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 advisor.

If you have sold or transferred all your shares in **China Sonangol Resources Enterprise 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.

CHINA SONANGOL RESOURCES ENTERPRISE LIMITED
安中資源實業有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1229)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – FURTHER ACQUISITION OF 49% EQUITY INTEREST IN STAR FORTUNE INTERNATIONAL INVESTMENT COMPANY LIMITED

Financial advisor to the Company

寶橋 BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

Independent financial advisor to the independent board committee and the shareholders of China Sonangol Resources Enterprise Limited

英皇融資有限公司
Emperor Capital Limited

A notice of 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 Thursday, 12 August 2010 at 11:30 a.m. is set out on pages 253 to 254 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend 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 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the 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.

27 July 2010

TABLE OF CONTENT

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

"Acquisition"	the acquisition of 49% 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"	China Sonangol Resources Enterprise 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
"Competent Person"	John T. Boyd Company, an independent mining and geological consultant, being the independent competent person appointed by the Company in respect of the Coal Mines and being a person with experience in the mining industry
"Completion"	completion of the sale and purchase of the Sale Shares
"Completion Date"	within 5 Business Days after all the conditions precedent of the Sale and Purchase Agreement 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$50 million, being the total consideration for the Sales Shares

"Directors"	the directors of the Company, including the independent non-executive Directors
"Emperor Capital"	Emperor Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial advisor to advise the Independent Board Committee and the Shareholders in respect of the terms of the Sale and Purchase Agreement and the transaction(s) contemplated thereunder
"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 dated 20 May 2010 entered into, between the Purchaser, the Purchaser's solicitors (as escrow agent) and the Vendor in respect of the escrow of the refundable deposit and part payment of the Consideration, being HK$20 million, in the escrow account with the Purchaser's solicitors
"First Annual Period"	the first twelve-month period ending immediately after the completion date of the Former Acquisition
"Former Acquisition"	the acquisition of 51% equity interest in the Target Company by the Purchaser pursuant to the Former Sale and Purchase Agreement
"Former Sale and Purchase Agreement"	the sale and purchase agreement dated 30 April 2009 entered into between the Purchaser, the Vendor, the Purchaser's Guarantor and the Vendor's Guarantor, and the details of which were set out in the announcement of the Company dated 7 May 2009
"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

"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee of the Company comprising of all the independent non-executive Directors
"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"	23 July 2010, 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
"Long Stop Date"	31 August 2010 (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
"Performance Guarantee"	the performance guarantee pursuant to the Former Sale and Purchase Agreement, 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
"Sale and Purchase Agreement"	the sale and purchase agreement dated 20 May 2010 in respect of the acquisition of 49% equity interest in the Target Company by the Purchaser

"Sale Shares"	49 shares of US$1.00 each in the share capital of the Target Company, representing 49% equity interest in the Target Company, beneficially owned by the Vendor immediately before the Completion
"Second Annual Period"	the twelve-month period 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 and a connected person of the Company
"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 Thursday, 12 August 2010 at 11:30 a.m. to consider and, if thought fit, approve, among other things, the Sale and Purchase Agreement and the transaction(s) contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.10 each in the existing issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"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 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 BVI, a non wholly-owned subsidiary of the Company and an associated company of the Vendor

"Target Group"	the Target Company and its subsidiaries, 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 Holdings Limited, a company incorporated in the Cayman Islands with limited liability and continued in Bermuda, 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
"%"	per cent.

For illustration purpose, certain amounts denominated in HK$ have been translated in this circular based on the following exchange rate:

RMB1.00 = HK$1.14

CHINA SONANGOL RESOURCES ENTERPRISE LIMITED
安中資源實業有限公司

(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

27 July 2010

To the Shareholders,

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – FURTHER ACQUISITION OF 49% EQUITY INTEREST IN STAR FORTUNE INTERNATIONAL INVESTMENT COMPANY LIMITED

INTRODUCTION

On 2 June 2010, the Board announced that, after trading hours on 20 May 2010, 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 49% equity interest in the Target Company at the consideration of HK$50 million.

