Target Company acquired 100% equity interests in Ming Kei Kai Yuan and its subsidiaries on 19 November 2007, there was no significant investment or material acquisition or disposal for each of the two years ended 31 March 2009.

Foreign exchange exposure

The reporting currency and functional currency of the Target Group are expressed in Hong Kong Dollars. The business operations of the Target Group are operated in the PRC and most of its transactions are denominated and settled in RMB. The sales of the Target Group are denominated mainly in the functional currency of the Target Group's entity making the sales, with the related costs mainly denominated in the same currency. Accordingly, there is no significant exposure to foreign currency risk. The Target Group does not have any policy to use financial instruments, currency borrowings and/or other hedging instruments for hedging purposes and did not use any financial instruments, current borrowings and/or other hedging instruments for hedging purposes.

Treasury policies

The Target Group usually finances its working capital through funds generated from its operations and financial from its holding companies. All borrowings are denominated in RMB and interest free. Most of the borrowing methods used by the Target Group were borrowings from its immediate holding company, its fellow subsidiary, ultimate holding company or a director or a shareholder of its ultimate holding company.

Contingent liabilities

As at 31 March 2009, the Target Group did not have any contingent liabilities.

Employees and remuneration

The Target Group employed 116 people in the PRC as at 31 March 2009. Total staff costs incurred for the year ended 31 March 2009 were HK$4.19 million.

Future plans for material investments

Kaiyuan Open Pit Coal Mine (凱源露天煤礦) is in an expansionary phase and the Target Group has planned to increase the production capacity of that mine. It is estimated that future investment in capital expenditure of approximately RMB67.74 million will be incurred to expand and construct that mine.

1. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of an accountants' report dated 12 June 2009, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group.

12 June 2009

The Board of Directors
Artfield Group Limited
Suites 1003–1006, 10/F
Two Pacific Place
88 Queensway
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Artfield Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix III to the circular dated 12 June 2009 (the "Circular") in connection with the proposed acquisition of 51% equity interest in Star Fortune International Investment Company Limited by the Company's wholly owned subsidiary, Lasting Power Investments Limited ("Lasting Power") (the "Proposed Acquisition"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purpose only, to provide information about how the Proposed Acquisition might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out on page 135 to the Circular.

Respective responsibilities of Directors and reporting accountants

It is the responsibility solely of the Directors to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work 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 the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group had the Proposed Acquisition actually occurred as at 31 March 2009 or any future date; and
- the results and cash flows of the Group for the year ended 31 March 2009 or any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong

2. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement of the Group (the "Unaudited Pro Forma Financial Information") have been prepared to illustrate the effect of the proposed acquisition of 51% equity interest in Star Fortune International Investment Company Limited ("Star Fortune") (the "Proposed Acquisition") might have affected the financial information of Artfield Group Limited (the "Company") and its subsidiaries (collectively the "Group").

For the purpose of the Unaudited Pro Forma Financial Information, Star Fortune and its subsidiaries are referred to as the "Star Fortune Group". The Group immediately after the completion of the Proposed Acquisition is referred to as the "Enlarged Group".

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on (1) the audited consolidated balance sheet of the Group as at 31 March 2009, which has been extracted from the published annual report of the Company for the year ended 31 March 2009 as set out in Appendix I to the Circular and (2) the audited consolidated balance sheet of the Star Fortune Group as at 31 March 2009 as set out in Appendix IIB to the Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Proposed Acquisition had been completed on 31 March 2009.

The unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Enlarged Group have been prepared based on (1) the audited consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 March 2009 which has been extracted from the published annual report of the Company for the year ended 31 March 2009 as set out in the Appendix I to the Circular and (2) the audited consolidated income statement and consolidated cash flow statement of the Star Fortune Group for the year ended 31 March 2009 as set out in Appendix IIB to this Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Proposed Acquisition had been completed on 1 April 2008.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations or cash flows of the Enlarged Group had the Proposed Acquisition been completed as at the respective dates to which it is made up to or at any future dates.

3. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	Audited consolidated balance sheet of the Group as at 31 March 2009	Audited consolidated balance sheet of the Star Fortune Group as at 31 March 2009	Pro forma adjustment	Unaudited consolidated balance sheet of the Star Fortune Group after the Group Reorganisation as at 31 March 2009	Pro forma adjustment	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 3		*Note 5, 6, 7*	
Non-current assets						
Property, plant and equipment	157	37,974		37,974		38,131
Intangible assets	–	187,385		187,385		187,385
	157	225,359		225,359		225,516
Current assets						
Inventories	1,644	49,494		49,494		51,138
Deposits for acquisition of subsidiaries	2,000	–		–	(2,000)	–
Trade and other receivables	3,179	25,779		25,779		28,958
Bank balances and cash	378,997	43,362		43,362	(98,000)	324,359
	385,820	118,635		118,635		404,455
Current liabilities						
Trade and other payables	7,414	46,542		46,542		53,956
Amounts due to related companies	3,224	–		–		3,224
Amount due to immediate holding company	–	987,727	(987,727)	–		–
Amount due to a fellow subsidiary	–	23,000	(23,000)	–		–
Tax payable	–	1,712		1,712		1,712
	10,638	1,058,981		48,254		58,892
Net current assets/(liabilities)	375,182	(940,346)		70,381		345,563
Total assets less current liabilities	375,339	(714,987)		295,740		571,079

	Audited consolidated balance sheet of the Group as at 31 March 2009 *HK$'000*	Audited consolidated balance sheet of the Star Fortune Group as at 31 March 2009 *HK$'000*	Pro forma adjustment *HK$'000* *Note 3*	Unaudited consolidated balance sheet of the Star Fortune Group after the Group Reorganisation as at 31 March 2009 *HK$'000*	Pro forma adjustment *HK$'000* *Note 5, 6, 7*	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2009 *HK$'000*
Non-current liabilities						
Convertible loan notes	161,871	–		–		161,871
Provision for close down, restoration and environmental costs	–	6,600		6,600		6,600
Deferred tax liabilities	–	45,083		45,083		45,083
	161,871	51,683		51,683		213,554
Net assets/(liabilities)	213,468	(766,670)		244,057		357,525
Capital and reserves						
Share capital	76,537	1		1	(1)	76,537
Reserves	136,931	(766,671)	1,010,727	244,056	(244,056) 24,469	161,400
Equity attributable to equity holders of the Company	213,468	(766,670)		244,057		237,937
Minority interest	–	–		–	119,588	119,588
	213,468	(766,670)		244,057		357,525

4. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

	Audited consolidated income statement of the Group for the year ended 31 March 2009	Audited consolidated income statement of the Star Fortune Group for the year ended 31 March 2009	Pro forma adjustment	Pro forma adjustment	Unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 6	*Note 8*	
Continuing operations					
Turnover	23,105	127,705			150,810
Cost of sales and services provided	(17,134)	(83,774)			(100,908)
Gross profit	5,971	43,931			49,902
Other operating income	5,874	336			6,210
Discount on acquisition	–	–	24,469		24,469
Net gain on deregistration of subsidiaries	2,618	–			2,618
Selling and distribution expenses	(3,508)	(1,192)			(4,700)
Administrative expenses	(21,408)	(10,646)			(32,054)
Finance costs	(16,640)	(693)			(17,333)
Impairment loss on intangible assets	–	(1,160,219)			(1,160,219)
Loss before tax	(27,093)	(1,128,483)			(1,131,107)
Income tax	77	292,141			292,218
Loss for the year from continuing operations	(27,016)	(836,342)			(838,889)
Discontinued operations					
Loss for the year from discontinued operations	(1,748)	–			(1,748)
	(28,764)	(836,342)			(840,637)
Attributable to:					
Equity holders of the Company	(28,764)	(836,342)	24,469	409,808	(430,829)
Minority interests	–	–		(409,808)	(409,808)
	(28,764)	(836,342)			(840,637)

5. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	Audited consolidated cash flow statement of the Group for the year ended 31 March 2009	Audited consolidated cash flow statement of the Star Fortune Group for the year ended 31 March 2009	Pro forma adjustment	Pro forma adjustment	Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 6	*Note 7*	
OPERATING ACTIVITIES					
Loss before tax	(27,093)	(1,128,483)	24,469		(1,131,107)
Loss before tax from discontinued operations	(1,748)	–			(1,748)
	(28,841)	(1,128,483)			(1,132,855)
Adjustments for:					
Amortisation of intangible assets	–	17,939			17,939
Bad debts directly written off	3,728	–			3,728
Depreciation of property, plant and equipment	453	2,640			3,093
Discount on acquisition	–	–	(24,469)		(24,469)
Finance costs	16,640	693			17,333
Gain on disposal of subsidiaries	(3)	–			(3)
Wavier of long outstanding trade payables	(4,162)	–			(4,162)
Net gain on deregistration of subsidiaries	(2,618)	–			(2,618)
Loss on disposal of property, plant and equipment	3	765			768
Impairment loss on intangible assets	–	1,160,219			1,160,219
Provision for close down, restoration and environmental costs	–	6,600			6,600
Interest income	(1,230)	(117)			(1,347)
Write down of inventories	264	–			264
Operating cash flow before movements in working capital	(15,766)	60,256			44,490
Decrease/(increase) in inventories	1,328	(46,617)			(45,289)
Decrease in trade and other receivables	18,996	82,893			101,889
Decrease in trade and other payables	(8,360)	(22,660)			(31,020)
Increase in amounts due to related companies	194	–			194
Decrease in amount due to immediate holding company	–	(22,987)			(22,987)
Decrease in amount due to a director	–	(11,430)			(11,430)
Increase in amount due to a fellow subsidiary	–	23,000			23,000
Decrease in amount due to ultimate holding company	–	(8)			(8)
Cash (used in) from operations	(3,608)	62,447			58,839

	Audited consolidated cash flow statement of the Group for the year ended 31 March 2009	Audited consolidated cash flow statement of the Star Fortune Group for the year ended 31 March 2009	Pro forma adjustment	Pro forma adjustment	Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 6	*Note 7*	
Hong Kong Profits Tax refund	224	–			224
Overseas taxes refund	2	–			2
Overseas tax paid	(65)	–			(65)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(3,447)	62,447			59,000
INVESTING ACTIVITIES					
Acquisition of subsidiaries, net of cash acquired	–	–		(100,000) 4,266	(95,734)
Deposits paid for acquisition of subsidiaries	(2,000)	–		2,000	–
Purchases of property, plant and equipment	(66)	(26,723)			(26,789)
Interest received	1,230	117			1,347
Proceeds on disposal of property, plant and equipment	35	2,558			2,593
NET CASH USED IN INVESTING ACTIVITIES	(801)	(24,048)			(118,583)
FINANCING ACTIVITIES					
Repayment of bank loan	(3,644)	–			(3,644)
Interest paid	(6)	(693)			(699)
Repayment of obligations under finance leases	(3)	–			(3)
Advance from related companies	2,770	–			2,770
New bank loans raised	1,365	–			1,365
Proceeds on issue of new shares	–	1			1
NET CASH FROM (USED IN) FINANCING ACTIVITIES	482	(692)			(210)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,766)	37,707			(59,793)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	382,708	4,266		(4,266)	382,708
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	55	1,389			1,444
CASH AND CASH EQUIVALENTS AT END OF YEAR	378,997	43,362			324,359

Notes:

(1) On 7 May 2009, Lasting Power Investments Limited ("Lasting Power"), a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") with Star Fortune International Development Company Limited (the "Vendor") to acquire 51% equity interest in Star Fortune (the "Proposed Acquisition").

(2) As a precedent condition stated in the Sale and Purchase Agreement, the Star Fortune Group would conduct a group reorganisation (the "Group Reorganisation") prior to the completion of the Proposed Acquisition. The Group Reorganisation includes (i) payment of pre-acquisition dividends; (ii) waiver of the unaudited current account due to the Vendor or the Vendor's Guarantor or their respective subsidiaries by the Star Fortune Group; (iii) transfer of certain assets to other subsidiary of the Vendor's Guarantor; and (iv) making of provision for any contingent liabilities before the completion of the Proposed Acquisition.

No pro forma adjustment is made for the pre-acquisition dividend under the Group Reorganisation as the amount is neither specified nor determinable according to the terms as set out in the Sale and Purchase Agreement but subject to further negotiation between the Group and the Vendor upon actual completion of the Proposed Acquisition. Should the amount be determined and the pre-acquisition dividend be declared, the net assets of the Star Fortune Group would be reduced and the Group's discount on acquisition arising from the Proposed Acquisition would be decreased by such amount. The pre-acquisition dividend would have impact on the pro forma consolidated balance sheet and pro forma consolidated cash flow statement but not the pro forma consolidated income statement.

No pro forma adjustment is made for the transfer of assets under the Group Reorganisation as the amount is neither specified nor determinable according to the terms as set out in the Sale and Purchase Agreement but subject to further negotiation between the Group and the Vendor upon actual completion of the Proposed Acquisition. Should the amounts of assets transferred be determined, the net assets of the Star Fortune Group would be reduced and the Group's discount on acquisition arising from the Proposed Acquisition would be decreased by such amount. The transfer of assets would have impact on the pro forma consolidated balance sheet, the pro forma consolidated income statement and the pro forma consolidated cash flow statement.

No pro forma adjustment is made for the provision for contingent liabilities under the Group Reorganisation as the Star Fortune Group did not have material contingent liabilities as at 31 March 2009. Should a material contingent liability exist and a provision need to be made therefore, the net assets of the Star Fortune Group would be reduced and the Group's discount on acquisition arising from the Proposed Acquisition would be decreased by such amount. The provision for contingent liabilities would have impact on the pro forma consolidated balance sheet, pro forma consolidated income statement and the pro forma consolidated cash flow statement.

(3) The adjustment is to reflect the waiver of the current accounts due to the Vendor or the Vendor's Guarantor or their respective subsidiaries by the Star Fortune Group of approximately HK$1,010,727,000. The waiver is deemed as capital contribution from the shareholder and recorded in the capital contribution reserve. The waiver has no effect on the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the Enlarged Group.

(4) Under Hong Kong Financial Reporting Standard 3 "Business Combinations", the Group will apply the purchase method to account for the acquisition of the Star Fortune Group as subsidiaries if the Group has the power, directly or indirectly, to govern the financial and operating policies of the Star Fortune Group, so as to obtain benefits from its activities after the completion of the Proposed Acquisition. As of the date of this report, the directors of the Company consider that the Group will have control over the Star Fortune Group after the completion of the Proposed Acquisition.

In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Star Fortune Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of the completion of the Proposed Acquisition. Discount on acquisition arising on the Proposed Acquisition will be determined as the excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Star Fortune Group at the date of completion of the Proposed Acquisition over the cost of business combination. Discount of acquisition is recognised immediately in profit or loss.

Since the net fair value of the identifiable assets, liabilities and contingent liabilities of the Star Fortune Group as at the date of the actual completion of the Proposed Acquisition may be different from the fair values used in the preparation of the Unaudited Pro Forma Information, the discount on acquisition arising from the Proposed Acquisition will be reassessed at time of actual completion.

(5) The adjustment is to reflect the consideration of the Proposed Acquisition.

The total consideration for the Proposed Acquisition is HK$100,000,000 (subject to adjustment for the profit guarantee ("Profit Guarantee")) to be settled in cash. Details of the Proposed Acquisition are set out in the Letter from the Board. A deposit of HK$2,000,000 for the Proposed Acquisition had been paid before 31 March 2009 and recorded in the audited consolidated balance sheet of the Group as at 31 March 2009 under current assets. Cash payment of the balance of HK$98,000,000 would need to be made upon completion of the acquisition. The net cash inflow arising from the Proposed Acquisition is as follow:

	HK$'000
Cash consideration	100,000
Bank and cash balances acquired	(4,266)
	95,734

Since the fulfillment of the terms of the Profit Guarantee is contingent, the actual consideration may be different from HK$100,000,000. The consideration will be reassessed at the time frame as specified under the Profit Guarantee. In case the guaranteed profit specified thereunder is not met, the consideration would need to be reduced by an amount determined according to the provisions set out in the Profit Guarantee and the discount on acquisition arising from the Proposed Acquisition would be accordingly increased by the same amount.

(6) The adjustments represent the discount on acquisition of approximately HK$24,469,000 arising from the Proposed Acquisition. The share capital and the pre-acquisition reserves of the Star Fortune Group of approximately HK$1,000 and HK$244,056,000 respectively would be eliminated upon consolidation.

The discount of acquisition arising from the acquisition of the Star Fortune Group is derived from the calculation as follows:

	HK$'000
Fair values of the Star Fortune Group after the Group Reorganisation	244,057
Minority interest (49% × HK$244,057,000)	(119,588)
Discount on acquisition	(24,469)
Purchase consideration	100,000

It is assumed that the fair value of the identifiable assets and liabilities of the Star Fortune Group as at 31 March 2009 is the carrying amounts as recorded in the books of the Star Fortune Group as extracted from the Accountants' Report of the Star Fortune Group as set out in Appendix II to this Circular.

On completion of the Proposed Acquisition, the fair value of the net identifiable assets and liabilities of the Star Fortune Group will have to be assessed. As a result of the assessment, the amount of discount on acquisition 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 discount on acquisition at the date of completion may be different from that presented above.

(7) Upon completion of the Proposed Acquisition, 49% of the equity interest of the Star Fortune Group is held by the minority shareholder of the Enlarged Group. The minority interest is derived from the calculations as above.

(8) The adjustment represents the loss for the year attributable to minority interests as if the Proposed Acquisition had been taken place on 1 April 2008.

(9) No adjustments have been made to reflect the direct expenses of the Proposed Acquisition as such costs are not considered to be material.

(10) There are not continuing effect in the pro forma adjustments to the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the Enlarged Group.

(11) Basis of translation

Transaction of RMB into HK$ is made in the Unaudited Pro Forma Financial Information of the Enlarged Group at the closing rate of HK$1=RMB0.8833.

The following is the text of the report of the valuation of the Enlarged Group dated 12 June 2009 prepared by Greater China Appraisals Limited for the purpose of inclusion in this circular.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

12 June 2009

The Directors
Artfield Group Limited

Dear Sirs,

In accordance with the instructions from Artfield Group Limited ("the Company") to value the property interests of the enlarged group (the "Enlarged Group") in the People's Republic of China (the "PRC") and Germany after the acquisition of 51% equity interest in Star Fortune International Investment Company Limited ("Star Fortune"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the capital value of such property interest as at 31 March 2009 (referred to as the "date of valuation").

It is our understanding that this valuation is for very substantial acquisition purpose.

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of properties and the limiting conditions.

BASIS OF VALUATION

The valuation is our opinion of 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."

VALUATION METHODOLOGY

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

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the property interests in their continued uses and in their existing states without the benefit of any deferred term contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the property interests.

For the properties numbered 1 and 2 in the PRC, as they are held under long term Land Use Rights, we have assumed that the owner of the properties has free and uninterrupted rights to use or transfer the property for the whole of the unexpired term of the respective Land Use Rights. In our valuation, we have assumed that the property can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities. Unless stated as otherwise, vacant possession is assumed for the property concerned.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

We have assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. In addition, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificates.

TITLESHIP INVESTIGATION

For the properties owned by the Enlarged Group in the PRC (classified as Group I), we have been provided with copy of title documents. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any material liabilities attached to the properties.

For the properties leased to the Enlarged Group (classified as Group II and Group III), we have been provided with copy of tenancy agreements. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

In the course of our valuation, we have relied upon the legal opinions as stated in the title report given by Li & Partners Attorneys at Law (廣東聖天平律師事務所) ("The PRC Lawyer") in relation to the legal title to the properties located in the PRC under valuation.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the property is free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

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

No soil investigation has been carried out to determine the suitability of the ground conditions or the services for any property development.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Company and have accepted advice given to us by it on such matters as planning approvals, statutory notices, easements, tenure, occupation, rentals, site and floor areas and in the identification of the property in which the Enlarged Group has valid interests. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. 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.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the interests are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

For the properties located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While we have exercised our professional judgment in arriving at the value, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

OPINION OF VALUE

Valuation figures of the properties held by the Enlarged Group are shown in the attached summary of valuation and their respective valuation certificates.

For the properties classified under Group II and Group III which are leased to the Enlarged Group from independent third parties under tenancy agreements or other form of documents, they have no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent.

REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Rules"), including but are not limited to the provisions of Chapter 5 and Practice Note 12 of the Rules.

In valuing the property interests, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

All amounts are denominated in Hong Kong Dollars (HK$). Where applicable, an exchange rate of HK$100 to RMB88.203 Chinese Renminbi was adopted which is the prevailing exchange rate as at the date of valuation.

We enclose herewith the summary of valuation and valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

K. K. Ip
BLE, LLD
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, is a chartered valuation surveyor and registered professional surveyor, has substantial experience in valuation of property in the PRC and Hong Kong since 1992. Mr. Ip has joined Greater China Appraisal Limited since 1997.

SUMMARY OF VALUATION

No.	Property	Market Value as at 31 March 2009 *(HK$)*
Group I – Property interests owned by the Enlarged Group in The PRC		
1.	Unit 2 on 6th Floor Block A Yema Building No. 158 Kunming Road Urumqi Xinjiang Uygur Autonomous Region The PRC	18,100,000
2.	A Parcel of Land located at Jiangjungebi Qitai County Xinjiang Uygur Autonomous Region The PRC	5,300,000
3.	A Parcel of Land located at Beitashan Qitai County Xinjiang Uygur Autonomous Region The PRC	No commercial value
4.	A Parcel of Land located at Beitashan Qitai County Xinjiang Uygur Autonomous Region The PRC	No commercial value
	Sub-total:	HK$23,400,000
Group II – Property interests leased to the Enlarged Group in The PRC		
5.	Factory Block S No. 165 Pinglong West Road Pinghu Street Longgang District Shenzhen Guangdong Province The PRC	No commercial value

No.	Property	Market Value as at 31 March 2009 *(HK$)*
6.	Level 6 Southeastern Portion of Guicheng Electronic City Area C B6 Guicheng Yanping Road East Nanhai District Foshan Guangdong Province The PRC	No commercial value
7.	A Parcel of Industrial Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin approximately 90 km northeast of Qi Tai County) Mulei County Xinjiang Uygur Autonomous Region The PRC	No commercial value
8.	A Parcel of Residential Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin approximately 90 km northeast of Qi Tai County) Mulei County Xinjiang Uygur Autonomous Region The PRC	No commercial value
9.	Room 1807 Baixin Zuanshiyuan Beijing Nan Road Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value
10.	Room 15-C-308 Kangpu Zuanshiyuan Beijing Nan Road Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value

No.	Property	Market Value as at 31 March 2009 *(HK$)*
11.	Room 501, Unit 2 Block 2, Dijingyuan Xinzhou Chengshihuayuan No. 80 Suzhou Road Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value
12.	Room 402, Unit 1 Block 4, Xuanjingyuan Xinzhou Chengshihuayuan No. 80 Suzhou Road Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value
13.	Room 602, Unit 5 Block 5, Yujingyuan Xinzhou Chengshihuayuan No. 80 Suzhou Road Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value
14.	A Unit in Guest House of Mulei Office of State Administration of Taxation 330 Ren Min Nan Road Mulei County Xinjiang Uygur Autonomous Region The PRC	No commercial value

No.	Property		Market Value as at 31 March 2009 *(HK$)*
15.	Room 201 in Unit 2 Block No. 3 Lihuajian Industry and Commerce Bureau Qitai County Xinjiang Uygur Autonomous Region The PRC		No commercial value
		Sub-total:	No commercial value

Group III – Property interests leased by the Enlarged Group in Germany

No.	Property		Market Value as at 31 March 2009 *(HK$)*
16.	Christian- Lassen Strasse 10B Erdgeschoss 53117 Bonn Germany		No commercial value
		Sub-total:	No commercial value
		Grand Total:	**HK$23,400,000**

VALUATION CERTIFICATE

Group I – Property interests owned by the Enlarged Group in the PRC

No.	Property	Description	Particulars of Occupancy	Market Value as at 31 March 2009 *(HK$)*
1.	Unit 2 on 6th Floor Block A Yema Building No. 158 Kunming Road Urumqi Xinjiang Uygur Autonomous Region The PRC	Yema Building comprises 1 block of 27-storey office building (Block A) and 1 block of 27-storey apartment building (Block B) with a 1-storey basement carpark. It was completed in 2006. The subject property comprises an office unit on the 6th floor of Block A with a gross floor area of approximately 1,811.65 square metres. The property is held by a Building Ownership Certificate for office use.	The property is currently occupied by PRC Subsidiary A as an office.	18,100,000

Notes:

(i) According to a Building Ownership Certificate (烏市高新區字第2008033866號) dated 21 July 2008, the property is held by 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Coal Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) for office use.

(ii) As advised by PRC Subsidiary A, the property was acquired in May 2008 at an acquisition cost of approximately RMB14,500,000 and the other costs (including transaction fee, taxes etc.) expended to the property is approximately RMB743,000.

(iii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A is in possession of the Building Ownership Certificate by which the PRC Subsidiary A has vested legal title to the property.

(b) PRC Subsidiary A has the right to use or dispose of the property.

(c) The property is not subject to any mortgage.

No.	Property	Description	Particulars of Occupancy	Market Value as at 31 March 2009 *(HK$)*
2.	A Parcel of Land located at Jiangjungebi Qitai County Xinjiang Uygur Autonomous Region The PRC	The property comprises a parcel of land ("the Land") with land area of approximately 66,666.60 square metres. The property is held by the Enlarged Group under a State-owned Land Use Rights Certificate for a term expiring on 20 April 2056 for industrial use.	The property is currently occupied by PRC Subsidiary A for industrial use.	5,300,000

Notes:

(i) According to a State-owned Land Use Rights Certificate (奇土國用(2008)第143號) dated 18 April 2008, the land use rights is granted to 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) for a term expiring on 20 April 2056 for industrial use.

(ii) As advised by PRC Subsidiary A, the property was acquired on 18 April 2008 at nil consideration, and no material costs have been expended to the property.

(iii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A has obtained a State-owned Land Use Rights Certificate by which the PRC Subsidiary A has vested legal title to the property. The land use rights of the Land have been granted to PRC Subsidiary A with a term from 18 April 2008 to 20 April 2056 for industrial use.

(b) The property is not subject to any mortgage.

No.	Property	Description	Particulars of Occupancy	Market Value as at 31 March 2009 *(HK$)*
3.	A Parcel of Land located at Beitashan Qitai County Xinjiang Uygur Autonomous Region The PRC	The property comprises a parcel of land ("the Land") with land area of approximately 1.158 square kilometres. The property is held by the Enlarged Group under a Temporary Land Use Rights Certificate for a term from 1 January 2009 to 31 December 2010 for industrial use.	The property is currently occupied by PRC Subsidiary A for mining activities.	No commercial value

Notes:

(i) According to a Temporary Land Use Rights Certificate (木臨(2009)字第001號) dated 20 May 2009, the land use rights is held by 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) for a term from 1 January 2009 to 31 December 2010 for industrial use.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A has obtained the Temporary Land Use Rights Certificate and has paid land use fee for the temporary usage of the property.

(b) PRC Subsidiary A has the right to use the land in accordance with the Temporary Land Use Rights Certificate.

No.	Property	Description	Particulars of Occupancy	Market Value as at 31 March 2009 *(HK$)*
4.	A Parcel of Land located at Beitashan Qitai County Xinjiang Uygur Autonomous Region The PRC	The property comprises a parcel of land ("the Land") with land area of approximately 1.067 square kilometres. The property is held by the Enlarged Group under a Temporary Land Use Rights Certificate for a term from 25 July 2007 to 25 July 2009 for temporary dump.	The property is currently occupied by PRC subsidiary for temporary dump.	No commercial value

Notes:

(i) According to a Temporary Land Use Rights Certificate dated 25 July 2009, the land use rights is held by 木壘縣凱源煤炭有限公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) for a term from 25 July 2007 to 25 July 2009 for temporary dump.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A has obtained the Temporary Land Use Rights Certificate and has paid land use fee for the temporary usage of the property.

(b) PRC Subsidiary A has the right to use the land in accordance with the Temporary Land Use Rights Certificate.

Group II – Property interests leased by the Enlarged Group in the PRC

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
5.	Factory Block S No. 165 Pinglong West Road Pinghu Street Longgang District Shenzhen The PRC	The property comprises a single-storey industrial building completed in about 2000. The gross floor area of the property is approximately 789 square metres. The property is held under a tenancy agreement dated 26 May 2008 between 雅域實業(深圳)有限公司 as lessor and Deli Clock (Shenzhen) Company Limited ("Deli Shenzhen", an indirect wholly-owned subsidiary of the Company) as lessee for a term of 2 years from 21 May 2008 to 20 May 2010 at a monthly rent of RMB3,945. The tenancy is not assignable. The property is currently occupied by the Deli Shenzhen as a factory.	No commercial value

Notes:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The lessor has obtained real estate ownership certificate and is the legal owner of the property.

(b) The tenancy agreement is legal and binding.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 (HK$)
6.	Level 6 Southeastern Portion of Guicheng Electronic City Area C B6 Guicheng Yanping Road East Nanhai District Foshan Guangdong Province The PRC	The property comprises a floor within a 6-storey factory building completed in about 2006. The gross floor area of the property is approximately 1,405.92 square metres. The property is held under a tenancy agreement between 佛山市瀚天科技電子城有限公司 (Foshan Hantian Technology Electronic City Company Limited) as lessor and Nanhai Branch of Deli Clock (Shenzhen) Company Limited ("Deli Shenzhen", an indirect wholly-owned subsidiary of the Company) as lessee for a term of 5 years from 15 April 2008 to 14 April 2013 at a monthly rent of RMB12,653 for the period from 15 April 2008 to 14 April 2010; RMB13,286 for the period from 15 April 2010 to 14 April 2012; and RMB13,947 for the period from 15 April 2012 to 14 April 2013, exclusive of management fee, maintenance fee and utilities. The property is currently occupied by Nanhai Branch of Deli Shenzhen as a factory.	No commercial value

Notes:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) No title document of the property has been provided to the PRC Lawyer.

(b) The PRC Lawyer is unable to ascertain the legality of the tenancy agreement.

(c) There exists a risk that Deli Shenzhen will be unable to use the property.

No.	Property	Description	Particulars of Occupancy	Market Value as at 31 March 2009 *(HK$)*
7.	A parcel of Industrial Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin, approximately 90 km northeast of Qi Tai County) Mulei County Xinjiang Uygur Autonomous Region The PRC	The property comprises a parcel of land ("the Land") with land area of approximately 7,017.60 square metres. There are single-storey ancillary brickwork structures erected on the Land being occupied as offices and warehouses. The property is held by PRC Subsidiary A under a State-owned Land Use Rights Certificate for an undefined term for industrial use.	The property is currently occupied by PRC Subsidiary A as temporary office and warehouse of mining site.	No commercial value

Notes:

(i) According to a State-owned Land Use Rights Certificate (木土國用(2004)第155號) dated 28 September 2004, the land use rights have been leased to 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) for an undefined term for industrial use.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A has obtained a State-owned Land Use Rights Certificate by which the land use rights of the Land have been leased to PRC Subsidiary A for an undefined term for industrial use.

(b) Although the land administration authority has never requested PRC Subsidiary A to pay rent for the property, PRC Subsidiary A may be required to repay all rent in the future.

(c) No Building Ownership Certificates have been obtained for the buildings erected on the property. PRC Subsidiary A may be requested to apply for the relevant Building Ownership Certificates or to demolish the buildings if categorized as illegal.

No.	Property	Description	Particulars of Occupancy	Market Value as at 31 March 2009 *(HK$)*
8.	A parcel of Residential Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin, approximately 90 km northeast of Qi Tai County) Mulei County Xinjiang Uygur Autonomous Region The PRC	The property comprises a parcel of land ("the Land") with land area of approximately 4,031.32 square metres. There are single-storey ancillary brickwork structures erected on the Land being occupied as dormitory. The property is held by PRC Subsidiary A under a State-owned Land Use Rights Certificate for an undefined term for residential use.	The property is currently occupied by PRC Subsidiary A as temporary dormitory of mining site.	No commercial value

Notes:

(i) According to a State-owned Land Use Rights Certificate (木土國用(2004)第154號) dated 28 September 2004, the land use rights have been leased to 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) for an undefined term for residential use.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A has obtained a State-owned Land Use Rights Certificate by which the land use rights of the Land have been leased to PRC Subsidiary A for an undefined term for residential use.

(b) Although the land administration authority has never requested PRC Subsidiary A to pay rent for the property, PRC Subsidiary A may be required to repay all rent in the future.

(c) No Building Ownership Certificates have been obtained for the buildings erected on the property. PRC Subsidiary A may be requested to apply for the relevant Building Ownership Certificates or to demolish the buildings if categorized as illegal.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
9.	Room 1807 Baixin Zuanshiyuan Beijing Nan Road Urumqi Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 21-storey building completed in or about 2005. The gross floor area of the property is approximately 70 square metres. The property is held under a tenancy agreement dated 16 July 2008 between 夏紅艷 (Xia Hongyan) as lessor and 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) as lessee for a term of 1 year from 9 July 2008 to 9 July 2009 at a monthly rent of RMB1,550 inclusive of furniture and management fee. The tenancy is not assignable. The property is currently occupied by PRC Subsidiary A as a staff quarter.	No commercial value

Note:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The lessor has obtained building ownership certificate and has the rights to lease the property to PRC Subsidiary A.

(b) The tenancy agreement is legal and binding.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
10.	Room 15-C-308 Kangpu Zuanshiyuan Beijing Nan Road Urumqi Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 20-storey building completed in or about 2000. The gross floor area of the property is approximately 70 square metres. The property is held under a tenancy agreement dated 24 March 2009 between 袁志斌 (Yuan Zhibin) as lessor and 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) as lessee for a term of 1 year from 26 March 2009 to 25 March 2010 at a monthly rent of RMB1,200 inclusive of furniture and management fee. The tenancy is not assignable. The property is currently occupied by PRC Subsidiary A as a staff quarter.	No commercial value

Note:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The lessor has obtained building ownership certificate and has the rights to lease the property to PRC Subsidiary A.

(b) The tenancy agreement is legal and binding.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
11.	Room 501 Unit 2 Block 2 Dijingyuan Xinzhou Chengshihuayuan No. 80 Suzhou Road Urumqi Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 7-storey building completed in or about 2000. The gross floor area of the property is approximately 117 square metres. The property is held under a tenancy agreement dated 24 February 2009 between 楊萍 (Yang Ping) as lessor and 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) as lessee for a term of 1 year from 24 February 2009 to 23 February 2010 at a monthly rent of RMB1,800 inclusive of furniture. The property is currently occupied by PRC Subsidiary A as a staff quarter.	No commercial value

Note:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The lessor has obtained building ownership certificate and has the rights to lease the property to PRC Subsidiary A.

(b) The tenancy agreement is legal and binding.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
12.	Room 402 Unit 1 Block 4 Xuanjingyuan Xinzhou Chengshihuayuan No. 80 Suzhou Road Urumqi Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 6-storey building completed in or about 2005. The gross floor area of the property is approximately 123 square metres. The property is held under a tenancy agreement dated 16 June 2008 between 金正 (Jin Zheng) as lessor and 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) as lessee for a term of 1 year from 17 June 2008 to 15 June 2009 at a monthly rent of RMB1,500 inclusive of furniture and management fee. The property is currently occupied by PRC Subsidiary A as a staff quarter.	No commercial value

Note:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The lessor has obtained building ownership certificate and has the right to lease the property to PRC Subsidiary A.

(b) The tenancy agreement is legal and binding.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
13.	Room 602, Unit 5 Block 5, Yujingyuan Xinzhou Chengshihuayuan No. 80 Suzhou Road Urumqi Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 6-storey building completed in or about 2000. The gross floor area of the property is approximately 136 square metres. The property is held under a tenancy agreement dated 25 April 2008 between 湯麗丹 (Tang Lidan) as lessor and 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) as lessee for a term of 1 year from 26 April 2008 to 25 April 2009 at a monthly rent of RMB1,600 inclusive of management fee. The property is currently occupied by PRC Subsidiary A as a staff quarter.	No commercial value

Note:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The lessor has obtained building ownership certificate and has the right to lease the property to PRC Subsidiary A.

(b) The tenancy agreement is legal and binding.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
14.	A Unit in Guest House of Mulei Office of State Administration of Taxation 330 Ren Min Nan Road Mulei County Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 4-storey building completed in about 2000. The gross floor area of the property is approximately 100 square metres. The property is held under a tenancy agreement dated 1 January 2007 between 木壘縣國家稅務局 (Mulei Office of State Administration of Taxation) as lessor and 木壘縣凱源煤炭有限責任公司 ("PRC Subsidiary A", a wholly-owned subsidiary of Star Fortune) as lessee for a term of 1 year from 1 January 2009 to 31 December 2009 at a monthly rent of RMB8,000 inclusive of furniture, charges of water, electricity and heat. The property is currently occupied by PRC Subsidiary A as an office.	No commercial value

Note:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) No title document of the property has been provided to the PRC Lawyer.

(b) The PRC Lawyer is unable to ascertain the legality of the tenancy agreement.

(c) There exists a risk that PRC Subsidiary A will be unable to use the property.

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
15.	Room 201 in Unit 2 Block No. 3 Lihuajian Industry and Commerce Bureau Qitai County Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 6-storey building completed in about 1993. The gross floor area of the property is approximately 111.02 square metres. The property is held under a tenancy agreement dated 20 January 2009 between 黃健明 (Wang Jian Ming) as lessor and 奇台縣澤旭商貿有限責任公司 ("PRC Subsidiary B", a wholly-owned subsidiary of Star Fortune) as lessee for a term of 1 year from 1 January 2009 to 31 December 2009 at a yearly rent of RMB2,000 exclusive of utilities. The property is currently occupied by PRC Subsidiary B as an office.	No commercial value

Notes:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The lessor has obtained building ownership certificate and has the rights to lease the property to PRC Subsidiary B.

(b) The tenancy agreement is legal and binding.

Group III – Property interests leased by the Enlarged Group in Germany

No.	Property	Description and Occupancy	Market value as at 31 March 2009 *(HK$)*
16.	Christian-Lassen Strasse 10B Erdgeschoss 53117 Bonn Germany	The property comprises a unit within a 3-storey building completed in about 1999. The net floor area of the property is approximately 120 square metres. The property is held under a tenancy agreement between Mr. Werner Schadowski as lessor and Wehrle Unrenfabrik GmbH ("Wehrle", an indirect wholly-owned subsidiary of the Company) as lessee for a term of 1 year from 1 January 2009 to 31 December 2009 at a monthly rent of EUR1,600 exclusive of utilities. The property is currently occupied by the Enlarged Group as an office	No commercial value

The following is the text of the technical assessment report in respect of the Coal Mines prepared by the Independent Technical Adviser for the purpose of inclusion in this circular.

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Mining and Geological Consultants

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President and CEO
John T. Boyd II

Managing Director and COO
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12 June 2009
File: 3420

Board of Directors
Artfield Group Limited
Suites 1003–1006, 10/F
Two Pacific Place
88 Queensway, Hong Kong

Subject: Independent Technical Review
Kaiyuan and Zexu Openpit Coal Mine Projects
Xinjiang Uygur Autonomous Region
People's Republic of China

Dear Sirs:

This report presents the update of the John T. Boyd Company (BOYD) report (Report No. 3301, Independent Technical Review, issued in October 2007) for the Kaiyuan and Zexu Openpit Coal Mine projects, which are located approximately 80 km north of Mulei County in Xinjiang Uygur Autonomous Regions (Xinjiang), People's Republic of China (PRC). Kaiyuan Openpit Coal Mine is presently in operation and is expanding output, and is owned and operated by Mulei County Kaiyuan Coal Company Limited (Kaiyuan Company). Zexu Openpit Coal Mine is in greenfield status. Qitai County Zexu Trading Company Limited (Zexu Company) anticipates achieving design operating capacity in 2015. Projected raw coal output capacity is 0.9 Mtpa for each mine. Kaiyuan Company controls the Mining Rights and Zexu Company controls the Exploration Rights to their respective resource areas.

We have relied on available source data as provided by Kaiyuan and Zexu companies and discussions and observations completed during the BOYD project team's visit to the mines. 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 & CEO

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GLOSSARY AND DEFINITIONS

Ad	Air dried, as in coal quality reporting.
Artfield	Artfield Group Limited.
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	The economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses that 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 concentration of 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.
Dip	Angle that strata make with the horizontal.
EIR	Environmental Impact Report.

Exploration Rights	The exploration rights granted by the relevant authorities to conduct exploration activities within the area specified. Also referred to as an Exploration Permit.
Face (working face)	Mine location where active overburden stripping of coal extraction is taking place.
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.
FSR	Feasibility Study Report.
Geologic Report	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.
SEHK	The Stock Exchange of Hong Kong.
Indicated Coal Resource	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	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.
Kaiyuan Company	Mulei County Kaiyuan Coal Company Limited.
Kaiyuan Openpit Coal Mine	Kaiyuan Openpit Coal Mine situated at Beita Mountain, Qitai County, Xinjiang Uygur Autonomous Region, PRC.
km	Kilometer.
m	Meter.
m^2	Square meter.
m^3	Cubic meter.
m^3/min	Cubic meters per minute.
Marketable Reserves	Saleable coal product from Recoverable Reserves after accounting for mining and processing losses.
Measured Coal Resource	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.

MINCOM	MINCOM Limited, developer and marketer of geologic modeling and mine scheduling software.
Mine Plan	A Mining Plan Report is understood as the current documentation of the state of development and exploitation of a deposit during its economic life, including current mining plans. 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.
MineScape	MineScape (Version r.116) by MINCOM Limited.
Mining Rights	The mining rights granted by the relevant authorities to conduct mining activities within the subject area, with mining elevations, mining method, and annual output level specified.
MLR	Ministry of Land and Resources of the PRC.
mm	Millimeter.
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.
OP	Openpit.
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.
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	The economically mineable part of an Indicated, and in some circumstances, Measured, Coal Resource. It includes diluting materials and allowances for losses that 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. Also referred to as Recoverable Probable Coal Reserve.
Productivity	Measurements of worker efficiency usually expressed in terms of tonnes per unit of time.
Proved Coal Reserve	The economically mineable part of a Measured coal resource. It includes diluting materials and allowances for losses that 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. Also referred to as Recoverable Proved Coal Reserve.
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.
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.
Stripping Ratio	The ratio between overburden stripping quantities expressed as in situ cubic meters and the quantity of coal exposed by that stripping in tonnes.
Subcrop	Projected limit of mineral deposition where the coal seam outcrop is overlain by surface alluvial material (i.e., bed outcrop is obscured).
Tonne	Metric ton, equal to 1,000 kilograms.
tph	Tonnes-Per-Hour.
Whittle	Whittle (Version 4.0) by Gemcom Software International Inc.
Xinjiang	Xinjiang Uygur Autonomous Region of the People's Republic of China.
Zexu Company	Qitai County Zexu Trading Company Limited.
Zexu Openpit Coal Mine	Zexu Openpit Coal Mine situated at Beita Mountain, Qitai County, Xinjiang Uygur Autonomous Region of the PRC.

1.0 INTRODUCTION

1.1 Background

John T. Boyd Company (BOYD) was engaged in March 2009 by Artfield Group Limited (Artfield) to complete an Independent Technical Review (ITR) of the Kaiyuan and Zexu openpit coal mine projects. The openpit coal mine projects are located at Beita Mountain, Qitai County, Xinjiang Uygur Autonomous Region, People's Republic of China (PRC), approximately 80 km north of Mulei County in close proximity, about 2 km apart. BOYD completed an ITR report (3301) of the two mines for MP Logistics International Holdings Limited to support a Material Acquisition filing on The Stock Exchange of Hong Kong (SEHK).

A profile of the Kaiyuan and Zexu openpit coal mine projects is as follows:

- Kaiyuan Openpit Coal Mine is currently in operation and is expanding coal output. Mulei County Kaiyuan Coal Company Limited (Kaiyuan Company) owns and operates the mine. Completion of Kaiyuan Openpit Coal Mine expansion work is projected by Kaiyuan Company in 2009.

- Detailed exploration at the greenfield Zexu Openpit Coal Mine area is completed.

- Design capacity of 0.9 Mtpa is currently projected for each mine; however, an expansion to 1.8 Mtpa is under way at Kaiyuan for 2009 only and an expansion to 1.8 Mtpa is considered for Zexu. The ITRs for each mine are prepared on the basis of 0.9 Mtpa.

- Kaiyuan Company controls the Mining Rights and Qitai County Zexu Trading Company Limited (Zexu Company) controls the Exploration Rights (Exploration Permit) to their respective resource areas. (BOYD uses the terminology of Exploration Rights for Exploration Permit.)

- Principal coal seams to be exploited at Kaiyuan Openpit Coal Mine are the No. B_3 and No. B_2.

- Zexu Openpit Coal Mine has seven mineable seams, in descending order: B_7, B_6, B_5, $B_{4'}$, B_4, B_3 and B_2.

- Coal quality for these mines is non-caking coal (according to Chinese standard classification).

- Planned processing is limited to screening (there are no plans for washing the coal). Coal will be dispatched to market(s) using truck and railway transportation.

1.2 Scope of Work

The work scope for this assignment included the following:

- Site visit to the Kaiyuan Mine to observe mining operations and gain an understanding of current status and projected future operations; confirmation of previous asset description and status for the Zexu Mine.
- Update of historical operating data for Kaiyuan Mine.
- Review future mine plans for both mines in light of historical mining performance at Kaiyuan Mine.
- Update of the economic analyses for both mines according to current coal market and coal industry circumstances.
- Update of the Kaiyuan reserves to deduct mining activity (coal removal) through the latest practicable date of review (29 March 2009); Zexu resources are unchanged according to Zexu Company.
- Review and update environmental performance at Kaiyuan Mine and future plans.

Our work on this project was completed in accordance with the international requirements for the JORC Code for resource/reserve evaluations. We also performed our work in keeping with public filing requirements for the SEHK Rule 18.09 for the independent technical advisor as it applies.

1.3 Work Program

A comprehensive list of required source data was forwarded to Artfield upon initiating project preparation work in March 2009, with information provided to BOYD's Beijing office.

During the course of this study, a four-member team of BOYD's China technical specialists in geology, coal mining, and environmental protection completed a site visit from 30 March to 1 April 2009. The objectives of the site visit were to complete firsthand observations of the current status of mine operation at Kaiyuan Openpit Coal Mine, to collect available source data, and to discuss future plans with Kaiyuan and Zexu Companies. BOYD's Beijing office provided technical analysis and support. Geologic source data were reviewed at the mine site for potential reproduction. Kaiyuan and Zexu Companies also provided available geology, resource, and mine feasibility reports, including financial projections and coal output projections.

1.4 Source Data

The principal sources of information provided to BOYD for use in this project are:

1. *Operation Geologic Report of Kaiyuan Openpit Coal Mine*, May 2005, as prepared by the Kuanglian Science and Technology Consulting Center, Xinjiang Uygur Autonomous Region, PRC.

2. *Assets Assessment Report of Kaiyuan Company*, 18 December 2006, as prepared by the Zhengxiang Certified Public Accountants, Xinjiang Uygur Autonomous Region, PRC.