The Consideration is to be satisfied as to (i) HK$20 million in cash as a refundable deposit and part payment of the Consideration, which has been deposited into an escrow account with the Purchaser's solicitors on the date of execution of the Sale and Purchase Agreement and shall be released to the Vendor or its nominee on the Completion Date pursuant to the Escrow Agreement and (ii) HK$30 million in cash on the Completion Date.

Pursuant to the Sale and Purchase Agreement, subject to Completion, the Purchaser and the Purchaser's Guarantor agree to waive the obligation of the Vendor and the Vendor's Guarantor to perform the Performance Guarantee for the Second Annual Period as set out in the Former Sale and Purchase Agreement. Such waiver involves a material change of the terms of the Former Sale and Purchase Agreement and the Sale and Purchase Agreement is subject to the approval by the Shareholders at the SGM. The Performance Guarantee for the First Annual Period has been met and will continue to be settled in accordance with the terms and conditions of the Former Sale and Purchase Agreement.

The purpose of this circular is to provide you, among other things, (i) details of the Sale and Purchase Agreement and the Acquisition; (ii) the recommendation from the Independent Board Committee on the Sale and Purchase Agreement and the transaction(s) contemplated thereunder; (iii) a letter of advice from Emperor Capital on the terms of the Sale and Purchase Agreement and the transaction(s) contemplated thereunder; (iv) the financial information on the Group; (v) the accountants' report on the Target Group; (vi) the unaudited pro forma financial information on the Enlarged Group; (vii) the valuation reports on the properties of the Enlarged Group and the Coal Mines; (viii) the competent person's report conducted by the Competent Person in respect of the Coal Mines; (ix) a notice of SGM; and (x) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date

20 May 2010

Parties

Vendor: SFID

Purchaser: Lasting Power

Guarantors: (i) Ming Kei Holdings Limited, as guarantor of the Vendor; and

(ii) the Company, as guarantor of the Purchaser

Assets to be acquired

The Sale Shares represent 49% 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).

Further information on the Target Company and its subsidiaries are set out in the paragraph headed "Information on the Vendor, the Target Group and the Coal Mines" below.

Consideration

The Consideration for the sale and purchase of the Sale Shares is HK$50 million, which shall be settled by the Purchaser from its internal resources in the following manner:

1. HK$20 million in cash as a refundable deposit and part payment of the Consideration, which has been deposited into an escrow account with the Purchaser's solicitors and shall be released to the Vendor or its nominee on the Completion Date pursuant to the Escrow Agreement; and

2. HK$30 million in cash on Completion Date.

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 100% equity interest in the Target Company to be held by the Company upon Completion and (ii) a price to earnings ratio ("**P/E ratio**") of approximately 2.4 times based on the audited net profit after tax of Subsidiary A for the year ended 31 December 2009 which is comparable to other mining issuers listed on the Stock Exchange.

In determining the basis of the Consideration, the Company has only made reference to the financial information of Subsidiary A due to the fact that Subsidiary B has not yet commenced business. The audited net profit after tax of Subsidiary A for the year ended 31 December 2009 reflects most realistically the earnings of the Target Group. For the year ended 31 December 2008, the audited profits before and after tax of Subsidiary A are both approximately RMB39.01 million (equivalent to approximately HK$44.47 million). For the year ended 31 December 2009, the audited profits before and after tax of Subsidiary A are approximately RMB43.31 million (equivalent to approximately HK$49.37 million) and approximately RMB37.37 million (equivalent to approximately HK$42.60 million) respectively. As such, the Directors consider that the Consideration is fair and reasonable without considering the financial information of Subsidiary B.