3. *Geological Exploration Report of Kaiyuan Openpit Coal Mine*, 3 July 2007, as prepared by the Exploration Team 9, Geology and Minerals Bureau, Xinjiang Uygur Autonomous Region, PRC.

4. *Feasibility Study Report of Kaiyuan Openpit Coal Mine*, July 2007, as prepared by the Coal Design & Research Institute Co. Ltd. of Xinjiang Uygur Autonomous Region, PRC.

5. *Preliminary Design Report of Kaiyuan Openpit Coal Mine*, October 2008, as prepared by the Coal Design & Research Institute Co., Ltd. of Xinjiang Uygur Autonomous Region, PRC.

6. *Assets Assessment Report of Zexu Company*, 18 December 2006, as prepared by the Zhengxiang Certified Public Accountants, Xinjiang Uygur Autonomous Region, PRC.

7. *Geological Exploration Report of Zexu Openpit Coal Mine*, 27 July 2007, as prepared by the Exploration Team 9, Geology and Minerals Bureau, Xinjiang Uygur Autonomous Region, PRC.

8. *Feasibility Study Report of Zexu Openpit Coal Mine*, August 2007, as prepared by the Coal Design & Research Institute Co. Ltd. of Xinjiang Uygur Autonomous Region, PRC.

Supplemental data included:

- Ratified 0.09 Mtpa mining license.

- Detailed exploration resource estimation maps.

- Preliminary mine design (0.9 Mtpa) and accompanying maps.

- Mine design drawings.

- Surveyed monthly pit status with corresponding tonnages.

- Primary earthmoving equipment list.
- Screening plant modification flowsheet and parameters, etc.
- Financial data for 2008 and 2009.
- Raw coal quality test reports.
- Environmental and water resource data.
- Plans for future equipment replacement.
- Mine safety related documents.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this ITR was provided by Kaiyuan and Zexu Companies, we independently evaluated the reasonableness of the data provided within the context of our professional, and technical expertise, and our broad Chinese mining and international experience. To confirm our interpretation of the Kaiyuan Openpit Coal Mine data, discussions were conducted after our initial analysis of the available data and, where necessary, additional information was compiled.

1.5 Project Team

The BOYD project team has extensive professional experience in coal resource and mine evaluations. Included in this team are:

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, opencut 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. James F. Kvitkovich – Vice President, BS (Mining Engineering)

Mr. Kvitkovich has 28 years of 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. David Zhong – Managing Director – China, BS (Mining Engineering)

Mr. Zhong manages the BOYD Beijing office and has over 40 years of 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. 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. Jisheng (Jason) Han – Mining Engineer, MS (Mining Engineering)

Mr. Han has 12 years of mining industry experience in both China and the United States.

Mr. Benjamin A. Quashie – Senior Mining Engineer, MS (Mining Engineering)

Mr. Quashie has 16 years of diverse experience in ore resource (reserve) estimation, mine planning (open pit and underground) and mine operations. He has provided technical support services for metal mines in China and internationally and has considerable experience in openpit optimization and design. Mr. Quashie is a professional member of the Society for Mining, Metallurgy, and Exploration, Inc.

Mr. Rongjie (Jeff) Li – Geologist, MS (Geology)

Mr. Li has over three years of experience in coal and mineral deposit geology, coalfield exploration, drilling supervision, geologic review, and project coordination.

Mr. Tao Liang Zhong – Environmental Associate

Mr. Tao has over 40 years experience in the mining industry, much of it doing environmental evaluations. He worked within the former Capital Construction Department of the Ministry of Coal Industry and was responsible for review and evaluation of environment protection in coal projects. Following that experience, Mr. Tao worked for the National Development Bank. There, he was responsible for review and evaluation of environment protection in coal mine construction project investment.

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 analysis
- 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

BOYD also possesses extensive computer and software systems to estimate reserves and complete mine plans, including Vulcan, MINCOM, SurvCADD, and others.

Our headquarters office is located in the Pittsburgh, Pennsylvania, region of the United States. Branch offices are established in Denver, Colorado (USA); Brisbane, Australia; and Beijing, China. Our website, www.jtboyd.com, contains additional details.

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 SEHK, London Stock Exchange, and NI43-101 (Canadian Requirements), JORC Code, U.S. Securities and Exchange Rules (SEC), etc. We are familiar with the level of effort required by international investors and financial institutions.

Among our many Chinese projects, we represented Shenhua Group Corporation as their Technical Advisor for their successful IPO for the China Shenhua Energy Company Limited 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 subsequently prepared four resource studies commissioned by China Shenhua for material acquisition SEHK filings. We also prepared an ITR for MP Logistics International Holdings Limited for the two openpit mines in Xinjiang Uygur Autonomous Region (the subjects of this report), an ITR for Fushan International Energy Group Limited's acquisition of Fortune Dragon Group Limited mines in Shanxi Province, and an ITR for GCL-Poly Energy Holdings Limited for its acquisition of the Duolun Mine in Inner Mongolia 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 were 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 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 United States. 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 and the team members for this project have no ownership or shareholder interest in the Kaiyuan or Zexu Companies and their respective assets or Artfield. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by Artfield.

1.8 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 affect 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.

It is also important to recognize that there is a material, and substantial, difference between resource and reserve. Resource is a broad estimate of coal potential or coal tonnage in the ground which could be potentially mined at some future (undefined) date. Reserve requires a confirmation that reported tonnage is both technically and economically mineable on the date of estimation.

1.9 Closing

In preparing this report, we have relied on reserve, operating, and other data as provided by Kaiyuan and Zexu Companies. We have exercised due care in reviewing the information provided herein and believe it is both reasonable and representative. 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 Kaiyuan and Zexu Companies 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 to offer, nor do we represent that any of our findings include, opinions on matters of a legal or accounting nature. BOYD's independent analyses of the available data have been developed in a manner consistent with reasonable industry standards and accepted engineering practices. We believe our conclusions are reasonable assessments of the information provided.

The ability of the operator of the Kaiyuan and Zexu mines 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, the securing of 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, 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.

Respectfully submitted,

JOHN T. BOYD COMPANY
By:

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Geologist

Benjamin A. Quashie
Senior Mining Engineer

Jisheng (Jason) Han
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James F. Kvitkovich
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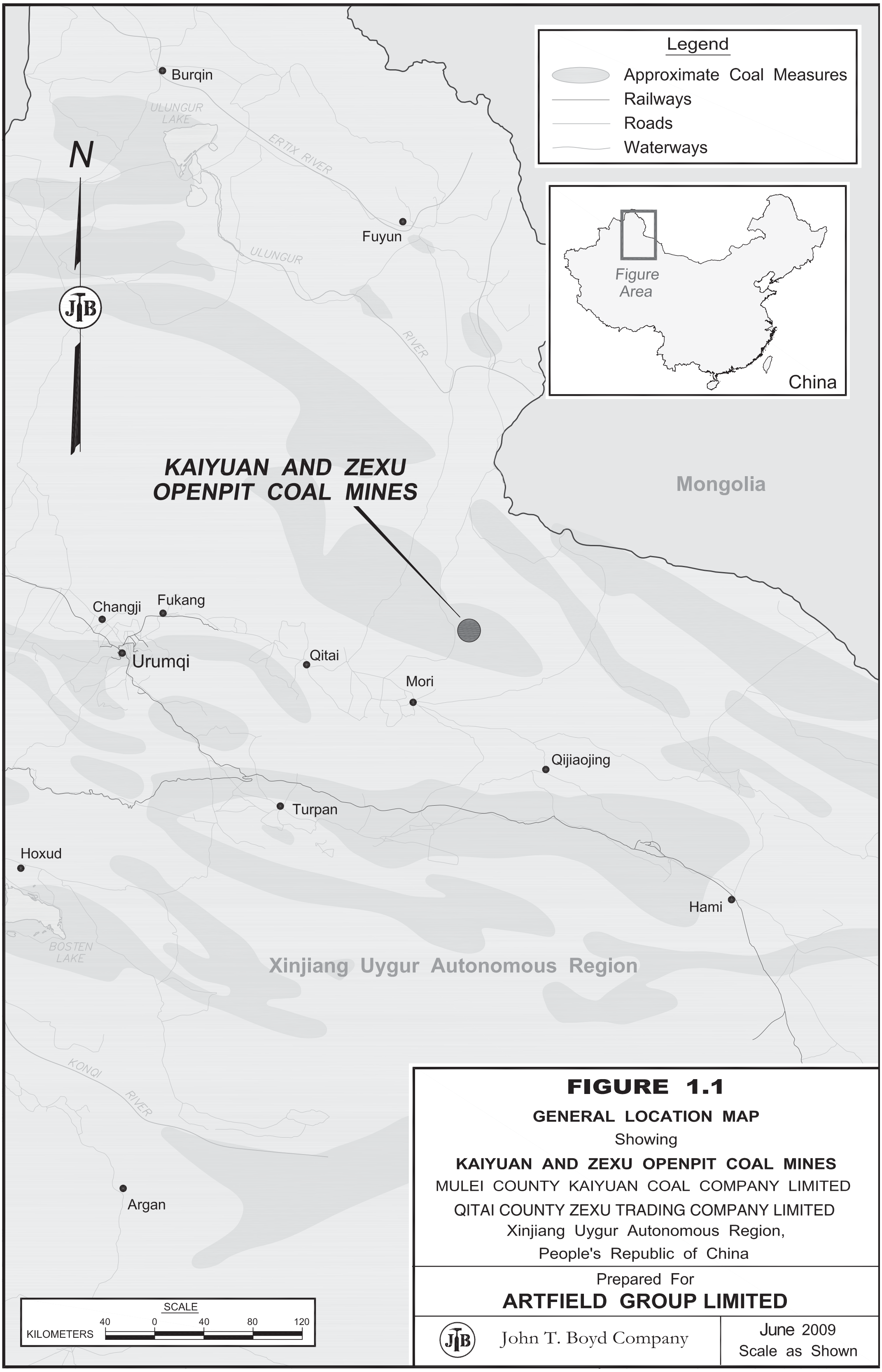


FIGURE 1.1
GENERAL LOCATION MAP
Showing
KAIYUAN AND ZEXU OPENPIT COAL MINES
MULEI COUNTY KAIYUAN COAL COMPANY LIMITED
QITAI COUNTY ZEXU TRADING COMPANY LIMITED
Xinjiang Uygur Autonomous Region,
People's Republic of China

Prepared For
ARTFIELD GROUP LIMITED

John T. Boyd Company
June 2009
Scale as Shown

2.0 SUMMARIZED FINDINGS

2.1 Introduction

The Kaiyuan and Zexu Openpit Coal Mine projects are located about 80 km north of Mulei County, Xinjiang Uygur Autonomous Region, PRC. Kaiyuan Openpit Coal Mine, for which Kaiyuan Company controls the Mining Rights, was in operation and expanding output during our review with a current design output capacity 0.9 Mtpa. Zexu Openpit Coal Mine was in greenfield status and Zexu Company holds the Exploration Rights to this area.

Mining Exploration Rights Area	Certificate No.	Mining Method	Area (km^2)	Mining/ Exploration Rights (year/month) Grant Date	Expiration
Kaiyuan (Mining Rights)	6500000830212	OP	1.158	2008/6	2018/6
Zexu (Exploration Rights)	T65120080901014093	OP	2.87	2008/9	2009/9

It is reported that future expansion of each mine to 1.8 Mtpa is being considered as a longer-term objective. This ITR is based on 0.9 Mtpa (per mine), which is supported by available reports.

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 and reserves. Technical description and discussion of mine facilities, operating practices, future mine plans, mine economics, etc., concerning Kaiyuan and Zexu openpit coal mines can be found in their respective sections.

2.2 Conclusion

Our independent coal resource assessment concludes that the respective mining right/exploration rights areas for the Kaiyuan and Zexu openpit coal mines have significant coal resources and reserves meeting JORC classification standards, which consider geologic, technical, and economic factors. In arriving at this conclusion, we reviewed available data, conducted an initial site visit to the two study areas, and reviewed the proposed mine plan, technical operating factors, and economic projections. Kaiyuan and Zexu openpit coal mines reserve and resource classifications are supported both technically and economically in our opinion.

Estimated reserves in the mining right area of Kaiyuan Openpit Coal Mine total 22.2 million marketable tonnes at an average stripping ratio of 1.1 m^3/tonne.

Estimated resources in the exploration right area of Zexu Openpit Coal Mine total 119.4 million marketable tonnes at an average stripping ratio of 3.5 m^3/tonne (including 25.65 million m^3 of rehandle material). With approval and receipt of the mining right certificate, estimated resources for Zexu Openpit Coal Mine project can be reclassified to the reserve category since these coals are determined to be economically mineable.

2.3 Geology and Resources

On a global basis, the geological setting or nature of both the Kaiyuan and the Zexu openpit coal mine deposits is judged to be simple.

The Kaiyuan Mining Rights area is well defined by drilling, and detailed mining feasibility studies have been prepared. Based on our review of the geology, mining studies, and mine economics, it is our opinion that the Kaiyuan mine area meets JORC reserve classification criteria. BOYD has prepared independent reserve estimates within the mine plan.

The Zexu Exploration Rights area is moderately well defined by drilling, and detailed mining feasibility studies have been prepared; however, Zexu Company does not control the mining rights for this area and, therefore, cannot legally recover the coal. Since the mining rights are not controlled, the coal tonnage cannot be classified as reserves by the JORC Code. Therefore, we have classified our estimates as resources; however, when the mining rights are obtained, it would be appropriate to reclassify these estimates as reserves.

BOYD has developed a computer geologic model and has prepared independent resource and reserve estimates for the two deposits. Estimates of Measured and Indicated coal resources and Proved and Probable coal reserves presented in this report are JORC compliant.

Estimated coal reserves for the Kaiyuan Openpit Coal Mine are:

Seam Bench	Average Mineable Seam Thickness (m) Total (Coal/Parting)	Marketable Reserves (tonnes-millions) As of 29 March 2009 Proved	Probable	Total	% of Total	Overburden (millions m^3)	Stripping Ratio (m^3/t)
		North of Current Pit (Potentially Oxidized)					
B_2	13.1	–	4.58	4.58	100	5.39	1.2
		Mine Plan Area					
B_3	9.7	3.91	–	3.91	22	7.77	2.0
B_2	17.0	13.72	–	13.72	78	10.37	0.8
Total		17.63	–	17.63	100	18.14	1.0
		Total					
B_3	9.7	3.91	–	3.91	18	7.77	2.0
B_2	15.9	13.72	4.58	18.30	82	15.76	0.9
Total		17.63	4.58	22.21	100	23.53	1.1

* *Average reflecting total cubic meters of overburden and coal tonnage.*

Approximately 79% of the total reserves are classified as Proved.

Estimated seam quality for the Kaiyuan Openpit Coal Mine reserves is:

Seam	**Average Product Coal Quality (15% Moisture Basis)** **% of Resources**	**Ash (%)**	**Volatile Matter (%)**	**Sulfur (%)**	**Kcal/kg net**
B_3	18	11.2	26	0.50	4,880
B_2	82	6.6	26	0.52	5,370
Weighted Average	100*	7.4	26	0.51	5,280

* *Total*

Estimates of Coal Resources for the Zexu Openpit Coal Mine Exploration Rights area total 119.38 Mt, as summarized below:

Seam	Average Mineable Seam Thickness (m)	Marketable Resources (tonnes-millions) Measured	Indicated	Total	Overburden (millions m^3)	Stripping Ratio (m^3/t)	% of Resources
Initial Mine Area (District 1)							
B_7	9.1	1.37	1.93	3.30	10.23	3.1	9
B_6	4.9	0.75	1.62	2.37	3.55	1.5	6
B_5	8.4	0.94	5.65	6.59	14.09	2.1	17
B_4	5.2	0.79	4.59	5.38	10.22	1.9	14
B_3	5.3	2.63	2.97	5.60	18.33	3.3	14
B_2	20.1	7.53	7.95	15.48	28.05	1.8	40
Total		14.01	24.71	38.72	84.47	2.2*	100
Remaining Area (Districts 1 &2)							
B_7	8.4	8.86	8.53	17.39	189.83	10.9	22
B_6	3.5	2.02	2.36	4.38	7.06	1.6	5
B_5	5.4	4.86	4.77	9.63	36.12	3.8	12
$B_{4'}$	1.8	0.29	0.01	0.30	2.74	9.1	1
B_4	6.6	6.06	5.62	11.68	31.60	2.7	14
B_3	7.0	5.43	5.06	10.49	29.75	2.8	13
B_2	21.5	15.05	11.74	26.79	41.86	1.6	33
Total		42.57	38.09	80.66	338.96	4.2*	100
Total Area							
B_7	8.5	10.23	10.46	20.69	200.06	9.7	17
B_6	3.9	2.77	3.98	6.75	10.61	1.6	6
B_5	6.3	5.80	10.42	16.22	50.21	3.1	14
$B_{4'}$	1.8	0.29	0.01	0.30	2.74	9.1	1
B_4	6.1	6.85	10.21	17.06	41.82	2.5	14
B_3	6.3	8.06	8.03	16.09	48.08	3.0	13
B_2	21.1	22.58	19.69	42.27	69.91	1.7	35
Total		56.58	62.80	119.38	423.43	3.5*	100

* *Average reflecting total cubic meters of overburden and coal tonnage.*

Seam quality estimates for the Zexu Openpit Coal Mine Exploration Rights area is as follows:

Average Product Coal Quality (15% Moisture Basis)

Seam	% of Resources	Ash (%)	Volatile Matter (%)	Sulfur (%)	Kcal/kg net
Initial Mine Area (District 1)					
B_7	9	7.7	23	0.63	5,320
B_6	6	7.8	23	0.62	5,370
B_5	17	13.5	21	0.56	4,920
B_4	14	14.7	22	0.32	4,810
B_3	14	10.5	24	0.45	5,180
B_2	40	6.5	27	0.20	5,580
Weighted Average	100*	9.6	24	0.38	5,270
Remaining Area (Districts 2 & 3)					
B_7	22	9.0	23	0.56	5,130
B_6	5	8.7	22	0.45	5,170
B_5	12	17.4	21	0.38	4,510
$B_{4'}$	1	18.3	21	0.21	4,540
B_4	14	15.6	22	0.21	4,700
B_3	13	9.9	23	0.23	5,160
B_2	33	6.2	26	0.20	5,500
Weighted Average	100*	10.2	24	0.32	5,120

* *Total*

2.4 Current Mine Status

Kaiyuan Openpit Coal Mine operation and current status of mine expansion (to 1.8 Mtpa) was observed by BOYD representatives during our site visit in March 2009. At the time of our site visit, the mine operation was well advanced. A mining pit, 700 m by 400 m, had been developed within the western part of the mining right area. The operation of the pit was orderly and the pit exhibited a good standard of work (e.g., uniform highwalls, orderly bench development, etc.). At the time of BOYD's site visit on 30 March 2009, mining and stripping operations had been outsourced to local independent mining contractors (one for stripping and one for coal loading) with ownership of all major earthmoving fleet transferred to the contractors. The mine site equipment included six units of 120 mm DTH drill rigs, four 2.3 m^3 excavators, thirteen 2.1 m^3 excavators, and one-hundred-and-thirty 30-tonne rear-dump trucks for stripping and coal loading operations. The mine construction as built appeared to be consistent with the mine design and capable of supporting the 0.9 Mtpa design output capacity.

Zexu Openpit Coal Mine was in greenfield status at the time of BOYD's site visit to Kaiyuan Mine in March 2009.

2.5 Mine Design and Operation

Kaiyuan Mine will continue to utilize local contract mining companies for overburden stripping, coal loading, and blasting. Additional equipment may need to be deployed by the contractors to achieve coal output projections. Mining progresses in stages or benches beginning with top soil layer removal and working through the overburden rock and coal seam. To date, mining has advanced to the 665 m to 670 m B_2 Seam floor elevations, with the B_2 Seam coal removed through the end of March 2009 representing approximately 13% of the total coal reserve. Stripping ratio in December 2008 was 1:1.4; in March 2009, the stripping ratio was 1:1.5 to 1.6. The FSR projected a balanced mine plan to minimize the initial stripping volumes and maintain a relatively uniform stripping ratio over the mine life, as follows:

Stage of Mining	**Period**	**Stripping Ratio** *(m^3/tonne)*	**Mine Plan Years**
Transition		1.60	0.25
Production	I	1.60	7
	II	1.20	18
	III	0.38	5

Due to an accelerated program implemented by Kaiyuan Company to enhance production as necessitated by local government mandate, the proposed stripping/mining schedule and stripping ratios at initial coal output level of 0.9 Mtpa as shown in the above table have more than doubled, in order to support the projected expansion in output level.

In the initial 12 years of mine operation, Zexu Openpit Coal Mine will excavate 2.03 million m^3 of overburden and 0.9 Mt coal annually once the mine reaches full production output. Starting in Year 13, the annual overburden movement is 2.34 million m^3. The mine plan for Zexu Openpit Coal Mine is based on utilizing two excavators equipped with 4 m^3 buckets and two excavators equipped with 1.5 m^3 buckets, which can be used interchangeably for coal loading and overburden removal (stripping), and thirty-one 32-tonne capacity, rear-dump trucks. BOYD's analysis indicates the planned capacity of the primary excavators is inadequate to meet overburden stripping and coal loading production requirements. This can be addressed by adding three additional 4 m^3 units, expanding the size of the two primary excavators from 8 m^3 to 11 m^3 units, and/or outsourcing some of the work to third-party contractors.

Use of larger equipment would improve mining efficiency and lower operating cost and is recommended by BOYD as the preferred option.

2.6 Economic Analysis

2.6.1 Kaiyuan Openpit Coal Mine

2.6.1.1 Mine Output

The current equipment fleet has sufficient capacity to achieve overburden stripping and coal loading requirements for an annual coal output of 1.8 Mt in 2009. According to Kaiyuan Company, the 1.8 to 3.0 Mtpa output capacity is supported by a circular from the local government urging major openpit coal mines in the district to increase their output levels without necessarily abiding by their authorized output capacity. Kaiyuan Company assumes that there exists the possibility of the local government retracting the mandate requesting higher mine output levels. Accordingly, output levels in 2010 and beyond are projected at 0.9 Mtpa, as stipulated in the FRS report, and under application for approval. The proposed 1.80 Mt for 2009 is reasonable and attainable, but 3.0 Mt in 2009 is considered aggressive.

Although supporting data was provided for this study, technical and capital expenditure plans for the higher output capacity are not available. As the mine's output level increases, BOYD recommends the use of larger capacity equipment.

2.6.1.2 Labor Force

Personnel staffing, according to Kaiyuan Company during BOYD's March 2009 site visit, was 112. Staffing for contract personnel was reported to be 300 personnel for stripping and 60 personnel for mining.

2.6.1.3 Capital Expenditures

According to the Kaiyuan Openpit Coal Mine FSR, capital spending for mine construction was projected at RMB120.55 million, of which RMB38.94 million (32% of budgeted funds) had been expended as of mid-2007. The capital budget did not include the RMB27.00 million investment for mine acquisition in 2006.

A breakdown of actual and projected capital spending is as follows:

	Capital (RMB-millions)				
	Initial Construction/Expansion				
	Spent (through March 2009)	Future	Subtotal	Originally Investment	Total
Total	52.81	67.74	120.55	27.00	147.55

According to Kaiyuan Company management, based on the operating mode of the Kaiyuan Mine and the remaining service life of the mine as estimated from the projected output capacity of 1.8 to 3.0 Mtpa, the Kaiyuan Mine does not warrant the major expenditures for capital investment. However, in our opinion, it would be prudent to plan for capital contingencies.