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 (i) the P/E ratio of approximately 2.4 times is lower than the P/E ratio of 4.90 times in respect of the Former Acquisition; (ii) 100% profits of the Target Group shall be retained by the Company; and (iii) the positive prospect of coal mining industry pursuant to the "11th Five-Year" plan of the PRC, the Directors are of the view that the Consideration is fair and reasonable and the Acquisition is 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 and the Vendor's Guarantor as required under the GEM Listing Rules having been obtained;

3. all necessary consents and approvals required to be obtained on the part of the Purchaser and the Purchaser's Guarantor as required under the Listing Rules having been obtained;

4. 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;

5. the Vendor's warranties contained in the Sale and Purchase Agreement remaining true and correct in all material respects;

6. the Purchaser's warranties contained in the Sale and Purchase Agreement remaining true and correct in all material respects;

7. the passing by the shareholders of the Vendor's Guarantor at a special general meeting to be convened and held of the ordinary resolution(s) approving the Sale and Purchase Agreement and the transactions contemplated thereunder;

8. the passing by the Shareholders of the Purchaser's Guarantor at the SGM to be convened and held of any ordinary resolution(s) approving the Sale and Purchase Agreement and the transactions contemplated thereunder;

9. the Vendor having performed in all material respects all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement;

10. the Purchaser 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

11. no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of any member of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority.

The Purchaser may waive conditions 5 and 9 above at any time by notice in writing to the Vendor whereas conditions 1, 2 and 7 could not be waived by the Purchaser. The Vendor may at any time by notice in writing to the Purchaser waive conditions 6 and 10 above whereas conditions 3 and 8 cannot be waived by the Vendor. Conditions 4 and 11 above shall only be waived by the Purchaser and the Vendor mutually.

If the above conditions have not been satisfied or waived (as the case may be) on or before 31 August 2010 (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 sale and purchase of the Sale Shares and the outstanding obligation under the Sale and Purchase Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach of the Sale and Purchase Agreement. The Vendor shall take all necessary action to return the deposit of HK$20 million (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 or waived by the Purchaser or the Vendor (or such later date as agreed by the parties to the Sale and Purchase Agreement in writing). Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. Pursuant to the Sale and Purchase Agreement, subject to Completion, the Purchaser and the Purchaser's Guarantor agree to waive the obligation of the Vendor and the Vendor's Guarantor to perform the Performance Guarantee for the Second Annual Period as set out in the Former Sale and Purchase Agreement (details of which are set out in the paragraph headed "Performance and Profit Guarantees" below).

Performance and Profit Guarantees

Pursuant to the Former Sale and Purchase Agreement, the Vendor and the Vendor's Guarantor have jointly, severally, unconditionally and irrevocably guaranteed to the Purchaser and the Purchaser's Guarantor 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.

Considering that the Target Company will become an indirect wholly-owned subsidiary of the Company and the Vendor will cease to be a shareholder of the Target Company following completion of the Acquisition, pursuant to the Sale and Purchase Agreement, the Purchaser and the Purchaser's Guarantor agree to waive the obligation of the Vendor and the Vendor's Guarantor to perform the Performance Guarantee for the Second Annual Period subject to Completion. Such waiver involves a material change of the terms of the Former Sale and Purchase Agreement and the Sale and Purchase Agreement is subject to the approval by the Shareholders at the SGM.

The Performance Guarantee for the First Annual Period has been met and will continue to be settled in accordance with the terms and conditions of the Former Sale and Purchase Agreement.

According to the Former Sale and Purchase Agreement, the Vendor and the Vendor's Guarantor jointly, severally, unconditionally and irrevocably guaranteed that the audited net profit after tax of Subsidiary A shall not be less than HK$40 million for the period from 1 January 2009 to 31 December 2009 ("**Profit Guarantee**"). Based on the audited figures of Subsidiary A, the audited net profit after tax of Subsidiary A for the year ended 31 December 2009 was approximately RMB37.37 million (equivalent to approximately HK$42.60 million), and the Profit Guarantee has been met.