2.6.1.4 Operating Costs

Kaiyuan Openpit Coal Mine coal output was 0.25 Mt in 2006 and 0.14 Mt from January to May of 2007. The mine has been in reduced operating mode since acquisition with work focused on mine expansion to 0.9 Mtpa. Output in the first five months of 2007 also reflects Chinese New Year holidays and a two-month idling due to a transportation outage. Historical operating costs are as follows:

Historical Operating Cost
(RMB/raw tonne)

2006	2007 (Jan – May)
21.80	31.80

At raw coal output of 0.9 Mtpa, the FSR projects Kaiyuan Openpit Coal Mine cash operating cost of RMB25.1 per tonne, as shown below:

Category	Unit Cost *(RMB/raw tonne)*
Cash Cost	25.1
Non-Cash Operating	17.1
Total	42.2

Our review of operating costs for Kaiyuan Openpit Coal Mine indicates that the probable cash costs at 0.9 Mtpa will range from RMB35 to RMB40 per tonne of product coal (excluding Production Maintenance and Safety Fund fees).

2.6.2 Zexu Openpit Coal Mine

2.6.2.1 Mine Output

According to the FSR, a 0.9 Mtpa coal output design capacity is planned for Zexu Openpit Coal Mine. In addition, Zexu Company is considering expanding the Zexu Openpit Coal Mine to a 1.8 Mtpa coal output design capacity.

2.6.2.2 Labor Force

According to the FSR, projected staffing at full output for Zexu Openpit Coal Mine is 162 personnel. Openpit labor productivity, based on projected pit staffing, is 10,340 raw tonnes per employee-year at raw coal output of 0.9 Mtpa. According to our experience, the labor force staffing projections appear adequate for the anticipated mining conditions and technology.

2.6.2.3 Capital Expenditures

According to the Zexu Openpit Coal Mine FSR, the initial capital spending for mine construction is projected at RMB121.59 million. Capital spending projections assume outright purchase of production, support, and infrastructure equipment with no provisions for leasing. Projected capital monies for production equipment may need to be increased to expand the capacity of excavators (to 8 m^3 units) for overburden removal and coal loading. The capital contingency on projected expenditures (project reserve and contingency) approximates 8% (excluding mining right fee and working capital). According to our experience, a significant contingency is prudent at this stage of planning, considering the uncertainties with the final equipment fleet and to account for the impact of inflation since the FSR was issued in August 2007.

On an annual tonne of raw output basis, assuming 0.9 raw Mtpa, planned construction capital expenditures (excluding mining right fees) are RMB128 per raw tonne of annual output, which is relatively low (capital efficient) for coal mine projects in the PRC. In BOYD's opinion the level of anticipated spending is reasonable, in RMB terms, given the low stripping ratio and scale of the proposed mining operation.

Ongoing sustaining capital expenditures for maintaining the mining operation as well as supporting routine mine extension, are not discussed in the FSR. We anticipate that the stripping equipment, coal loading equipment, and support equipment will be replaced on 12-year cycles.

2.6.2.4 Operating Costs

At raw coal output of 0.9 Mtpa, the FSR projects Zexu Openpit Coal Mine cash operating cost of RMB32.9 per tonne, as shown below:

Category	**Unit Cost** *(RMB/raw tonne)*
Cash Cost	32.9
Non-Cash Operating	15.5
Total	48.4

Our review of operating costs for Zexu Openpit Coal Mine in light of Kaiyuan Mine's operating performance indicates that the probable cash costs at 0.9 Mtpa will range from RMB48 to RMB55 per tonne of product coal (excluding Production Maintenance and Safety Fund fees).

2.6.3 Cash Margins

Kaiyuan and Zexu openpit coal mines' coal quality is suitable for both industrial and domestic uses. Recognizing Chinese economic development and the national policy of promoting development of western areas of the country, a strong market situation for Kaiyuan Openpit Coal Mine and Zexu Openpit Coal Mine output is anticipated. First quarter 2009 prices for coal of quality similar to that projected for Kaiyuan and Zexu Openpit Coal Mines approximate RMB90 to RMB100 per tonne (net of VAT). Mine cash margins are estimated at RMB35 to RMB45 per tonne.

2.7 Environmental Overview

Appropriate environmental protection measures, in accordance with national environment protection laws, are planned and are consistent with measures employed at similar mining enterprises in the PRC. From our site visit, we concluded that Kaiyuan Mine's facilities for environmental protection operate adequately. While the particulars of actual environmental practices may need to be upgraded in some areas in the future, there do not appear to be environmental constraints to future coal mining operations. In BOYD's opinion, environmental protection measures planned for Kaiyuan and Zexu openpit coal mines comply with applicable Chinese requirements for environmental protection related to coal mining activities and follow World Bank policies for responsible environmental management.

3.0 GEOLOGY AND RESOURCES

3.1 Introduction

In June 2007, BOYD made the initial visit to the Kaiyuan Openpit Coal Mine site and Zexu Exploration Right area and met with Kaiyuan Company technical personnel to discuss available exploration, the coal resources, and Openpit mine plans. BOYD subsequently visited the Kaiyuan Openpit Coal Mine site in March 2009, to update the data provided earlier.

3.2 Mining and Exploration Rights

The Kaiyuan and Zexu openpit coal mine deposits are in Xinjiang Uygur Autonomous Region, PRC. Mining rights are controlled for the Kaiyuan Openpit Coal Mine, which is located approximately 2 km north of the Zexu Openpit Coal Mine. Only Exploration Rights are controlled for the Zexu Openpit Coal Mine, and Mining Rights must be obtained before mining activities can begin. Information on the existing mining and exploration rights are as follows:

Mining/Exploration Rights Area	Certificate No.	Mining Method	Area (km^2)	Mining/Exploration Rights (year/month) Grant Date	Expiration
Kaiyuan (Mining Rights)	6500000830212	OP	1.158	2008/6	2018/6
Zexu (Exploration Rights)	T65120080901014093	OP	2.87	2008/9	2009/9

The Kaiyuan Openpit Coal Mine mining right certificate allows production of 0.09 million tonnes per year; however, Kaiyuan Company has informed us that it has received local government permission to increase production to 0.9 Mtpa and is considering a plan for expansion of coal output at 1.8 Mtpa for 2009.

3.3 Geology

On a global basis, the geological setting or nature of the two coal deposits is judged to be simple.

Areas of coal occurrence evaluated in this report are located in the Middle Jurassic-age Xishanyao Formation. The strata consists of mudstones, siltstones, and sandstones with a basal section of medium- and coarse-grained sandstone. This formation is unconformably overlain by semiconsolidated Tertiary-aged mudstones and siltstones averaging 16 m thick in the Zexu Openpit Coal Mine, but is not present at Kaiyuan Openpit Coal Mine. The surfaces of both areas are overlain by erratic thicknesses of Quaternary-age alluvium. At Kaiyuan Openpit Coal Mine, the alluvium is typically about 10 m thick; at Zexu Openpit Coal Mine, minimal alluvium is present.

The structural setting at both deposits is simple, and faulting has not been identified in either area. The strata dip approximately 4 degrees to the south at Kaiyuan Openpit Coal Mine and from 4 to 6 degrees to the southeast at Zexu Openpit Coal Mine.

Coal seams present at Kaiyuan and Zexu openpit coal mines are numbered in ascending order as B_2, B_3, B_4, $B_{4'}$, B_5, B_6, B_7. The coal-bearing sequence is commonly divided into an upper and lower section at the top of the B3 seam. In the Kaiyuan Openpit Coal mine mining rights area, only the lower section of the coal sequence is present (seams B2 and B3); however, at Zexu Openpit Coal Mine, all seams are present.

A summary of the coal seams in each area from our geologic mine model is:

	Average Interburden Interval (m) to Underlying Seam		Kaiyuan		Zexu	
Seam	Kaiyuan	Zexu	Area (ha)	Seam Thickness (m) Average (range)	Area (ha)	Seam Thickness (m) Average (range)
B_7	–	5	–	–	189	8.5 (4 – 14)
B_6	–	18	–	–	131	3.9 (1 – 6)
B_5	–	18	–	–	212	6.3 (1 – 12)
$B_{4'}$	–	16	–	–	13	1.8 (1 – 5)
B_4	–	20	–	–	213	6.1 (1 – 14)
B_3	25	35	30	9.7 (1 – 12)	207	6.3 (2 – 11)
B_2	–	–	92	15.9 (1 – 22)	158	21.1 (19 – 25)
Overall Pit Area			116		286	

As shown, the B_2 seam is the thickest seam in both deposits.

3.4 Resource Evaluation Data

In order to prepare an evaluation of coal resources underlying the Kaiyuan and Zexu openpit coal mine areas, BOYD was provided with detailed data for the respective Mining Rights area/Exploration Rights area. Typical data provided included:

1. Exploration report.

2. Geologic data, including tables detailing available seam thickness, and coal quality data.

3. Resource tonnage tables and maps for each seam.

4. Mine plan maps.

5. Other information.

The exploration report contained information for the following items:

1. Location and geography.

2. Regional geology, 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 supporting maps, cross sections, and figures.

Resources are defined by exploration drilling. Typical drill hole data includes:

1. Drill hole logs.

2. Geophysical logs.

3. Coal Analyses.

BOYD received resource tables and maps for each seam for each of the resource areas. The resource maps show 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.

The coal resources in both areas are defined by exploration drilling. The relatively small (1.2 km^2) Kaiyuan Openpit Coal Mine area is well defined by drilling with a total of 17 holes on a 200- to 500-m spacing. The larger (2.8 km^2) Zexu Openpit Coal Mine area is less well defined with 10 holes on a 500-m by 800-m spacing.

3.5 Resource Classification

In reporting resources for mining properties, most international classification systems require that two major factors be considered, namely:

- Geologic assurance of existence.

- Economic viability.

All systems require that the degree of geological assurance of the subject coal's occurrence and definition 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 the deposits using the Australasian Code for Reporting of Mineral Resources and Ore Resources, also known as the JORC Code. The reserve and resource classification terminology of the JORC Code is found in the Glossary and Definitions section of this report.

In this report Measured, and Indicated, and Inferred resources are defined as follows.

Drill Hole Spacing (m)	
Measured	**Indicated**
500	1,000

The resources in the Kaiyuan and Zexu openpit coal mine deposits are well defined, and are all within the Measured and Indicated categories. Figures 3.1 through 3.4, following this text, show the location of the drillholes in the areas and a typical cross section through each deposit.

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 professional independent evaluation of the geologic conditions. We believe the points of observation spacings used in this study are conservative, but appropriate, and provide the required level of geological assurance.

Estimates of Measured, Indicated, and Inferred coal resources and Proved and Probable coal reserves presented in this report are JORC compliant.

3.6 Resource Estimating Methodology

BOYD prepared independent estimates of resources and reserves within the Kaiyuan and Zexu openpit coal mine areas. These estimates are based on three-dimensional computer geologic models developed by BOYD using MINCOM MineScape geologic modeling and mine planning software. The basic steps in developing the geologic models are:

1. Database development.

2. Model generation and validation.

3. Resource estimation.

4. Mine plan development.

5. Reserve estimation.

In order to develop a geologic model, survey, lithology, and quality databases are prepared. BOYD prepared each database from files, drill hole logs, and data files provided by Kaiyuan and Zexu companies.

The survey database contained drill hole locations and depth. The lithology database contains intercepts of all coal seams and other strata (partings, oxidation depths, etc.) to be modeled. Each unique lithology is assigned a seam code and lithology type. The quality database contains the coal quality data for each seam intercept identified in the lithology database. Additional data files for surface topography and faults were also prepared by BOYD. The surface topography digital terrain model (DTM) was created by triangulating surface contours from CAD drawings. An additional file of the current pit at Kaiyuan was also prepared to correct the topography for current mining.

The completed database files were loaded into MINCOM software and validated against the unique stratigraphic sequence order (schema) developed for the deposit. The three-dimensional model is created and verified by viewing the three-dimensional model and with cross sections and isopach maps. All model anomalies are checked and corrected as needed.

The Kaiyuan and Zexu openpit coal mines' coal resource geologic models are developed on a 20-m grid spacing. MINCOM's finite element method (FEM) interpolation was used to estimate grid values.

After the in situ model was validated, estimates of in situ resource estimates were prepared.

In order to develop run-of-mine (ROM) estimates for the deposit, a mine plan pit shell was designed. The mine plans developed for both areas are based on the current pit layouts as developed in available mine design reports. BOYD engineers have reviewed these plans and are in agreement with general parameters and sequence of pit progressions. The pit shells were designed for both deposits using an overall pit slope of 40 degrees. Criteria for coal mining losses and dilution factors were entered into MINCOM's ROM module. ROM reserve estimates within the pit shell were prepared.

Both areas are well defined by drilling, and we are confident that the geologic models developed by BOYD provide an accurate representation of the deposits. While we have developed reserve estimates for the total area, this model can be used for detailed mine planning purposes. MINCOM's mine scheduling module can develop detailed schedules by required production tonnage or by using equipment capacity and utilization. This state-of-the-art software is currently used by major mining companies to prepare accurate plans for short-term (weekly) operations needs and for long-term planning.

BOYD defined the extent of mineable resource areas using a minimum seam thickness (coal and parting) of 1.0 m. All in-seam partings greater than 0.5 m were considered removable and were excluded from the ROM tonnage estimate.

All resource and reserve estimates presented in this report were limited to the mine plan (mining right) areas, except at Zexu Openpit Coal Mine, where there is a verbal agreement with the adjacent mineral holder to the south to allow the pit slope to extend from the B2 seam at 40 degrees to the surface. In this case, all coal in the Exploration Rights area was included in our estimates, with only the overburden in the pit slope included in our estimates. The verbal agreement to allow extension of mining activity beyond the Zexu Openpit Coal Mine Mining Rights provides for an equal exchange of tonnage (i.e., upper seams mined by Zexu Openpit Coal Mine from the adjacent area offset by an equal tonnage of Seam B2 to be left by Zexu within their area for future mining by the adjacent mining right holder).

An average mining recovery of 97% was used at Kaiyuan Openpit Coal Mine, with 95% used at Zexu Openpit Coal Mine. The slightly lower recovery used at Zexu Openpit Coal Mine is due to the more irregular shape of the area.

Mining dilution (extraneous roof and floor rock) of 0.10 m per seam is assigned (added) by BOYD to estimate ROM tonnage.

An oxidation depth of 20 m was used to exclude weathered or oxidized coal. This limit was based on data from drill holes in the areas. However, at the Kaiyuan Openpit Mine, the area of shallow coal occurrence north of the pit is reported to be oxidized and is not currently planned to be recovered in the mine plan. We have not received exploration or mine data that shows that the coal in this area is oxidized and, therefore, have reported tonnage in this area separately from the tonnage in the current mine plan. Due to the doubt as to the quality of this coal, we have classified tonnage in this are as Indicated. We recommend that drilling be conducted in this area to determine if the coal is oxidized.

3.7 Resource Estimates

BOYD has reviewed the available mining feasibility studies and has conducted an independent evaluation of the mining economics for both Kaiyuan and Zexu openpit coal mine projects. The results of our evaluation demonstrate that the resources within the Openpit mine plan areas are economically mineable. However while both resource areas are considered economically mineable, the legal Mining Rights have only been obtained for Kaiyuan Openpit Coal Mine. Since the Mining Rights are held by Kaiyuan Company, we have classified tonnage within the mine area as reserves. However, only the Exploration Rights are held by Zexu Company, thus tonnage within the mine plan are classified as resources. Since our assessment has demonstrated that the resources at Zexu Openpit Coal Mine are economically recoverable, when the Mining Rights is obtained, it would be appropriate to reclassify our estimates of Recoverable Measured and Indicated Resources as Proved and Probable Reserves.

3.7.1 Kaiyuan Openpit Coal Mine Proved and Probable Reserves

Our estimates of the Proved and Probable Reserves are presented in Table 3.1 of this report and are summarized as follows:

Seam Bench	Average Mineable Seam Thickness (m) Total (Coal/Parting)	Marketable Reserves (tonnes-millions) As of 29 March 2009 Proved	Probable	Total	% of Total	Overburden (millions m^3)	Stripping Ratio (m^3/t)
				North of Current Pit (Potentially Oxidized)			
B_2	13.1	–	4.58	4.58	100	5.39	1.2
				Mine Plan Area			
B_3	9.7	3.91	–	3.91	22	7.77	2.0
B_2	17.0	13.72	–	13.72	78	10.37	0.8
Total		17.63	–	17.63	100	18.14	1.0*
				Total			
B_3	9.7	3.91	–	3.91	18	7.77	2.0
B_2	15.9	13.72	4.58	18.30	82	15.76	0.9
Total		17.63	4.58	22.21	100	23.53	1.1*

* *Average reflecting total cubic meters of overburden and coal tonnage.*

Over 79% of the total reserves are classified as Proved.

As previously mentioned, we have reported the potentially oxidized shallow coal north of the current pit separately. Due to the doubt as to the quality of this coal, we have classified tonnage in this area as Indicated. We recommend that drilling be conducted in this area to determine if the coal is oxidized.

3.7.2 Zexu Openpit Coal Mine Resources

Our estimates of the Measured and Indicated Resources for the Zexu Openpit Coal Mine Exploration Rights area are presented in Table 3.2, following this text, and are summarized as follows:

Seam	Average Mineable Seam Thickness (m)	Marketable Resources (tonnes-millions) Measured	Indicated	Total	Overburden (millions m^3)	Stripping Ratio (m^3/t)	% of Resources
			Initial Mine Area (District 1)				
B_7	9.1	1.37	1.93	3.30	10.23	3.1	9
B_6	4.9	0.75	1.62	2.37	3.55	1.5	6
B_5	8.4	0.94	5.65	6.59	14.09	2.1	17
B_4	5.2	0.79	4.59	5.38	10.22	1.9	14
B_3	5.3	2.63	2.97	5.60	18.33	3.3	14
B_2	20.1	7.53	7.95	15.48	28.05	1.8	40
Total		14.01	24.71	38.72	84.47	2.2*	100
			Remaining Area (Districts 2 &3)				
B_7	8.4	8.86	8.53	17.39	189.83	10.9	22
B_6	3.5	2.02	2.36	4.38	7.06	1.6	5
B_5	5.4	4.86	4.77	9.63	36.12	3.8	12
$B_{4'}$	1.8	0.29	0.01	0.30	2.74	9.1	1
B_4	6.6	6.06	5.62	11.68	31.60	2.7	14
B_3	7.0	5.43	5.06	10.49	29.75	2.8	13
B_2	21.5	15.05	11.74	26.79	41.86	1.6	33
Total		42.57	38.09	80.66	338.96	4.2*	100
			Total Area				
B_7	8.5	10.23	10.46	20.69	200.06	9.7	17
B_6	3.9	2.77	3.98	6.75	10.61	1.6	6
B_5	6.3	5.80	10.42	16.22	50.21	3.1	14
$B_{4'}$	1.8	0.29	0.01	0.30	2.74	9.1	1
B_4	6.1	6.85	10.21	17.06	41.82	2.5	14
B_3	6.3	8.06	8.03	16.09	48.08	3.0	13
B_2	21.1	22.58	19.69	42.27	69.91	1.7	35
Total		56.58	62.80	119.38	423.43	3.5*	100

* *Average reflecting total cubic meters of overburden and coal tonnage.*

In the current mine plan, a total of 25.65 million m^3 of spoil from the initial pit will be stockpiled in the future Districts 2 and 3 (and extending into the adjacent mining right area to the south), overlying the coal resources. We have included this material in the overburden volume for the B7 seam in Districts 2 and 3. Over 47% of the total resources are classified as Measured.

3.8 Coal Quality

Coal type using the Chinese classification system is non-caking and the coal rank using the American Society for Testing Materials (ASTM) is Bituminous B. The coal is to be utilized in the industrial and domestic coal markets.

BOYD has reviewed available coal quality data and has prepared estimates of product quality based on our geologic model of the Kaiyuan and Zexu Openpit Coal Mine areas.

Estimated average quality for the reserves underlying the Kaiyuan Openpit Coal Mine area is:

Average Product Coal Quality (15% Moisture Basis)

Seam	% of Resources	Ash (%)	Volatile Matter (%)	Sulfur (%)	Kcal/kg net
B_3	18	11.2	26	0.50	4,880
B_2	82	6.6	26	0.52	5,370
Weighted Average	100*	7.4	26	0.51	5,280

* *Total*

Estimated quality for the resources underlying the Zexu Openpit Coal Mine Exploration Rights area is:

Average Product Coal Quality (15% Moisture Basis)

Seam	**% of Resources**	**Ash (%)**	**Volatile Matter (%)**	**Sulfur (%)**	**Kcal/kg net**
			Initial Mine Area (District 1)		
B_7	9	7.7	23	0.63	5,320
B_6	6	7.8	23	0.62	5,370
B_5	17	13.5	21	0.56	4,920
B_4	14	14.7	22	0.32	4,810
B_3	14	10.5	24	0.45	5,180
B_2	40	6.5	27	0.20	5,580
Weighted Average	100*	9.6	24	0.38	5,270
			Remaining Area (Districts 2 & 3)		
B_7	22	9.0	23	0.56	5,130
B_6	5	8.7	22	0.45	5,170
B_5	12	17.4	21	0.38	4,510
$B_{4'}$	1	18.3	21	0.21	4,540
B_4	14	15.6	22	0.21	4,700
B_3	13	9.9	23	0.23	5,160
B_2	33	6.2	26	0.20	5,500
Weighted Average	100*	10.2	24	0.32	5,120

* *Total*

According to Chinese standards, only the coal and partings less than 0.05 m are recovered from drill core samples and sampled and analyzed. In order to prepare estimates of Marketable or product coal quality, BOYD used standard default quality values for partings and out-of-seam dilution (OSD).

Following this page are:

Tables

Figures

TABLE 3.1

COAL RESERVE ESTIMATE
KAIYUAN OPENPIT COAL MINE
Xinjiang Uygur Autonomous Region, PRC
Prepared For
ARTFIELD GROUP LIMITED

By
John T. Boyd Company
Mining and Geological Consultants
June 2009

As of 29 March 2009

Seam	In-Place Resources (Mt) Marketable	Indicated	Total	Recoverable Resources (Mt) Proved	Probable	Total	Overburden (millions m^3)	Stripping Ratio (m^3/t)	% of Resources
				North of Current Pit (Potentially Oxidized)					
B_2	–	5.39	5.39	–	4.58	4.58	5.39	1.2	100
				Mine Plan Area					
B_3	4.60	–	4.60	3.91	–	3.91	7.77	2.0	22
B_2	16.14	–	16.14	13.72	–	13.72	10.37	0.8	78
Total	20.74	–	20.74	17.63	–	17.63	18.14	1.0*	100
				Total					
B_3	4.60	–	4.60	3.91	–	3.91	7.77	2.0	18
B_2	16.14	5.39	21.53	13.72	4.58	18.30	15.76	0.9	82
Total	20.74	5.39	26.13	17.63	4.58	22.21	23.53	1.1*	100

* *Average reflecting total cubic meters of overburden and coal tonnage.*

TABLE 3.2

COAL RESOURCE ESTIMATE
ZEXU OPENPIT COAL MINE EXPLORATION RIGHTS AREA
Xinjiang Uygur Autonomous Region, PRC
Prepared For
ARTFIELD GROUP LIMITED

By
John T. Boyd Company
Mining and Geological Consultants
June 2009

As of 29 March 2009

	In-Place Resources (Mt)			Recoverable Marketable Resources (Mt)			Overburden	Stripping	% of
Seam	Measured	Indicated	Total	Measured	Indicated	Total	(millions m^3)	Ratio (m^3/t)	Resources
Initial Mine Area (District 1)									
B_7	1.77	1.99	3.76	1.37	1.93	3.30	10.23	3.1	9
B_6	1.00	1.65	2.65	0.75	1.62	2.37	3.55	1.5	6
B_5	1.48	6.08	7.56	0.94	5.65	6.59	14.09	2.1	17
B_4	1.56	5.08	6.64	0.79	4.59	5.38	10.22	1.9	14
B_3	3.69	3.78	7.47	2.63	2.97	5.60	18.33	3.3	14
B_2	15.06	15.34	30.40	7.53	7.95	15.48	28.05	1.8	40
Total	24.56	33.92	58.48	14.01	24.71	38.72	84.47	2.2*	100
Remaining Area (Districts 2 & 3)									
B_7	10.09	9.86	19.95	8.86	8.53	17.39	189.83	10.9	22
B_6	2.05	2.68	4.73	2.02	2.36	4.38	7.06	1.6	5
B_5	5.79	5.86	11.65	4.86	4.77	9.63	36.12	3.8	12
$B_{4'}$	0.70	0.18	0.88	0.29	0.01	0.30	2.74	9.1	1
B_4	8.22	7.72	15.94	6.06	5.62	11.68	31.60	2.7	14
B_3	8.38	7.86	16.24	5.43	5.06	10.49	29.75	2.8	13
B_2	29.45	27.47	56.92	15.05	11.74	26.79	41.86	1.6	33
Total	64.68	61.63	126.31	42.57	38.09	80.66	338.96	4.2*	100
Total Area									
B_7	11.86	11.85	23.71	10.23	10.46	20.69	200.06	9.7	17
B_6	3.05	4.33	7.38	2.77	3.98	6.75	10.61	1.6	6
B_5	7.27	11.94	19.21	5.80	10.42	16.22	50.21	3.1	14
$B_{4'}$	0.70	0.18	0.88	0.29	0.01	0.30	2.74	9.1	1
B_4	9.78	12.80	22.58	6.85	10.21	17.06	41.82	2.5	14
B_3	12.07	11.64	23.71	8.06	8.03	16.09	48.08	3.0	13
B_2	44.51	42.81	87.32	22.58	19.69	42.27	69.91	1.7	35
Total	89.24	95.55	184.79	56.58	62.80	119.38	423.43	3.5*	100

* *Average reflecting total cubic meters of overburden and coal tonnage.*

Note The 189.83 million m^3 of overburden waste rock for the B7 Seam in the Remaining Area (Districts 2 and 3) includes 25.65 million m^3 of rehandle burden from the initial pit that will be temporarily on the surface overlying Districts 2 and 3 (which must be removed prior to mining).

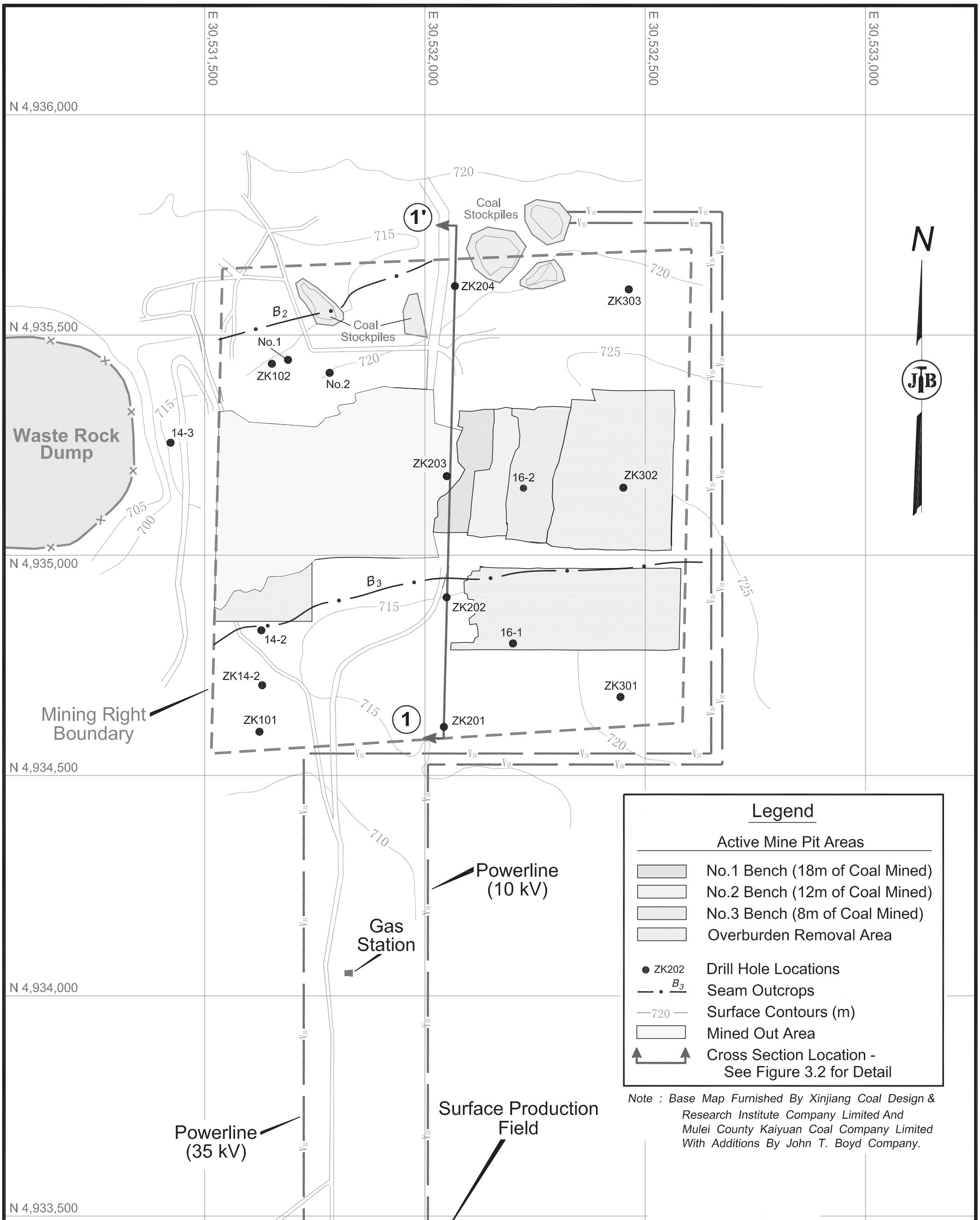


FIGURE 3.1

MAP SHOWING KAIYUAN OPENPIT COAL MINE AND SURFACE FACILITIES

MULEI COUNTY KAIYUAN COAL COMPANY LIMITED

Xinjiang Uygur Autonomous Region, People's Republic of China

Prepared For

ARTFIELD GROUP LIMITED

John T. Boyd Company

June 2009

Scale as Shown

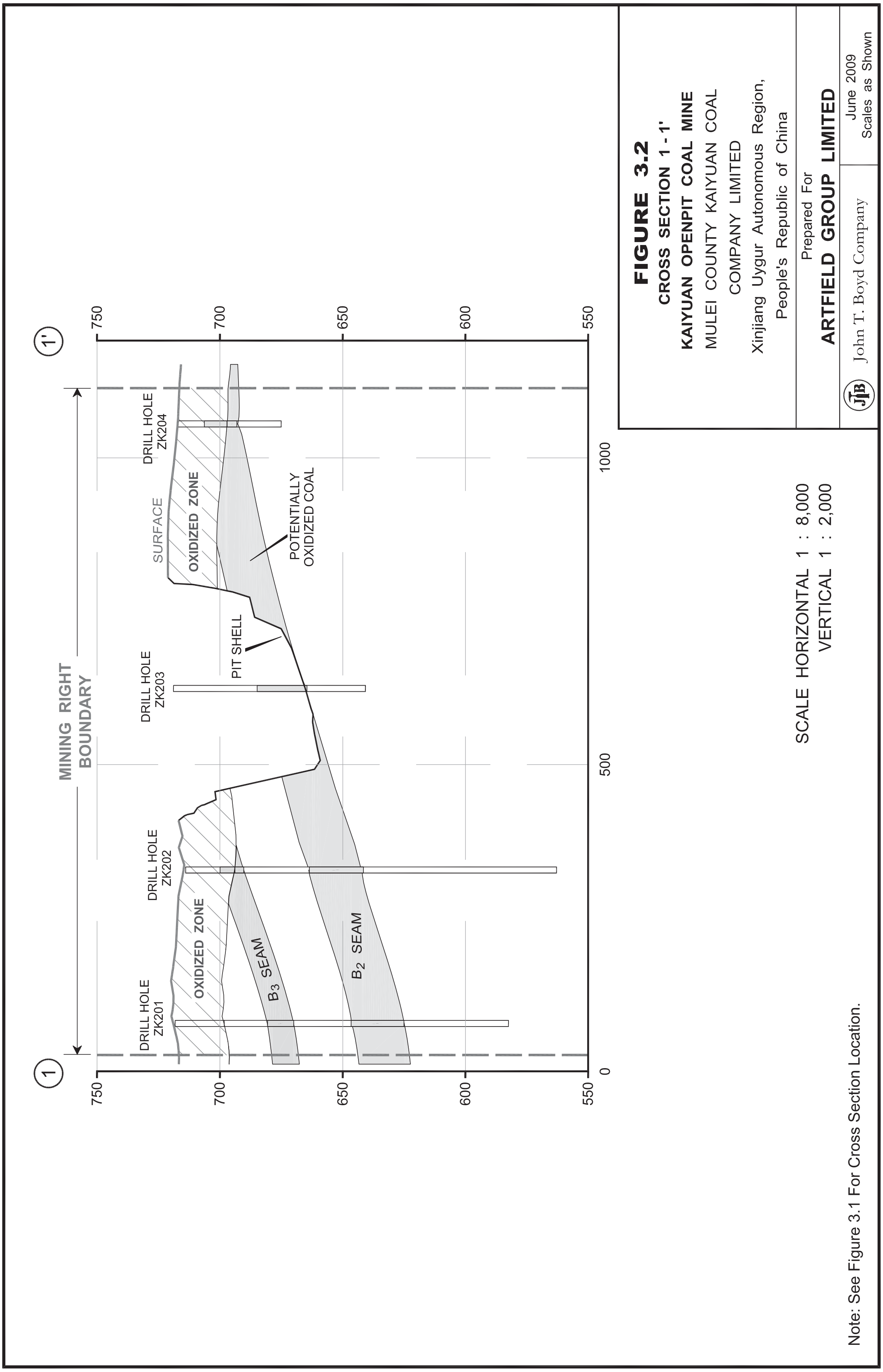


FIGURE 3.2
CROSS SECTION 1 - 1'
KAIYUAN OPENPIT COAL MINE
MULEI COUNTY KAIYUAN COAL COMPANY LIMITED
Xinjiang Uygur Autonomous Region, People's Republic of China
Prepared For
ARTFIELD GROUP LIMITED
John T. Boyd Company
June 2009
Scales as Shown
1
1'
MINING RIGHT BOUNDARY
DRILL HOLE ZK201
DRILL HOLE ZK202
DRILL HOLE ZK203
DRILL HOLE ZK204
OXIDIZED ZONE
OXIDIZED ZONE
SURFACE
PIT SHELL
POTENTIALLY OXIDIZED COAL
B3 SEAM
B2 SEAM
750
700
650
600
550
0
500
1000
SCALE HORIZONTAL 1 : 8,000
VERTICAL 1 : 2,000
Note: See Figure 3.1 For Cross Section Location.

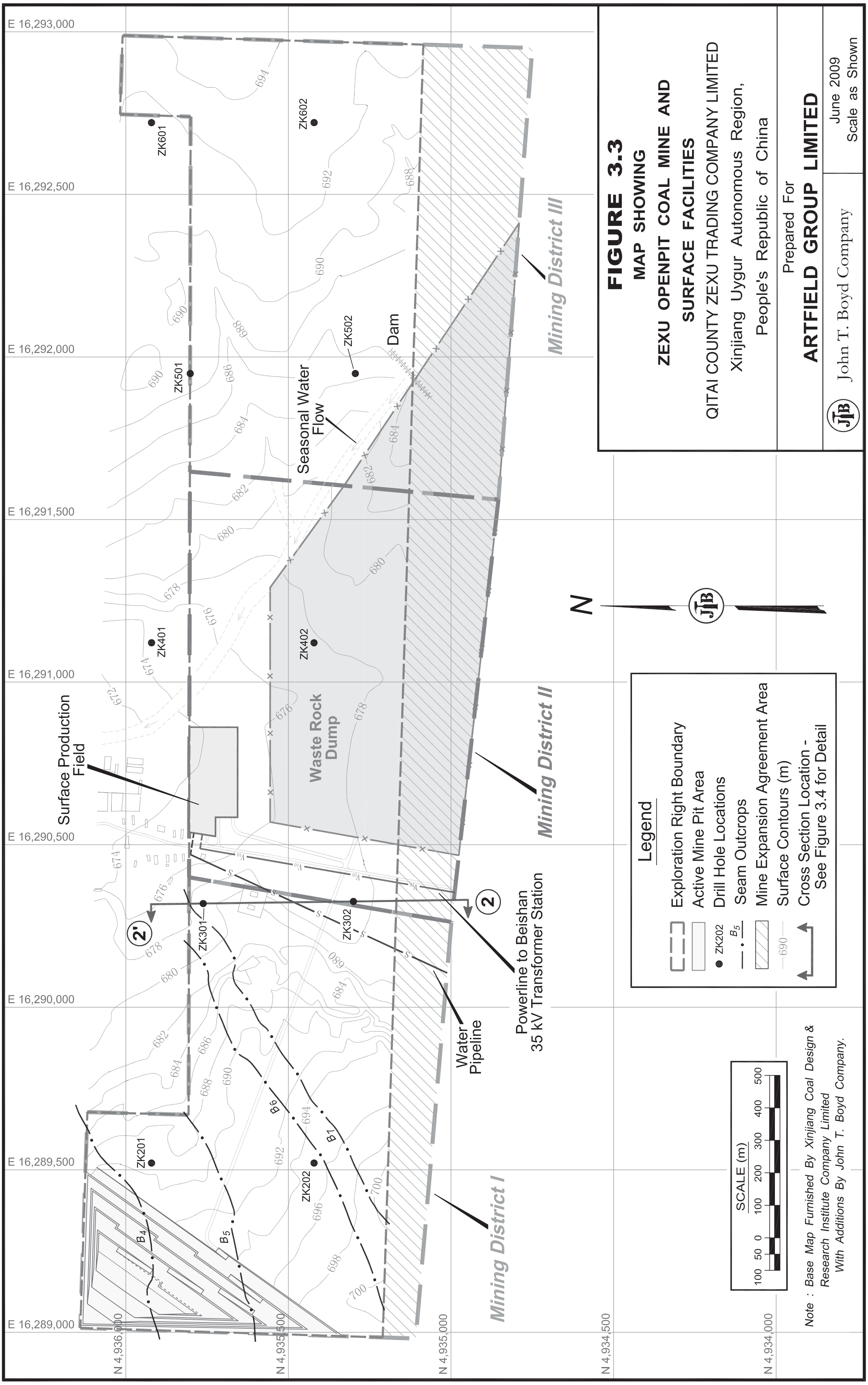


FIGURE 3.3
MAP SHOWING
ZEXU OPENPIT COAL MINE AND
SURFACE FACILITIES
QITAI COUNTY ZEXU TRADING COMPANY LIMITED
Xinjiang Uygur Autonomous Region,
People's Republic of China
Prepared For
ARTFIELD GROUP LIMITED
John T. Boyd Company
June 2009
Scale as Shown
Legend
Exploration Right Boundary
Active Mine Pit Area
Drill Hole Locations
Seam Outcrops
Mine Expansion Agreement Area
Surface Contours (m)
Cross Section Location - See Figure 3.4 for Detail
SCALE (m)
Note : Base Map Furnished By Xinjiang Coal Design & Research Institute Company Limited With Additions By John T. Boyd Company.
N
Mining District I
Mining District II
Mining District III
Waste Rock Dump
Surface Production Field
Seasonal Water Flow
Dam
Powerline to Beishan 35 kV Transformer Station
Water Pipeline
ZK601
ZK602
ZK501
ZK502
ZK401
ZK402
ZK301
ZK302
ZK201
ZK202
E 16,293,000
E 16,292,500
E 16,292,000
E 16,291,500
E 16,291,000
E 16,290,500
E 16,290,000
E 16,289,500
E 16,289,000
N 4,936,000
N 4,935,500
N 4,935,000
N 4,934,500
N 4,934,000

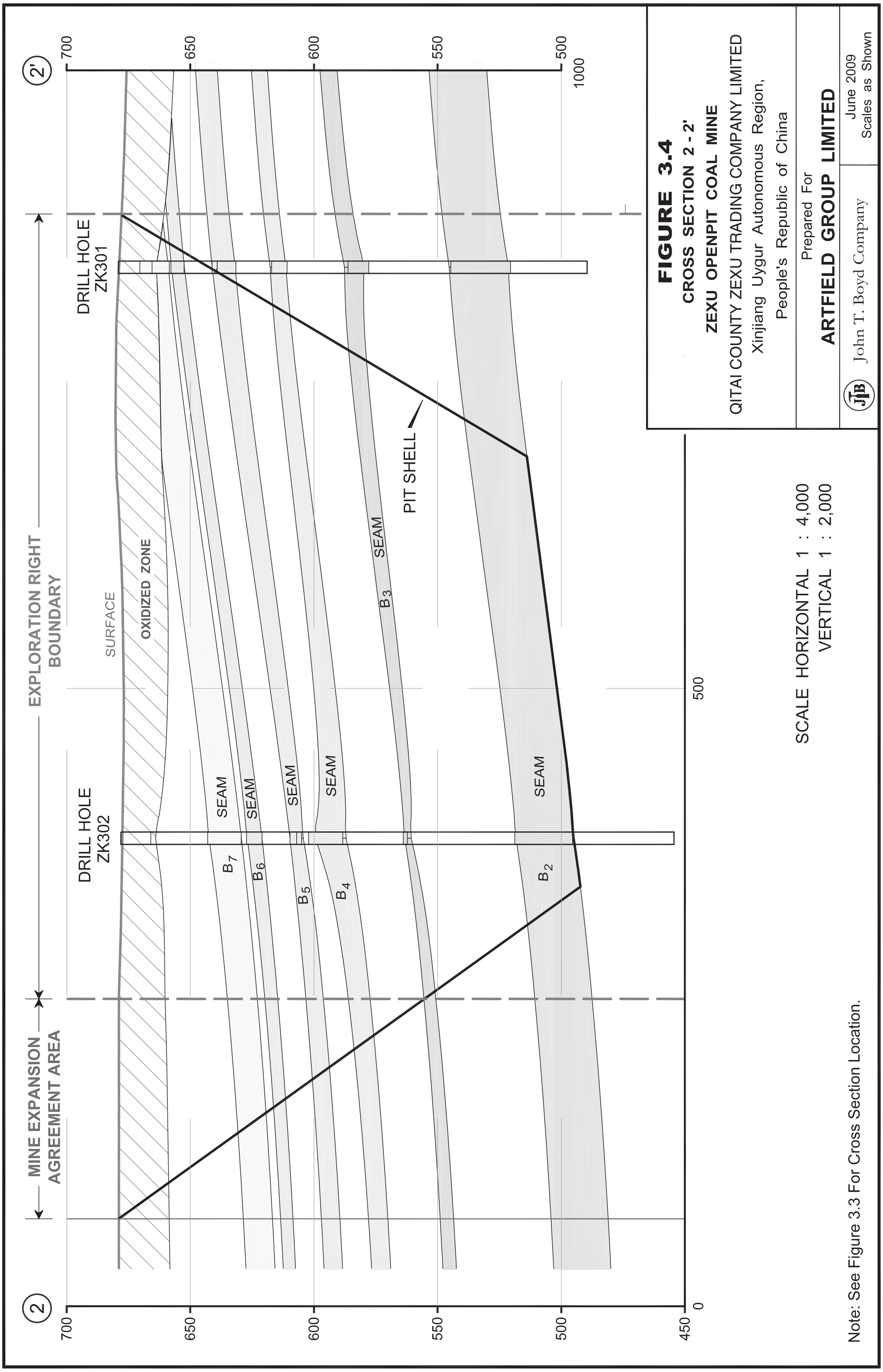


FIGURE 3.4
CROSS SECTION 2 - 2'
ZEXU OPENPIT COAL MINE
QITAI COUNTY ZEXU TRADING COMPANY LIMITED
Xinjiang Uygur Autonomous Region,
People's Republic of China
Prepared For
ARTFIELD GROUP LIMITED
John T. Boyd Company
June 2009
Scales as Shown
SCALE HORIZONTAL 1 : 4,000
VERTICAL 1 : 2,000
Note: See Figure 3.3 For Cross Section Location.
MINE EXPANSION AGREEMENT AREA
EXPLORATION RIGHT BOUNDARY
DRILL HOLE ZK302
DRILL HOLE ZK301
SURFACE
OXIDIZED ZONE
PIT SHELL
B_7 SEAM
B_6 SEAM
B_5 SEAM
B_4 SEAM
B_3 SEAM
B_2 SEAM
2
2'
700
650
600
550
500
450
0
500
1000

4.0 KAIYUAN OPENPIT COAL MINE

Kaiyuan Openpit Coal Mine is located at Beita Mountain, Qitai County, Xinjiang Uygur Autonomous Region of the PRC and was established in 1996, with an initial design output of 0.09 Mtpa. Kaiyuan Company acquired the mine in 2006. An application to increase output capacity increase from 0.09 Mtpa to 0.9 Mtpa was submitted to the local government in early 2007. The application was reported to have been approved by the Coal Industry Administration Bureau of Xinjiang Uygur Autonomous Region of the PRC on 18 June 2007 (Coal Industrial Management Bureau reference [2007] 304). The application had not been approved as of the date of this report. A feasibility study report (FSR) for the Kaiyuan Openpit Coal Mine was completed by the Xinjiang Coal Design and Research Institute in July 2007. The review of openpit mine design and financial aspects of the Kaiyuan Openpit Coal Mine presented in this section is mainly based on this report and other information provided to BOYD during our mine site visit on 30 March 2009. The mine was under expansion at the time of BOYD's current visit. Our initial visit was in June 2007. Kaiyuan Openpit Coal Mine produced 0.25 Mt in 2006 and 0.81 Mt from in 2007 and approximately 1.8 Mt in 2008. Output for calendar year 2009 is projected at 1.8 to 3.0 Mt. Output from the mine is screened and sold on a raw or ROM coal basis. Mine staffing was 112 personnel (excluding contract personnel) at the time of BOYD's visit.

4.1 Mine Design

4.1.1 Surface Transportation Access

Kaiyuan Openpit Coal Mine is located about 80 km north of Mulei County in northeast Xinjiang Autonomous Region and 330 km from the capital city of Urumchi. National Highway 216 is located approximately 30 km southwest of Kaiyuan area. The highway from Jijihu to Beita Mountain passes 1 km west of the mine. In addition, paved local roads link the mine to the nearby Liushuquan and Laojunmiao mines and other towns. Although the road system is well developed, road quality in some places is substandard. A majority of the products from Kaiyuan Mine, medium to smaller coal sizes, is dispatched by trucks to nearby semi-coking plants within a radius of 10 km. Coal can also be trucked to a railway system approximately 200 km away.

4.1.2 Mining Conditions

4.1.2.1 Topography

The mine is located in a sparsely populated area in northwestern PRC; no residents and villages inhabit the mining right area. The terrain is flat gobi type and desert landscape with little vegetation.

4.1.2.2 Overburden

Overburden thickness ranges from approximately 20 to 90 m, which is favorable for openpit mining. Quaternary strata overlie the surface in the southern part of the mining right area, with a thickness ranging from 2 to 6 m. Tertiary-age strata, siltstone, mudstone, and conglomerate, underlie the Quaternary alluvial material and thicken west to east from 6 to 11 m. Exploration drilling data show large zones of strata and coal seams are subject to weathering.

4.1.2.3 Hydrology and Water Supply

Minor quantities of ground water are present in the Quaternary and Tertiary strata. The climate is essentially dry. Water from summer rains seeps into the underlying ground and typically evaporates. Based on the hydrological conditions and climate in this area, water drainage is not a concern for Kaiyuan Openpit Coal Mine.

The local government has laid 400 mm pipeline to the mine site from water sources at Jijihu County located 38 km from the mine site, supplying water at a rate of 300 m^3/h, which is used for domestic and industrial uses. There are two water reservoirs of capacities 300 m^3 (completed) and 260 m^3 (yet to be completed) on-site. Water cost rate is RMB4.5 per m^3.

4.1.2.4 Power Supply

Power supply for Kaiyuan Openpit Coal Mine is provided by the 35 kV Beishan transformer station, which is located about 10 km southwest of the mine. A 10 kV substation is planned at the (mine site) main service complex. Three diesel-powered generators are available for standby power supply, 75 kW, 50 kW, and 25 kW. Maximum power requirements for operation of the Kaiyuan Openpit Coal Mine are 1,000 kW.

4.1.3 Mine Plan

Shovel/truck openpit mining methods are employed utilizing small-capacity mining equipment. Since the mining right area is relatively small, the mine is developed as a single district (see Figure 3.1, following this text). Current mining operation is advancing toward the southern and eastern sections of the pit with pit dimensions of 700 m (East-West) by 400 m (North-South). Overburden stripping is conducted via a series of benches, 8 to 12 m high with a 70-degree batter angle. Bench width is approximately 25 m, with a 50-m offset maintained between working faces. Mining is progressing on three benches.

Projected stripping volumes and coal reserves by 10-m bench intervals, as presented in the FSR, were as follows for the virgin coal reserve:

Stripping Level (m)	Overburden (waste rock) Volume (million m^3)	Coal Reserves (Mt)	Cumulative Overburden Volume (million m^3)	Cumulative Coal Reserves (Mt)
710	0.70	0.63	0.70	0.63
700	1.24	0.95	1.94	1.58
690	3.12	1.54	5.06	3.12
680	2.59	1.20	7.65	4.32
670	3.23	1.89	10.88	6.21
660	6.66	6.82	17.54	13.03
650	6.17	4.93	23.70	17.96
640	6.79	4.53	3.49	22.49
630	2.19	4.39	32.68	26.88
620	–	0.13	32.68	27.01

Mining progresses in stages or benches beginning with top soil layer removal and working through the overburden rock and coal seam. To date, mining has advanced to the 665 to 670 m B_2 Seam floor elevations, with the B_2 Seam coal removed through the end of March 2009 representing approximately 13% of the total coal reserve. Stripping ratio in December 2008 was 1:1.4; in March 2009, the stripping ratio was 1:1.5 to 1.6.

The FSR projected a balanced mine plan to minimize the initial stripping volumes and maintain a relatively uniform stripping ratio over the mine life, as follows:

Stage of Mining	Period	Stripping Ratio (m^3/tonne)	Mine Plan Years
Transition		1.60	0.25
Production	I	1.60	7
	II	1.20	18
	III	0.38	5

Due to an accelerated program implemented by Kaiyuan Company to enhance production as necessitated by local government mandate, the proposed stripping/mining schedule and stripping ratios at initial coal output level of 0.9 Mtpa as shown in the above table have more than doubled in order to support the projected expansion in output level.

Current Kaiyuan Openpit Coal Mine design output capacity is 0.9 Mtpa. Projected 2009 output is projected to range from 1.8 Mt to 3.0 Mt depending on coal sales. A summary of output tonnages is as follows:

Period	**Output** *(Mt)*
2007	0.81
2008	1.80
2009	0.71 (first quarter)

The mine operating schedule projects 330 operating days annually, with two 8-hour shifts per day. Based on production for the first quarter of 2009, daily raw, marketable coal output averaged 9,300 tonnes.

4.1.4 Mining Method and Mining Equipment

4.1.4.1 Mining Technology

Based on the geologic conditions at Kaiyuan Openpit Coal Mine, excavators working in conjunction with rear-dump trucks were selected for both overburden removal and coal mining. Use of shovel/truck equipment is common in PRC openpit mines and is widely employed internationally. The selection of small-capacity, domestically manufactured equipment controls initial capital investment and permits significant equipment redundancy for operational availability.

Rock strata and the in situ coal seams are drilled and blasted prior to excavation. Small capacity excavators are used to load the broken coal into rear-dump trucks, which haul mined coal to the screening stations. In the event oversize coal pieces occur, secondary blasting will be completed in the pit (before loading) to reduce coal sizes for handling by the excavator.

4.1.4.2 Mining Equipment

At full output capacity of 0.9 Mtpa, Kaiyuan Openpit Coal Mine major equipment fleet as projected in the FSR was as follows:

Usage	Equipment	Model	Quantity
Mining Operation	Excavator	EX550LC (2.4 m^3)	4
	Front-End Loader	ZL50	5
	Downhole Drill	KQG150Y	1
	Downhole Drill	CLQ100	1
	Air Compressor	HF (17 m^3)	1
	Air Compressor	LUY165DC	1
	Air Compressor	LUY238DC	1
	Pump	250QJ80-80/4	2
	Hydraulic Shovel	(not specified)	2
	Rear Dump Truck	SX3322BM2944 (19.6 t)	21
Support Vehicles	Oil Tank Truck	CGJ5200GJY (10 t)	1
	Material Truck	Dongfeng (5 t)	1
	Ambulance	SY5031XJH-A2-E	1
	Firefighting Truck	SGX5100GXGSG30/EQ	1
	Living Material Truck	Dongfeng (8 t)	2
	Shuttle Bus	HBJ6472Y	1
	Van	Jinbei SY6480AF	1
	Pick-up	Jiangling JX1021DSj	1
	Pick-up	Changcheng Pick-up	2
	Other		2
Road Maintenance	Road Grader	G710B	1
	Front-End Loader	ZL-50	1
	Road Roller	3Y12-15t	1
	Bulldozer	T-120	4
	Water Spray Truck	Dongfeng (5 t)	1
	Rear-Dump Truck	Dongfeng (8 t)	1

At the time of BOYD's site visit on 30 March 2009, mining and stripping operations had been outsourced to local independent mining contractors (one for stripping and one for coal loading) with ownership of all major earthmoving fleet transferred the contractors. The mine site equipment included six units of 120 mm DTH drill rigs, four 2.3 m^3 excavators, thirteen 2.1 m^3 excavators, and one-hundred-and-thirty 30-tonne rear-dump trucks for stripping and coal loading operations. Except for four newly acquired 16 m^3 water carts for dust suppression, the status of the support fleet remains unchanged.

Preliminary engineering analysis of the major stripping/mining fleet conducted by BOYD indicates that the on-site equipment has adequate capacity to achieve the projected stripping rate of 5.54 million m^3/year (overburden waste rock and coal).

4.1.5 Coal Transportation

Mined coal is loaded in the pit into nominal 30-tonne capacity, rear-dump trucks (also used for overburden removal) and transported to the screening stations. Unpaved roads within the mine area facilitate truck haulage. Kaiyuan Openpit Coal Mine output is dispatched from the mine site using on-highway trucks. A 5-km access road links the mine site to the main highway from Beita Mountain to Jijihu. The mine's unpaved access road is 8.5 m in width. The highway connects to a railway system, 200 km away from the mine, which allows coal to be delivered to customers by mass containers.

It is BOYD's understanding that the local government supports the local coal mining industry and has plans to construct a railway line to Jiang Junmiao (40 km from the mine site), which is projected to commence in July 2009. Beishan Station, which is 10 km from the mine site, is under construction and is projected to be commissioned by the end of this year.

4.1.6 Coal Processing

According to anticipated Kaiyuan Openpit Coal Mine raw coal quality and regional market coal quality requirements, the quality of the as-mined or ROM coal is acceptable with raw coal screened to various sizes prior to sale. Five screening systems are installed at the Kaiyuan site, i.e., Nos. 1, 2, 3, 4 and 5. The service of the No. 4 system, which is built in-pit, has been halted due to interference with mining operations (inadequate space), and the No. 5 system is under upgrading to handle larger volumes with an expected daily output of 350 tph. There is no refuse picking in the processing flow line. Raw coal inventory approximates 22,000 tonnes. ROM coal is directly screened into three or four coal products as follows:

Category	**Size** *(mm)*
Large	>150
Medium	80-150
Small	30-80
Fine	<30

The No. 1 system, which is not a vibra-screen type, classifies the raw coal into three sizes. The medium and small sizes are combined into one product, i.e., size 30-150 mm product.

Throughput capacities of the screens are as follows:

Screen	Capacity *(tph)*
No. 1	(not given, on stand-by status)
No. 2	250
No. 3	300
No. 4	50
No. 5	350

4.1.7 Waste Rock Disposal

Waste rock from the stripping operations is transported by truck and dumped in designated areas. Until sufficient area is mined to create a sufficient void area in the pit, rock must be hauled to, and disposed of, in permanent disposal areas located outside the pit (i.e., external dumps). Currently, spoil is stored on the northern side of the pit outside of the mine plan area. Approximately 6.20 million m^3 will be placed in external dumps. The designated external dump area has adequate capacity to satisfy the future waste rock disposal requirement.

Disposal of waste rock in the pit will begin gradually, with all waste material generated from stripping and mining operation completely disposed of inside the pit. Spoil (waste rock) generated through the mine life is estimated at 25.23 million m^3.

Environmental by-laws stipulate pit-rehabilitation (land reclamation) after mining. An ex-pit temporary dump is leased by Kaiyuan Company from the local government at an annual rate of RMB64,000.

4.1.8 Water Drainage and Control

According to the FSR, a maximum pumping capacity of 73 m^3/h is projected for Kaiyuan Openpit Coal Mine to handle potential run-off water from storm events. The pit is equipped with two dewatering pumps, each with 80 m^3/h capacity. The surface topography is higher on the eastern side of the area and lower to the west. An embankment will be built along the eastern side of the pit to prevent flooding during raining. The dam is designed at 2 m high and 100 m long. The top of dam is 2 m wide and the slope factor is 1:1. External dumps constructed along the northern side of the pit will also minimize water from flowing into the pit from that side. Generally dry conditions prevail and the pumping and embankment provisions are precautionary only.

4.2 Economic Analysis

4.2.1 Introduction

This section discusses economic aspects of the planned Kaiyuan Openpit Coal Mine operation at 1.80 Mtpa for the year 2009. Our review incorporates information, projections, and findings from documentation provided by Kaiyuan Company, including the FSR and the Assets Assessment Report. BOYD has prepared an operating cost estimate to determine the economic viability of the Kaiyuan reserve.

4.2.2 Mine Output

According to Kaiyuan Company, the following coal output is projected:

Year	**Output** *(Mtpa)*
2009	1.8~3.0
2010	0.90
2011	0.90
2012	0.90
2013	0.90

Kaiyuan Openpit Coal Mine raw coal output is currently designed at 0.9 Mtpa capacity. However, actual output in 2009 is projected to be 1.80 Mt to 3.0 Mt. Output is projected to be 0.9 Mtpa in subsequent years (2010 and onward), although some of the equipment and facilities at Kaiyuan are selected and designed to achieve 3.0 Mtpa. Based on the capacity of available equipment, the maximum annual waste rock (overburden) stripping volume is projected to be 4.18 million m^3 (including re-handle).

During the first three months of 2009, Kaiyuan Openpit Coal Mine produced 0.71 Mt of coal. It is our understanding that the mine was in operation for about 75 working days during the first quarter of 2009, and the equipment was not running at full capacity. The proposed 1.80 Mt for 2009 is reasonable and attainable but 3.0 Mt in 2009 is considered aggressive.

Currently, Kaiyuan Openpit Coal Mine has four 2.3 m^3 capacity hydraulic excavators and thirteen excavators with 2.1m^3 capacity on-site which is used interchangeably for coal loading or overburden removal (stripping). We estimate that the coal loading capacity for this size of excavator at 192 tph. Assuming 4,750 annual working hours per unit, an average of two 2.3 m^3 capacity excavators would load 1.80 Mtpa. Excavator waste stripping capacity, estimated at 80 m^3/h (bank), or 0.38 million m^3 annually, requires 11 units of 2.1 m^3 excavators to achieve the anticipated 4.18 million m^3 volume of waste stripping. Recognizing the additional smaller excavators and other equipment available at Kaiyuan Openpit Coal Mine, the overall equipment capacity provides adequate redundancy to achieve both stripping and coal loading requirements. Experience has shown that loading efficiency is enhanced when the number of loader passes ranges between 4 to 6 passes per truck load. BOYD recommends comparatively lager bucket size excavators to match the available truck capacity in order to achieve the optimum number of passes.

The 130 rear-dump trucks with 30-tonne load capacity are more than adequate to support transport of overburden and coal output. Actual output may be impacted by scheduled operating days lost for regulatory safety closures, mine incidents such as flooding, and unusual maintenance-related events (e.g., pit wall failures).

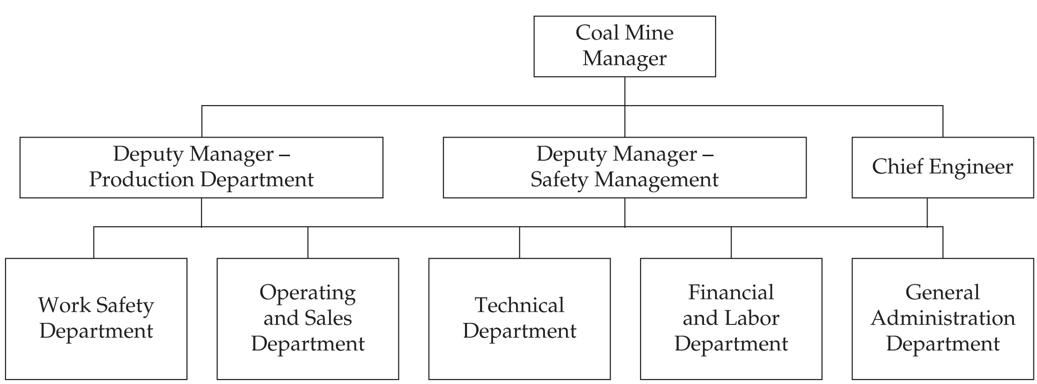
According to Kaiyuan Company, the 1.8 Mtpa to 3.0 Mtpa output capacity is supported by a circular from the local government urging major openpit coal mines in the district to increase their output levels without necessarily abiding by their authorized output capacity. Kaiyuan Company assumes that there exists the possibility of the local government retracting the mandate requesting higher mine output levels. Accordingly, output levels in 2010 and beyond are projected at 0.9 Mtpa, as stipulated in the FSR and under application for approval.

Although supporting data was provided for this study, technical and capital expenditure plans for the higher output capacity are not available. As the mine's output level increases, BOYD recommends the use of larger capacity equipment.

Based on the information provided by Kaiyuan Company, both mining and stripping operations have been outsourced to local mining contractors, and earthmoving equipment owned by Kaiyuan Company has been sold to the contractors. Drilling is undertaken by the mining and stripping teams individually; blasting is assigned to a third party (a State-owned company). If required, BOYD believes that temporary excavation/loading capacity, available either through leasing or by engaging additional local stripping contractors, would supplement the capacity of the existing major earthmoving fleet.

4.2.3 Labor Force

Current administrative structure for Kaiyuan Openpit Coal Mine is shown below:



Staffing in March 2009, according to Kaiyuan Company, was 300 personnel for stripping and 60 personnel for mining (employed by the outsource contractors) and 92 mining operation staff on the Kaiyuan Company payroll.

The table below shows the Kaiyuan Company historical workforce by year:

	Historical Company Personnel (excluding contract)		
Category	**2007**	**2008**	**2009**
Management	8	12	13
Engineering	5	6	7
Operations	47	44	92
Total	60	62	112

The significant increase in the 2009 workforce is consistent with the expanded output level.

4.2.4 Capital Expenditures

According to the Kaiyuan Openpit Coal Mine FSR, capital spending for mine construction was projected at RMB120.55 million, of which RMB38.94 million (32% of budgeted funds) had been expended as of mid-2007. The capital budget did not include the RMB27.00 million investment for mine acquisition in 2006.

A breakdown of actual and projected capital spending is as follows:

	Capital (RMB-millions)				
	Initial Construction/Expansion				
	Spent (through March 2009)	**Future**	**Subtotal**	**Originally Investment**	**Total**
Total	52.81	67.74	120.55	27.00	147.55

The above table shows RMB81.6 million in future capital expenditure after June 2007. Financial data provided to BOYD for this study shows a total of RMB52.81 million expended to date (March 2009). According to Kaiyuan Company management, based on the operating mode of the Kaiyuan Mine and the remaining service life of the mine as estimated from the projected output capacity of 1.8 Mtpa to 3.0 Mtpa, the Kaiyuan Mine does not warrant the major expenditures for capital investment. However, in our opinion, it would be prudent to plan for capital contingencies.

According to company submittals, capital expenditures for the Kaiyuan Mine presently total RMB79.81 million (original investment, plus capital spending through March 2009). It is our understanding that all of the primary mining and stripping equipment acquired for the project was sold to the contract operating companies for RMB10.49 million, thereby reducing capital expenditures to RMB69.32 million. Since mining and stripping operations are outsourced, no provisions have been made for replacement of production equipment.

4.2.5 Operating Cost

Kaiyuan Openpit Coal Mine historical operating costs are as follows:

	2006	2007	2008	3 mo. 2009
Output Tonnes (Mt):	0.25	0.81	1.80	0.71
			RMB/Raw Tonne	
Cash Operating Cost		21.8	31.8	37.4

The following is a breakdown of the 2008 operating costs as reported by Kaiyuan Company:

Raw Coal Output Tonnes (Mt): 1.80

	2008	
Category	*RMB/ Raw Tonne*	*RMB (millions)*
Direct/Cash Operating Cost		
Stripping	21.4	38.52
Mining	9.0	16.20
Loading	3.5	6.30
Screening	1.0	1.80
Lab Analysis Fee	0.6	1.08
Sewage Fee	0.8	1.44
Mining Right Fee	1.1	1.94
Subtotal	37.4	67.28
Indirect/Non-Cash Operating Cost	10.3	18.61
Total Operating Cost	47.7	85.89

According to Kaiyuan Company, the mining and stripping costs in the above table comprise costs of material, labor, power, fuel, etc. The contract stripping rate is RMB10.5 per m^3; the contract coal mining rate is RMB11 per tonne of raw coal. Contract blasting rates are RMB0.4 per m^3 overburden and RMB0.2 per m^3 for coal. As BOYD understands from Kaiyuan Company management, the company reported production costs do not reflect Production Maintenance ("Keep Simple Production") and Safety Fund fees, which are treated under GAAP as non-cash production costs.

Kaiyuan Company's five-year operating cost projection is as follows:

	2009	2010	2011	2012	2013	2014
Sales Tonnes (Mt):						
Large Size	0.33	0.16	0.16	0.16	0.16	0.16
Middle Size	0.56	0.26	0.26	0.26	0.26	0.26
Small Size	0.28	0.16	0.16	0.16	0.16	0.16
Mixed	0.08	0.03	0.03	0.03	0.03	0.03
Slack	0.62	0.29	0.29	0.29	0.29	0.29
Total Tonnes	1.87	0.90	0.90	0.90	0.90	0.90
Selling Price – RMB/Tonne						
Average Selling Price – RMB/Tonne	91	94	98	102	106	110
			RMB (millions)			
Revenue	160.82	79.84	83.03	86.35	89.81	93.40
VAT (17%)	27.34	13.57	14.12	14.68	15.27	15.88
Resources Tax/Compensation Exp.	6.09	2.93	3.05	3.17	3.30	3.43
Cash Operating Costs						
Stripping	29.87	14.23	14.80	15.39	16.00	16.64
Mining	16.43	7.82	8.14	8.46	8.80	9.15
Loading	5.97	2.85	2.96	3.08	3.20	3.33
Screening	1.49	0.71	0.74	0.77	0.80	0.83
Laboratory Analysis	1.49	0.71	0.74	0.77	0.80	0.83
Sewage Fee	1.49	0.71	0.74	0.77	0.80	0.83
Mining Right Fee	2.24	1.07	1.11	1.15	1.20	1.25
Miscellaneous	0.75	0.36	0.37	0.38	0.40	0.42
Administrative Expenses	1.57	1.64	1.70	1.77	1.84	1.92
Selling Expenses	8.99	9.35	9.72	10.11	10.52	10.94
Subtotal – Cash Operating Costs	70.31	39.44	41.02	42.66	44.37	46.14
Depreciation	1.21	1.26	1.31	1.36	1.41	1.47
Total Operating Costs	71.52	40.70	42.33	44.02	45.78	47.61
Gross Pre-Tax Margin	55.88	22.63	23.54	24.48	25.46	26.48

Based on BOYD's experience with PRC openpit mines with similar output levels and operating conditions, operating costs for Kaiyuan Mine at 1.8 Mtpa in 2009, assuming a stripping ratio of 2.3:1, are projected as follows:

Raw Coal Output Tonnes (Mt): 1.8

Category	*RMB/ Raw Tonne*	*RMB (millions)/ Year*
Cash/Direct Costs (Mining)		
Labor	1.5	2.65
Materials	3.7	6.66
Mining	7.0	12.60
Stripping	17.4	31.32
Power	5.6	10.08
Repair	0.5	0.90
Screening	1.0	1.80
Resource Tax	3.0	5.40
Other	1.1	2.02
Subtotal – Direct Cash Costs	40.8	73.42
Non-Cash/Indirect Costs (Mining)		
Safety Fund Fee	3.0	5.40
Production Maintenance Fee	8.5	15.30
Management Expense	1.3	2.34
Depreciation	3.8	6.93
Amortization	4.2	7.46
Subtotal – Other Costs	20.8	37.43
Total Operating Cost	61.6	110.85

4.2.6 Market

The FSR provided the following marketing plan for Kaiyuan Openpit Coal Mine's output:

Target Customer	**Projected Sale Tonnage** *(Mt)*
Jiuquan Steel Group, Gansu	0.25
Asia-Europe Continental Co., Xinjiang	0.55
Lituo Co. Ltd, Hamei Group, Xinjiang	0.05
Retails	0.05
Total	0.90

According to Kaiyuan Company, Kaiyuan Mine marketable products are as follows:

Size	% of Saleable Product	Customer
Large	30	Direct – Domestic/Industrial
Medium-small	30	Direct – Semi-Coking Plant
Fines	40	Third-Party – Power Plant*

* *Two-month stockpiling required to reduce surface moisture to 7% to 10%.*

Based on BOYD's site visit on 30 March 2009, we observed the following:

- The peak and low seasons for large size coal sales are in winter and summer, respectively. Two crushers are planned to be purchased to be employed in crushing larger sizes into medium-small sizes for sale to semi-coking plants in summer.

- Medium-small sizes are sold year-round to semi-coking and coal chemical plants about 10 km away (located in a designated industrial field). BOYD understands semi-coke demand in the designated semi-coking industrial field is 7 Mtpa, implying demand for approximately 1.3 Mtpa of medium and small sized coal (1.8 tonnes of coal produces 1 tonne of semi-coke). Kaiyuan Company projects an increase in coal prices to RMB150 per tonne by year-end 2009.

- Fines are sold to middleman (for re-sale to power plants).

Kaiyuan Mine coal quality is suitable for both industrial and domestic uses. Recognizing China's economic development and the national policy of promoting development of western areas of the country, a strong market for Kaiyuan Openpit Coal Mine's coal output is anticipated.

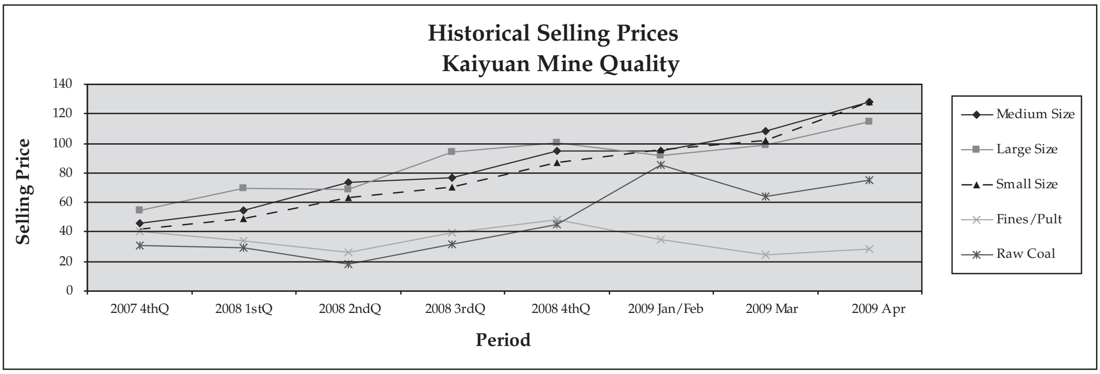
The table below shows historical selling price data for Kaiyuan Mine quality coal between 2007 to 2009 (first quarter), excluding VAT.

Historical Selling Price* *(RMB/tonne)*

	2007 Quarter	2008 (Quarter)				2009		
	4	1	2	3	4	Jan./ Feb.	March	April
Large Size	54	69	69	94	100	91	98	115
Medium Size	45	54	73	76	94	95	108	128
Small	42	49	62	70	86	95	102	128
Fines	40	33	26	39	47	34	24	28
Raw Coal	31	29	18	32	44	85	64	75

* *Data Provided by Kaiyuan Company.*

The following is a chart showing historical selling prices for Kaiyuan Mine quality coals:



The above chart shows a decline in the selling prices for fines (pulp coal) and raw coal (sold directly in-pit) in the first quarter of 2009. According to Kaiyuan Company, this development is attributable to the global economic downturn, as a consensus was reached among stakeholders (producers and buyers-power plants) to reduce the selling price.

5.0 ZEXU OPENPIT COAL MINE

Zexu Openpit Coal Mine Exploration Right area is located approximately 2 km southwest of the Kaiyuan Openpit Coal Mine and is in greenfield exploration status. The exploration rights are controlled by Zexu Company. The review of mine design and financial aspects of the proposed Zexu Openpit Coal Mine presented in this section is primarily based on the FSR and other information provided to BOYD during the initial site visit and subsequent visits to the Coal Design and Research Institute of Xinjiang from 24 to 27 June 2007.

5.1 Mine Design

5.1.1 Surface Transportation Access

Zexu Exploration Right area is situated at Beita Mountain, Qitai County, Xinjiang Uygur Autonomous Region of the PRC, approximately 80 km north of Mulei County and 330 km from Urumchi, the capital city of Xinjiang. The highway from Jijihu to Beita Mountain passes through the Exploration Right area and connects Zexu Openpit Coal Mine Exploration Right area with Provincial Road No. 228, 30 km southwest, and Provincial Road No. 303, 50 km south of the mine. Coal can also be trucked to a railway system approximately 200 km away.

5.1.2 Mining Conditions

5.1.2.1 Topography

Zexu Openpit Coal Mine Exploration Right area is located in a sparsely populated area in northwestern PRC. No residents and villages inhabit the exploration right area. The terrain within this area is flat gobi and desert landscape with little vegetation.

5.1.2.2 Overburden

Depth of overburden above the coal seams to be openpit mined ranges from 20 to 30 m. This shallow depth of mining is highly favorable for openpit development. Strata overlying the coal seams can be divided into two groups, the upper zone of unconsolidated and semi-consolidated Quaternary and Tertiary strata, and the underlying clastic rocks, which are Middle-Upper and Upper Jurassic-age strata. The depth of overburden is thicker on the eastern side of the mine area.

5.1.2.3 Hydrology and Water Supply

Minor quantities of ground water are present in the Quaternary and Tertiary strata. There are no surface water drainages traversing the planned mining area. A small reservoir (200 m by 80 m in size) is situated at the southeast boundary of the mining area. Water from summer rains seeps into the underlying ground and typically evaporate due to the dry climate. Consequently, water drainage is not a concern for the proposed Zexu Openpit Coal Mine, and initial water drainage work is not required.

Zexu Openpit Coal Mine water supply will be sourced from the same location as Kaiyuan Openpit Coal Mine, which taps water through a 400-mm pipeline to the mine site from water source at Jijihu county, located 38 km away, supplying water at a rate of 300 m^3/h. This pipeline was built by the local government as a gesture of support for coal mining companies in the district. The water volumes will be balanced between Kaiyuan and Zexu Openpit Coal Mine mining operations.

5.1.2.4 Power Supply

Power for the Zexu Openpit Coal Mine will be provided by the 35 kV Beishan transformer station, located about 8 km southwest of the mine. A 10 kV substation is planned at the (mine site) main service complex. Diesel power generators will be installed at the surface production sites, remote pumping sites and at the pit pump station for standby power supply. The estimated maximum power requirements for operation of the Zexu Openpit Coal Mine are 820 kW.

5.1.3 Mine Plan

The Zexu Openpit Coal Mine Exploration Right area, which is 4.0 km long in the west-east direction and 0.6 to 0.9 km wide in the north-south direction (paralleling the regional strike of the coal seams), is divided into three mining districts from west to east (see Figure 3.4, following this text). The direction of mining is projected to advance from west to east. Overburden stripping is completed in a series of 10-m-high benches with 65-degree batter slope angles. Initial stripping and site preparation work is projected to take 12 months. Initial pit stripping volumes, as estimated in the FSR, are as follows:

Bench	**Stripping Volume (0000-m^3)**		
Level	**Rock**	**Soil**	**Total**
+690	81	58	139
+680	202	56	258
+670	969	79	1,048
Total	1,252	193	1,445

FSR reserves, stripping volumes, and average stripping ratios for the individual mining districts are as follows:

			District		
Item	**Unit**	**No. 1**	**No. 2**	**No. 3**	**Total**
Mineable Reserves	Mt	35.38	37.68	40.68	133.74
Stripping Volume					
Soil	million m^3	23.96	28.60	44.26	96.82
Rock	million m^3	55.92	66.72	103.28	225.92
Subtotal	million m^3	79.88	95.32	147.54	322.74
Average Stripping Ratio	m^3/tonne	2.26	2.53	3.63	2.41

Note: Figures may not add due to rounding.

FSR stripping volumes and coal reserves for the initial mining district by 10-m bench intervals are as follows:

Stripping Level (m)	Overburden Stripping Volume (million m^3)	Coal Reserves (Mt)	Cumulative Overburden Stripping Volume (million m^3)	Cumulative Coal Reserves (Mt)
+690	0.14	–	0.14	–
+670	2.02	0.33	2.16	0.33
+650	4.23	2.75	6.39	3.08
+630	8.13	3.48	14.52	6.56
+610	11.38	4.22	25.89	10.78
+590	12.98	5.39	38.87	16.17
+570	16.69	6.07	55.56	22.24
+550	16.34	7.84	71.89	30.08
+530	7.99	5.30	79.88	35.38

The FSR develops a balanced mine plan to minimize the initial stripping volumes and maintain a relatively uniform stripping ratio over the mine life. Stripping ratios for the initial mining district are as follows:

Year	Coal Output (Mt)	Stripping Volume (million m^3) Disposed Outside of the Pit	Disposed Inside of the Pit	Total	Stripping Ratio (m^3/t)
Transition	–	1.45	–	1.45	
1	0.90	2.03	–	2.03	2.26
2	0.90	1.92	0.12	2.03	
3	0.90	1.85	0.19	2.03	
4	0.90	1.88	0.15	2.03	
5	0.90	1.71	0.32	2.03	
6	0.90	1.91	0.12	2.03	
7	0.90	1.75	0.29	2.03	
8	0.90	1.93	0.10	2.03	
9	0.90	1.72	0.32	2.03	
10	0.90	1.94	0.10	2.03	
11	0.90	1.61	0.42	2.03	
12	0.90	1.95	0.09	2.03	
13	0.90	1.25	1.10	2.34	2.60
14	0.90	0.55	1.79	2.34	
15	0.90	0.20	2.14	2.34	
16-25	9.00	–	23.40	23.40	2.60
26-34	8.10	–	16.83	16.83	1.41
35-40	4.78	–	6.76	6.76	
Total	35.38	25.65	54.24	79.88	2.26*

* *Average*

The current Zexu Openpit Coal Mine design output capacity is 0.9 Mtpa. The mine production schedule projects 330 operating days annually, with two 8-hour shifts per day. Average daily coal output at full production is 2,730 tonnes.

The narrow width (0.6 to 0.9 km) of the Zexu Openpit Coal Mine Exploration Right area presents issues for mine planning. The adjacent mining or exploration right areas are controlled by others. Efficiently mining the Zexu Openpit Coal Mine Exploration Right area requires the initial depositing of spoil waste on the surface overlying Mining Districts 2 and 3, extending onto adjacent surface areas and acquiring the right to excavate overburden on adjacent areas to the south of the Zexu Openpit Coal Mine area in order to recover coal located along the exploration right area. Zexu Company has recognized these issues and has taken measures to address them.

Zexu Company is seeking the cooperation of the adjoining coal right holders to extend the overburden removal area, on the south side of the exploration right (to permit establishing pit slopes batter angles) and also provide spoil storage. According to the FSR, Zexu Company has entered into a verbal agreement with Zhonglian Runshi Holdings Limited to mine the coal reserves on the southern boundary area and also to temporarily store spoil. According to this verbal agreement, Zexu Openpit Coal Mine will mine the upper seams beyond its own boundary and compensate the neighboring mine by leaving an equal tonnage of coal in the lower seams within Zexu Openpit Coal Mine's pit boundary. The spoil on the Zhonglian Runshi Holdings Limited area would be transferred back to the Mining District No. 1 of Zexu Openpit Coal Mine over the course of the mine's operating period. We believe this a reasonable (and necessary) approach to effectively mining the area.

5.1.4 Mining Method and Mining Equipment

5.1.4.1 Mining Technology

Mine area topography is generally flat, and the annual coal production and stripping volumes are fairly small. Based on the dimensions of mine plan for Zexu Openpit Coal Mine and prevailing geologic conditions, shovel/truck openpit mining method was selected. This approach will provide operating flexibility for both overburden removal and coal loading.

The minimum bench width is 35 m to allow mining and loading operations as well as truck maneuver. A 50-m offset is maintained between neighboring working faces in different benches. Drilling and blasting are conducted in the consolidated rock material and in situ coal seams. Waste rock or coal is then loaded by excavators into rear-dump trucks. Secondary blasting will be used (in the pit) if oversize rock and/or coal pieces occur, prior to excavation. The trucks then transport the waste rock to the designated external dump or in-pit backfill area and the coal to the mine site screening plant. Drilling and blasting procedures are completed utilizing blasthole drills and loading holes with blasting agents.

5.1.4.2 Mining Equipment

According to the Zexu Openpit Coal Mine FSR, CE(D)650-6 excavators equipped with 4.0 m^3 bucket and CAT320 excavators equipped with 1.5 m^3 bucket are the primary overburden stripping and coal loading equipment. Rear-dump trucks (32-tonne) are to be used to transport coal and spoil (waste rock). At full output capacity of 0.9 Mtpa, the Zexu Openpit Coal Mine major equipment fleet is projected as follows:

Equipment	Model	Number of Units
Single Bucket Excavator	CE(D)650-6 (4 m^3)	3
Single Bucket Excavator	CAT320 (1.5 m^3)	2
Front-End Loader	ZL50	3
Downhole Drill	KQG150Y	3
Downhole Drill	KQG120Y	1
Air Compressor	HF 400	4
Pump	250QJ80-80/4	2
Rear Dump Truck	32 t	31
Oil Tank Truck	CGJ5200GJY 10 t	1
Material Truck	Dongfeng 8 t	2
Ambulance	SY5031XJH-A2-E	1
Firefighting Truck	SGX5100GXGSG30/EQ	1
Living Material Truck	Dongfeng 8 t	2
Shuttle Bus	DD6112H1 40 seat	2
SUV		2
Pick-up	Changcheng Pick-up	2
Road Grader	G710B	1
Road Roller	3Y12-15t	1
Bulldozer	T-120	1
Bulldozer	T-140	7
Water Spray Truck	Dongfeng 8 t	1
Rear-Dump Truck	Dongfeng 8 t	1
Tow Truck	CQ30290-40	1
Crane	QY8	1
Crane Truck	QY20	1

In BOYD's opinion, the specified primary excavator fleet will not have the adequate capacity to meet projected waste rock stripping and coal removal requirements (i.e., 2.7 to 2.9 million m^3 per year, including coal). BOYD projects a total of six 4-m^3 capacity excavators would be needed for mining in District 1.

5.1.5 Coal Transportation

As-mined coal from the pit will be hauled in the 32-tonne rear-dump truck fleet, over paved roads, to the planned mine site screening plant. According to the FSR, all of the coal produced by Zexu Openpit Coal Mine will be dispatched to market using both highway trucks and railway. The highway from Beita Mountain to Jijihu passes through the second mining district and needs to be re-routed when mining operations in this district begin. To ensure adequate transportation capabilities, a portion of the nearby highways will need to be repaired or rebuilt. In addition, the highway connects to a railway system 200 km from the mine, allowing coal deliveries to customers by mass containers.

5.1.6 Coal Processing

According to the estimated Zexu Openpit Coal Mine raw coal quality and regional market coal quality requirements, the quality of the as-mined or ROM coal will be acceptable for sale (without further processing). ROM coal will be screened to produce three or four different coal sizes (similar to the Kaiyuan Openpit Coal Mine operation). The proposed screening plant raw coal processing capacity is designed at 260 tph.

Incoming as-mined coal from the mine pit is delivered to the screening plant and either discharged directly to the plant's receiving chute or placed in temporary stockpile for later recovery and processing. After transfer to the receiving chute, the raw coal is passed over a series of screens to separate coal into various sizes. Lump coal (plus 50 mm) is transferred directly to ground storage and subsequently moved by front-end loader and bulldozer to the lump coal storage pile. The various undersize (minus 50 mm) coal products are separately recovered and conveyed to their respective stockpile area. The total storage capacity for the three piling facilities is 15,000 tonnes, or approximately five days of mine output. A weighing station is located near the storage piles and is used to weigh outgoing coal trucks.

5.1.7 Waste Soil/Rock Disposal

Waste rock (spoil) generated during stripping is transported by truck and dumped in designated areas. Disposal outside the active and planned pit area is required initially until an adequate area or in-pit void is created to allow disposal in-pit.

Coal resources are abundant in this region, and the areas surrounding the Zexu Openpit Coal Mine Exploration Right area are currently being mined or will be mined. As a result, it is difficult to find an acceptable external disposal dump location (not underlain by coal) for Zexu Openpit Coal Mine spoil. According to the mine plan and current coal mining status, the surface overlying Districts 2 and 3 (and adjacent areas to the south) has been selected for waste soil/rock disposal. Spoil to be stored outside of the pit totals approximately 25.65 million m^3 during the first 15 years of mining. The selected area has adequate capacity (34.50 million m^3) to satisfy the projected disposal requirements. However, in this case, Zexu Openpit Coal Mine will be required to re-handle and remove the spoil material placed in the external dump when mining has sufficiently advanced to allow recovery of coal underlying Districts 2 and 3. The re-handled waste rock will be relocated and placed in the mined portion of District 1.

Pit spoil disposal will be available on a gradually increasing basis from the second year of full mining operation. According to design estimates, from the 16th year of mining operation onward, the waste rock generated from stripping operations can be completely disposed of inside the pit. In-pit disposal spoil generated through the depletion of the initial mining district amounts to 54.24 million m^3.

5.1.8 Water Drainage and Control

Projected ground water inflow rate for Zexu Openpit Coal Mine is 2.9 m^3/h. In addition, water from rainfall is projected to be 3.1 m^3/h under normal conditions and 90.6 m^3/h in maximum storm conditions. According to the FSR, the pit will be equipped with four pumps, two having a pumping capacity of 20 m^3/h for normal pumping (one active, the other on standby) and two with 80 m^3/h capacity, which will be used in tandem with the other pumps during heavy rain conditions. This pumping arrangement can satisfy pumping requirements under the most severe known regional rain conditions.

5.2 Economic Analysis

5.2.1 Introduction

This section discusses economic aspects of the projected Zexu Openpit Coal Mine operation. Our review relies upon information, projections, and findings from documentation provided in part by Zexu Company.

5.2.2 Mine Output

Zexu Openpit Coal Mine raw coal output is currently projected at 0.9 Mtpa, and mining equipment and facilities are designed to achieve this output level. The maximum annual overburden stripping volume requirement is projected to be 2.34 million bank m^3 (including re-handle). The mine schedule projects two 8-hour shifts each day and 330 working days annually.

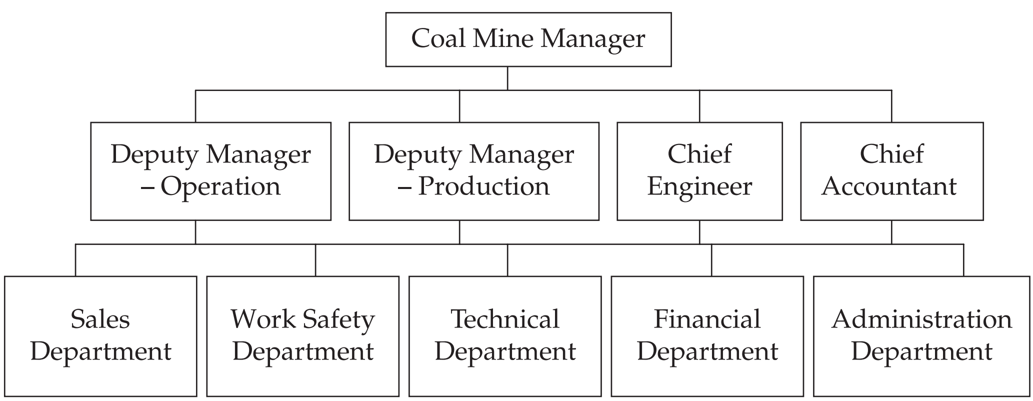
The proposed mine plan uses two 4-m^3 excavators and two 1.5-m^3 excavators, which can be used interchangeably for coal loading and overburden removal (stripping). We estimate the coal loading capacity for the 4-m^3 excavator at 150 tph, or 0.7 Mtpa, assuming 5,280 annual scheduled working hours, 330 working days annually, and 90% availability. If the excavator is used for stripping, capacity is estimated at 100 m^3/h, or 0.5 million m^3 annually. The coal loading capacity for the 1.5-m^3 excavator loaded into 32-tonne trucks is very low (estimated at 0.33 Mtpa), but could be used on a supplemental basis. In addition, Zexu Openpit Coal Mine is projected to have three front-end loaders with 3.6-m^3 bucket capacity. We estimate the annual coal loading capacity of each front-end loader at 0.4 Mtpa, assuming the front-end loader design is acceptable for loading the 32-tonne trucks.

Assuming one excavator and one front-end loader are used for the coal loading operation, the remaining excavators fleet has 1.5 million bank m^3 stripping capacity. The projected 31 (32-tonne capacity) rear-dump trucks are adequate to handle the transportation of overburden material and coal output. According to our review, the capacity of the proposed excavator fleet does not meet the overburden removal requirements to support the 0.9 Mtpa coal output design capacity. In addition, output may be impacted by lost days for regulatory safety closures, mine incidents such as flooding, and unusual maintenance-related events (e.g., slope failures). In BOYD's opinion, either the size of the excavators needs to be increased to 8-m^3 capacity (or larger), or a minimum of three additional 4-m^3 units are needed (including one spare unit).

Based on the information provided by Zexu Company, additional temporary excavation/loading capacity is available either through leasing additional excavators or by engaging local stripping contractors. We believe employing these options would increase the flexibility of mine operation and be necessary to achieve the production schedule.

5.2.3 Labor Force

Proposed administrative structure for the Zexu Openpit Coal Mine is shown below:



According to the FSR, projected staffing at full output of 0.9 Mtpa for Zexu Openpit Coal Mine is 162 personnel.

	Shift 1	Shift 2	Subtotal	Factor	Payroll
Total	75	70	145	1.12	162

Openpit labor productivity, based on projected pit staffing, is 10,300 raw tonnes per employee-year at raw coal output of 0.9 Mtpa. According to our experience, the labor force staffing projections appear adequate for the anticipated mining conditions, technology, and mining equipment.

Significant efforts will be needed to recruit and effectively educate and train the requisite workforce for the mining and other production work. It is BOYD's opinion that recruiting and training miners in a timely manner will benefit mine safety and improve early mining performance.

5.2.4 Capital Expenditures

According to the Zexu Openpit Coal Mine FSR, the initial capital spending for mine construction is projected at RMB121.59 million. Capital spending projections assume outright purchase of production, support, and infrastructure equipment with no provisions for leasing. Projected capital monies for production equipment may need to be increased to increase the capacity of excavators (to 8 m^3 units) for overburden removal and coal loading. The capital contingency on projected expenditures (project reserve and contingency) approximates 8% (excluding mining right fee and working capital). According to our experience, a significant contingency is prudent at this stage of planning, considering the uncertainties with the final equipment fleet and to account for the impact of inflation since the FSR was issued in August 2007.

On an annual tonne of raw output basis, assuming 0.9 raw Mtpa, planned construction capital expenditures (excluding mining right fees) are RMB128 per raw tonne of annual output, which is relatively low (capital efficient) for coal mine projects in the PRC. This measure of capital efficiency, which is highly dependent upon on output level, varies widely and is useful only for relative benchmark guidance. Modest increases in output over the projected output level could significantly decrease this metric. In BOYD's opinion, the level of anticipated spending is reasonable, in RMB terms, given the low stripping ratio and scale of the proposed mining operation.

Zexu Openpit Coal Mine output will be transported by truck and railway system to customers. Monies for the on-highway truck loading facility are included with the mine construction funds.

Project capital spending figures, as shown in the FSR, include the mining right purchase fee at RMB6 million. No capital spending is projected for village moves, as none are anticipated.

Ongoing sustaining capital expenditures for maintaining the mining operation as well as supporting routine mine extension, are not discussed in the FSR. We anticipate that the stripping equipment, coal loading equipment, and support equipment will be replaced on 12-year cycles.

5.2.5 Operating Cost

At raw coal output of 0.9 Mtpa, the FSR projects Zexu Openpit Coal Mine cash operating cost of RMB32.9 per tonne.

Raw Coal Output Tonnes (Mt): 0.9

Category	*RMB/ Raw Tonne*	*RMB (millions)/Year*
Cash/Direct Costs (Mining)		
Labor	4.9	4.39
Materials	6.6	5.94
Power	6.4	5.74
Repairs	–	–
Screening	3.2	2.92
Resource Tax	–	–
Others	11.8	10.63
Subtotal – Direct Cash Costs	32.9	29.62
Non-Cash/Indirect Costs (Mining)		
Safety Fund/Fee	2.1	1.89
Production Maintenance Fee	5.5	4.95
Management Expense	–	–
Depreciation	6.8	6.09
Amortization	1.1	1.00
Subtotal – Other Costs	15.5	13.93
Total Mining Costs	48.4	43.55

Considering the proximity of the Zexu area to the Kaiyuan Mine, it is reasonable to assume that Zexu Mine operating costs would be comparable to Kaiyuan Mine operating costs adjusted for site-specific mining conditions, stripping ratios, etc. Equipment productivity would be similar to the performance expected at Kaiyuan Mine. The Zexu Mine operating conditions vary from those at Kaiyuan to some degree because of the presence of several thinner coal seams as compared to the two major thick coal seams at Kaiyuan Mine. For this reason, Zexu Mine's operating costs are likely to be higher on a unit basis than Kaiyuan Mine's operating costs.

We have evaluated Zexu Mine operating costs at 0.9 Mtpa output capacity assuming that outsourcing of stripping, blasting, and mining is undertaken at the Zexu Mine and that the general mine cost structure is similar to that of Kaiyuan Mine with identical company staffing. Zexu Mine operating cost projections are as follows:

Raw Coal Output Tonnes (Mt): 0.9

Category	*RMB/ Raw Tonne*	*RMB (millions)/Year*
Cash/Direct Costs (Mining)		
Labor	1.5	1.32
Materials	3.7	3.33
Mining	8.0	7.20
Stripping	20.9	18.79
Power	5.6	5.04
Repairs	0.8	0.72
Screening	1.0	0.90
Resource tax	3.0	2.70
Others	2.1	1.91
Subtotal – Direct Cash Costs	46.6	41.91
Non-cash/Indirect Costs (Mining)		
Safety Fund/Fee	3.0	2.70
Production Maintenance Fee	8.5	7.65
Management Expense	1.3	1.17
Depreciation	3.9	3.47
Amortization	2.1	1.93
Subtotal – Other Costs	18.8	16.92
Total Mining Costs	65.4	58.83

The FSR cost parameters table does not have both mining and stripping costs. It can be assumed they are included in other items in the cash/direct operating cost but this assumption might raise eyebrows since the numbers are negatively skewed as compared to the general trend in China. The management cost component is also missing from the cost table and no mention is made of where it might have been added. Government requirement stipulates a production maintenance fee of RMB8.50 be set aside by coal mining companies in Xinjiang. However, in the FSR, an RMB5.5 production maintenance fee is employed. All these factors gave rise to a lower total operating cost in the FSR for Zexu Openpit Coal Mine.

5.2.6 Market

The FSR provides the following market plan for Zexu Openpit Coal Mine's output:

Target Customer	**Projected Sale Tonnage** *(Mt)*
Mulei, Jimusa'er, and Qitai Counties	0.55
A'ertai District	0.10
Ku'erle and South Xinjiang	0.05
Shihezi, Changji, and Western Urumchi	0.10
Hexi Corridor Area of Gansu Province	0.05
Retails	0.05
Total	0.90

Zexu Mine's coal quality is expected to be similar to Kaiyuan Mine's coal quality. Based on this observation and the proximity of the mines, the market discussion for Kaiyuan Mine applies as well to Zexu Mine. Zexu Openpit Coal Mine coal quality is suitable for both industrial and domestic uses. Recognizing China's economic development and the national policy of promoting development of western areas of the country, a strong market for Zexu Openpit Coal Mine's coal output is anticipated.

Based on our review, we conclude that the proposed Zexu Openpit Coal Mine operation is economically viable. When the necessary mining right is received, the estimated Resources can be reclassified as Reserves under JORC criteria.

6.0 ENVIRONMENTAL OVERVIEW

6.1 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 Kaiyuan and Zexu openpit coal mines operate (or will operate) is flat gobi terrain with few inhabitants. Surface elevations generally range from 670 to 720 m. Adverse impacts are largely related to overburden removal and disposal noise and dust generation during mining and coal processing, community by-products (e.g., handling of sewage), and power and heating plant emissions.

6.2 Guidelines of the 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 initial site visit, BOYD is satisfied that Kaiyuan Company and Zexu Company recognize their environmental responsibilities and plan accordingly. Significant efforts have been reflected in the mine design covered by the respective FSRs to protect the environment. In February 2007 an Environmental Impact Report (EIR) for Kaiyuan Mine for the 0.9 Mtpa capacity expansion was submitted to the Environmental Protection Bureau of Xinjiang Uygur Autonomous Region and the review reply was issued in June 2007.

6.3 Environmental Protection Regulations

The principal environment protection laws of the PRC, as they relate to mining operations, pertain to the following areas:

- Environmental protection.
- Air pollution control.
- Water pollution control.
- Solid waste control.
- Ambient noise control.
- Water preservation.
- Soil and water conservation.
- Responsible production practices (compliance to standards).
- Environmental impact evaluation.

Surface mining disrupts the original land environment and postmining land reclamation is required by law. The Article No. 30 of Mineral Resource Law of the PRC issued in 1986 requires:

> *In mining mineral resources, attention shall be paid to using land economically. In case cultivated land, grassland or forest land is damaged due to mining, the relevant mining enterprise shall take measures to utilize the lands affected, such as reclamation, tree-planting and grass-planting, as appropriate to the local conditions.*

The Land Reclamation Regulations issued in 1988 are the first specific official document regulating the land reclamation in mining and other land-related activities. One of the major principles in land reclamation is that land reclamation should be the responsibility of the entity that makes disruption to the land. Other laws related to land reclamation include Environmental Protection Law, Law of Land Administration, Law of the PRC on the Coal Industry, etc.

Environmental protection issues are addressed in the FSRs for the Kaiyuan and Zexu Openpit Coal Mines. Facilities, equipment, and capital for environmental protection are incorporated into the mine design and construction.

6.4 Solid Waste Disposal and Land Reclamation

Solid wastes include waste soil/rock, ash residue from boiler, and municipal waste. Waste soil/rock generated by the stripping and mining operations will be stored in surface disposal areas. When the waste rock disposal facility service life is completed, the surface will be re-vegetated. Ash residue and municipal waste will be collected and disposed together with waste rock.

The EIR for Kaiyuan Mine projects 33.8 million m^3 of stripping waste and 0.9 million tonnes of parting rocks will be generated by the mining activities at Kaiyuan. Half of the stripping waste will be dumped at the waste rock disposal site located west of the pit, and the rest will be stored temporarily north of the pit and later moved back into the pit. Parting waste will be stored 200 m away from the pit. Approximately 309 tonnes of boiler residue are produced annual from the boilers, some of which is used for road construction and the rest dumped at the waste rock disposal site.

A plan for backfilling soil material to the pit is not provided in the FSR for Zexu Openpit Coal Mine. Initially waste rock and soil stripped and dumped outside the pit will be permanently stored outside of the excavated pit. Both the pit areas and the outside waste rock disposal sites are designed to be covered by soil (to the extent available) and re-vegetated after mining operation is completed. Municipal waste generated from the mine will be moved to disposal sites designated by environmental administration department.

It should be noted that due to the adverse climate in this area, lack of ground water, and poor soil quality in the barren gobi terrain, the land reclamation plan proposed for Kaiyuan and Zexu mines may face significant challenges.

6.5 Water Resources Protection

Water resources in this area are valuable. Kaiyuan and Zexu openpit coal mines have water management plans in place to protect water resources during the mining process and recycle water from domestic usage after such water is collected and processed. The water is used for vegetation irrigation, dust depression spray, vehicle wash, etc., after being processed.

6.6 Air Pollution Control

Kaiyuan and Zexu openpit coal mines are located in an area with few residents. Boiler exhaust emissions and fugitive dust from blasting, overburden removal and coal processing, coal handling, and transportation activities are the primary sources of air pollution.

Kaiyuan Openpit Coal Mine is equipped with three coal-burning boilers, of which two are environmentally friendly types and the other will be improved by installing filtering equipment for capturing and processing exhaust emissions. After filtering, the smoke discharges should meet the requirements of local environment authorities. Projected pollutant generation is shown in the following table:

			Smoke		SO_2		NOx	
Boiler	Quantity	Coal Consumption *(tpa)*	Release Amount *(tpa)*	Release Content *(mg/m³)*	Release Amount *(tpa)*	Release Content *(mg/m³)*	Release Amount *(tpa)*	Release Content *(mg/m³)*
CWWL1.4-95/70-AII	1	552	0.21	1625.3	5.21	872	2.02	347
CLLG-III	2	285	3.52	≤ 120	2.69	872	1.04	347

The emissions from the CWWL1.4-95/70AII boiler exceed the authorized release levels. After the filter is installed, at least 88% of the smoke will be captured.

Zexu Openpit Coal Mine will be equipped with two DZL1-1.25-A boilers with cyclone dust collectors with dust collection efficiency reported to be above 90%. The projected pollutant generation is shown in the following table:

			Smoke		SO_2		NOx	
Boiler	Quantity	Coal Consumption *(tpa)*	Release Amount *(tpa)*	Release Content *(mg/m³)*	Release Amount *(tpa)*	Release Content *(mg/m³)*	Release Amount *(tpa)*	Release Content *(mg/m³)*
CZL1-1.25-A	2	1,280	2.11	157.1	12.08	890.6	9.78	720.8

After dust collection, the dust, SO_2, and NOx constituents would meet the release requirements.

Regular water spraying by specifically outfitted trucks is planned at different operation sites to reduce fugitive dust. Routine road washing and planting of trees along the roads are also planned to minimize dust movement.

6.7 Noise Abatement

According to the FSRs and site observation, the mines have adopted noise insulation and reduction practices for high-noise generation activities. Examples include selecting low-noise equipment, reducing the window openings in workshops and boiler rooms that generate higher noise levels, soundproofing the equipment rooms, etc.

6.8 Environmental Management

Environmental management is generally incorporated into mining operation management. The FSRs address environmental management plans regarding office, personnel, working system, monitoring, analysis, assessment, and supervision. The mine managers oversee the environmental protection work of the entire mine, and the environmental management team includes the section heads for various mine sections. According to the EIR for Kaiyuan Mine, the environmental monitoring work for the mine will be contracted to a local environmental monitoring department.

6.9 Capital for Environmental Protection

According to the FSRs, Kaiyuan Company projects RMB2.77 million, or 3.3% of the total mine construction capital budget, for environmental protection. Zexu Company's capital budget for environmental protection is RMB3.32 million, or 3.0% of the total capital expenditure.

In the EIR for Kaiyuan, a more detailed capital budget totaling RMB5.66 million is provided for environmental protection and water and soil preservation, as shown in the following table:

Category	**Capital budget** *(RMB-millions)*
Environmental Protection	
Air pollution prevention	0.71
Sewage treatment	0.02
Noise abatement	0.03
Ecological restoration	0.20
Subtotal	0.96
Water and Soil Preservation	
Engineering measures	
Industrial field maintenance	0.60
Road maintenance	0.10
Openpit and disposal site maintenance	0.40
Water cut-off and distributary project	0.15
Openpit fill-back project	1.00
Subtotal	2.25
Planting measures	
Industrial field landscaping	0.35
Pit fill-back and ecological restoration	0.50
Disposal site revegetation	0.90
Subtotal	1.75
Independent expense	
Construction management expense	0.05
Water and soil conservation superintendence cost	0.15
Water and soil conservation monitoring cost	0.20
Contingency	0.20
Water and soil conservation facilities compensation	0.10
Subtotal	0.70
Total	5.66

It is BOYD's opinion that the planned capital for environmental protection will adequately cover the need for required equipment and environmental protection facilities.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

Save as disclosed below, as at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in an associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares interested	Approximate percentage of the issued share capital
Ms. Lo Fong Hung *(Note 1)*	New Bright International Development Limited	Interests of a controlled corporation	3,000(L)	30.0%
Mr. Wang Xiangfei *(Note 2)*	New Bright International Development Limited	Interests of a controlled corporation	3,000(L)	30.0%

(L) denotes as long position

Notes:

1. Ms. Lo Fong Hung ("Ms. Lo") is interested in 3,000 shares in New Bright International Development Limited ("New Bright"), representing 30% of the issued share capital of New Bright, which currently owns 70% shareholding interests in China Sonangol International Limited ("China Sonangol"). China Sonangol is the holding company of Ascent Goal Investments Limited ("Ascent Goal"), the controlling shareholder of the Company.

2. Mr. Wang Xiangfei is the husband of Ms. Lo and is deemed to be interested in 3,000 shares of New Bright under the SFO.

3. Ms. Lo, an executive Director, owns 30% of the issued share capital of New Bright which in turn is interested in 70% of China Sonangol. China Sonangol is the holding company of Ascent Goal. Thus, Ms. Lo has an attributable interest in 569,616,589 Shares and a HK$200,000,000 convertible bond (the "Convertible Bond") giving rise to an interest in 1,000,000,000 underlying Shares.

Competing Interests

As at the Latest Practicable Date, none of the Directors or their respective associates have any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, or have or may have any other conflicts of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

Interests in assets of the Group

None of the Directors has any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 March 2009, the date to which the latest published audited financial statement of the Group was made up.

Interests in contract or arrangement

None of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group taken as a whole.

(b) Substantial Shareholders' and other Shareholders' interests

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executive of the Company, no other person 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 provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10 per cent. (10%) or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Long positions in the Shares and underling Shares of the Company:

Name of Shareholder	*Note*	Nature of interest	Number of Shares held	Number of underlying Shares held	Total number of Shares and underlying Shares held	Approximate percentage of the issued share capital of the Company *(Note 7)*
Ascent Goal	*1,4*	Beneficial owner	569,616,589	1,000,000,000	1,569,616,589	205.08%
China Sonangol	*2,4*	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
New Bright	*2,4*	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Ms. Fung Yuen Kwan, Veronica	*3,4*	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Africa Israel Financial Assets and Strategies Ltd	*5*	Beneficial owner	45,000,000	–	45,000,000	5.88%

Name of Shareholder	*Note*	Nature of interest	Number of Shares held	Number of underlying Shares held	Total number of Shares and underlying Shares held	Approximate percentage of the issued share capital of the Company *(Note 7)*
Africa Israel Investments Ltd	5	Interests of controlled corporation	45,000,000	–	45,000,000	5.88%
Mr. Lev Leviev	6	Beneficial owner	1,000,000	–	1,000,000	0.13%
	6	Interests of controlled corporation	74,000,000	–	74,000,000	9.67%

Notes:

1. These 1,569,616,589 Shares were held by Ascent Goal directly as beneficial owner. It includes (i) interests in 569,616,589 Shares and (ii) the Convertible Bond giving rise to an interest in 1,000,000,000 underlying Shares.

2. Since Ascent Goal is a wholly-owned subsidiary of China Sonangol which is beneficially owned as to 70% by New Bright, the interests of Ascent Goal are deemed to be the interests of China Sonangol and in turn the interests of New Bright under the SFO.

3. Ms. Fung Yuen Kwan, Veronica is deemed to have interests in the Shares and underlying Shares through her 70% interests in New Bright.

4. The 569,616,589 Shares and 1,000,000,000 underlying Shares under the Convertible Bond represent 74.42% and 130.66% of the existing issued share capital of the Company respectively, thus the total of 569,616,589 Shares and 1,000,000,000 underlying Shares represents 205.08% of the existing issued share capital of the Company. The conversion rights attaching to the Convertible Bond will not be exercised and the Company will not issue the conversion shares if, immediately following the conversion, the Company would be unable to meet the public float requirement under the Listing Rules.

5. These 45,000,000 Shares were held by Africa Israel Financials Assets and Strategies Ltd, a company wholly owned by Africa Israel Investments Ltd.

6. Mr. Lev Leviev is the beneficial owner of these 75,000,000 Shares. Among these Shares, 45,000,000 Shares were held by Africa Israel Financials Assets and Strategies Ltd, a company controlled by Mr. Lev Leviev through his 74.89% interests in Africa Israel Investments Ltd; 29,000,000 Shares were held by Memorand Management (1998) Ltd, a company controlled by Mr. Lev Leviev through his 99% interests in Memorand Ltd; and 1,000,000 Shares were held by Mr. Lev Leviev directly.

7. The approximate percentage of shareholdings is based on 765,373,584 Shares as at the Latest Practicable Date, not the enlarged issued share capital of the Company upon full conversion of the Convertible Bond.

3. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

There are no claims in relation to the exploration/mining rights of the Coal Mines made or notified either by third parties against any member of the Enlarged Group or vice versa.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had existing or proposed service contract with any member of the Group excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within two years preceding the issue of this circular:

(a) the deed of assignment dated 25 June 2007 entered into between Precision Group Limited (a former wholly-owned subsidiary of the Company), Kuan Weng Fai and Everbright Lighting Limited relating to the sale and purchase of 100% equity interests in Everbright Lighting Limited for a total consideration of HK$3,600,000;

(b) the sale and purchase agreement dated 3 July 2007 entered into between Ming Kei International Holding Co. Limited, Mr. Wong Wai Sing, Mr. Wong Wai Ngok and the Target Company in respect of the acquisition of the entire issued share capital in Ming Kei Kai Yuan for a total consideration of HK$1,000,000,000;

(c) two sale and purchase agreements both dated 25 July 2007 entered into between Artfield Manufacturing Company Limited (a wholly-owned subsidiary of the Company), Chan Sze Bun and Pun Tse Hing for the disposal of 2 units of an industrial property at Universal Industrial Centre, Shatin, New Territories, for a total consideration of HK$3,012,750;

(d) the option subscription agreement dated 24 August 2007 entered into between the Company and the call option holder whereby the call option holder has the rights to require, at any time during the option period, the Company to procure the delivery of one Share upon exercise of each call option (in total 60,895,000 Shares) by way of issuance and allotment of new Shares at the exercise price of HK$1.165 per Share;

(e) the sale and purchase agreement dated 27 August 2007 entered into between Artfield Manufacturing Company Limited, a wholly-owned subsidiary of the Company, and Upwin Investments Limited for the disposals of 3 car parking spaces and 7 units of an industrial property at Universal Industrial Centre, Shatin, New Territories, for a total consideration of HK$11,451,450;

(f) the subscription agreement dated 15 January 2008 entered into between the Company and Ascent Goal whereby Ascent Goal (as the subscriber) subscribed 400,000,000 Shares at a price of HK$0.20 per Share and the convertible bond in the principal amount of HK$200,000,000 which gives rise to an interest of 1,000,000,000 underlying Shares (assuming full conversion of the convertible bond at the conversion price of HK$0.20);

(g) the sale and purchase agreement and supplemental agreement both dated 15 May 2008 entered into between 木壘縣凱源煤炭有限責任公司 (transliterated as Mulei County Kai Yuan Coal Company Limited), as the purchaser and 新疆野馬經貿有限公司 (transliterated as Xinjiang Yema Economy & Trade Company Limited), as the vendor regarding the sale and purchase of Unit 2, 6th Floor, Block A, Yema Building, No. 158, Kunming Road, Urumqi, Xinjiang, Uygur Autonomous Region, PRC at a consideration of RMB14,493,200 (equivalent to approximately HK$16,158,469);

(h) the services agreement dated 11 July 2008 entered into between the Company and China Sonangol in relation to the provision of services (including, among others, market analysis in respect of oil trading business and news clipping services related to oil trading business for sales and marketing) by the Company to China Sonangol;

(i) the MOU;

(j) the supplemental agreement dated 30 April 2009 entered into between Ming Kei International Holding Co. Limited, Mr. Wong Wai Sing, Mr. Wong Wai Ngok and the Target Company in respect of amendment of (i) the profit guarantee of not less than HK$60,000,000 (i.e.HK$120,000,000 in aggregate) for the two years ending 31 December 2008 and 31 December 2009 to not less than HK$20,000,000 (i.e. HK$40,000,000 in aggregate) for the two years ending 31 December 2008 and 31 December 2009 and (ii) the amount of the promissory note from the principal amount of HK$120,000,000 with zero coupon to the principal amount of HK$40,000,000 with zero coupon referred to in the sale and purchase agreement dated 3 July 2007; and

(k) the Sale and Purchase Agreement.

6. EXPERTS AND CONSENTS

(a) The following is the qualification of the experts whose reports are contained in this circular:

Name	Qualification
SHINEWING (HK) CPA Limited (“SHINEWING”)	Certified Public Accountants
Shu Lun Pan Hong Kong CPA Limited (“SLP”)	Certified Public Accountants
Greater China Appraisal Limited (“GCA”)	Chartered Valuation Surveyor Registered Professional Surveyor
John T. Boyd Company (“John T. Boyd”)	Mining and Geological Consultants

(b) SHINEWING, GCA, John T. Boyd and SLP have given and have not withdrawn their written consents dated 12 June 2009 to the issue of this circular with the inclusion of their reports and the reference to their names in the form and context in which they respectively appear.

(c) As at the Latest Practicable Date, neither SHINEWING, GCA, John T. Boyd nor SLP has any direct or indirect interest in any assets which have been, since 31 March 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

(d) As at the Latest Practicable Date, neither SHINEWING, GCA, John T. Boyd nor SLP has any shareholding in any member of the Enlarged Group, nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

(e) Neither John T. Boyd nor any Directors are directly or indirectly interested in the promotion of or in any assets which have been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to any member of the Enlarged Group.

7. MISCELLANEOUS

(a) The company secretary and qualified accountant of the Company is Mr. Lo Ka Wai, Eddy, who is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is situated at Suites 1003-1006, 10/F., Two Pacific Place, 88 Queensway, Hong Kong.

(c) The Company's Hong Kong branch share registrar and transfer office is Union Registrars Limited at Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(d) The English text of this circular shall prevail over its Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong during normal business hours on any weekdays other than public holidays up to and including the date of the SGM:

(a) the memorandum and bye-laws of the Company;

(b) the annual reports of the Company for the three years ended 31 March 2009;

(c) the accountants' report on the Target Group, the texts of which are set out in Appendix II to this circular;

(d) the unaudited pro forma financial information on the Enlarged Group and the comfort letter thereon from SHINEWING (HK) CPA Limited, the texts of each of which are set out in Appendix III to this circular;

(e) the property valuation report of the Enlarged Group prepared by Greater China Appraisal Limited, the texts of which are set out in Appendix IV to this circular;

(f) the independent technical report prepared by John T. Boyd Company, the texts of which are set out in Appendix V to this circular;

(g) the written consents as referred to in the paragraph headed "Experts and consents" in this appendix;

(h) the material contracts as referred to in the paragraph headed "Material contracts" in this appendix; and

(i) this circular.

ARTFIELD GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1229)

NOTICE IS HEREBY GIVEN THAT the special general meeting ("**SGM**") of Artfield Group Limited (the "**Company**") will be held at Suites 1003-1006, 10/F., Two Pacific Place, 88 Queensway, Hong Kong on Monday, 29 June 2009 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

"**THAT**:

1. the Sale and Purchase Agreement (as defined in the circular of the Company dated 12 June 2009, copy of which has been produced to the SGM marked "A" and signed by the chairperson of the SGM for the purpose of identification), and the terms and conditions thereof and the transaction contemplated thereunder and the implementation thereof be and are hereby approved, ratified and confirmed; and

2. any one of the directors be authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering all such documents and deeds, to do or authorise doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Sale and Purchase Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Sale and Purchase Agreement they may in their discretion consider to be desirable and in the interests of the Company and all the directors' acts as aforesaid be hereby approved, ratified and confirmed."

By Order of the Board of
Artfield Group Limited
Kwan Man Fai
Executive Director

Hong Kong, 12 June 2009

Notes:

1. A member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company but must attend the SGM (or any adjournment thereof) to represent you.

2. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's Hong Kong branch share registrar, Union Registrars Limited, at Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time for holding of the SGM or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjournment thereof) if you so wish.

As at the date of this notice, the Board comprises three executive Directors, namely Ms. Lo Fong Hung, Mr. Wang Xiangfei and Mr. Kwan Man Fai, and three independent non-executive Directors, namely Mr. Wong Man Hin, Raymond, Mr. Lam Ka Wai, Graham and Mr. Chan Yiu Fai, Youdey.