Non-competition and non-solicitation

For a period of two years following the Completion, except for 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 or indirectly 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; (ii) directly or indirectly solicit or entice away any person who is or has been a customer of the Target Company or the Target Group within two years before the Completion; (iii) directly or indirectly solicit or endeavour to entice away from or discourage from being employed by the Target Company or the Target Group any person who is at the date of the Sale and Purchase Agreement an officer or employee of the Target Company or the Target Group whether or not such person would commit a breach of contract by reason of leaving service (save and except for those director(s) and/or supervisor(s) and/or company secretary(ies) and/or legal representative(s) appointed or designated by the Vendor in each member of the Target Group who will resign from their respective positions immediately upon Completion); or (iv) directly or indirectly employ or engage or attempt to employ or engage or negotiate or arrange the employment or engagement by any other person, firm or company of any person who is at the date of the Sale and Purchase Agreement an officer or employee of the Target Company or the Target Group (save and except for those director(s) and/or supervisor(s) and/or company secretary(ies) and/or legal representative(s) appointed or designated by the Vendor in each member of the Target Group who will resign from their respective positions immediately upon Completion).

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in (i) marketing of clocks and other office related products and (ii) mining, sale and distribution of coal.

According to the annual report 2010 of the Group, the Group recorded a net loss of approximately HK$33.97 million. During the year ended 31 March 2009, the Company ceased the operation of metals trading. Going forward, it is the intention of the Group to continue to explore other investment opportunities in the energy and natural resources industries that have earning potentials as well as sustainable growth prospect aiming at maximizing the benefits for the Shareholders. During the post acquisition period of the Former Acquisition commencing from 4 July 2009 to 30 September 2009, the unaudited revenue and profit before tax contributed to the Group by its holding of the 51% equity interest in the Target Group were approximately HK$32,532,000 and HK$12,986,000 respectively and the coal mine segment contributed a turnover of HK$86,514,000 for the year ended 31 March 2010. The Directors are of the view that the Acquisition may further increase both the revenue and profit contribution from the Target Group to the Group.

After considering (i) the future prospect relating to the coal mining industry in the PRC; (ii) the 100% profit of the Target Group that shall be retained by the Group; and (iii) the lower P/E ratio of approximately 2.4 times as compared with the P/E ratio in respect of the Former Acquisition, the Directors consider that the terms of the Acquisition are fair and reasonable and are 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). The Vendor's Guarantor is principally engaged in investment holding and property investment in Hong Kong and the PRC and in business of general trading in the PRC respectively.

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 the 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 (採礦許可證) 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 (礦產資源勘查許可證) 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.

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. Save for holding the exploration permit of the Zexu Open Pit Coal Mine, Subsidiary B has not yet commenced production, sale and distribution of coals since its incorporation. At present, Subsidiary B does not have any revenue generated from that coal mine.

Kaiyuan Open Pit Coal Mine (凱源露天煤礦)

Kaiyuan Open Pit Coal Mine, 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 (採礦許可證) of Kaiyuan Open Pit Coal Mine granted by the Department of Land and Resources of Xinjiang Uygur Autonomous Region to Subsidiary A to conduct mining activities in the Kaiyuan Open Pit Coal Mine is valid from June 2008 until June 2018.

Zexu Open Pit Coal Mine (澤旭露天煤礦)

Zexu Open Pit Coal Mine, 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 allows Subsidiary B to conduct exploration work in Zexu Open Pit Coal Mine and is valid from October 2009 until October 2011.

The renewal of the exploration permit issued to Subsidiary B, upon its expiry in October 2011, will be subject to the approval of the relevant government authorities in the PRC and the exploration permit can only be renewed when it is expired. 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. The Directors do not foresee any impediment in renewing the exploration permit upon its expiry in October 2011.

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 to mine than those on which underground mining method needs to be applied as open pit mines induce less risk of occurrence of accidents.

Details of the estimated proved coal reserves and the estimated probable coal reserves of Kaiyuan Open Pit Coal Mine and Zexu Open Pit Coal Mine are set out in Appendix V to this circular.

The Competent Person

A Competent Person, 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 competent person's report included herein are experienced geologists with appropriate professional qualifications. The Competent Person has conducted numerous mining technical due diligence programs for several listed companies on the Stock Exchange and had experiences in preparing competent person's reports relating to mining including the competent person's report in respect of the Former Acquisition.

Funding Requirement

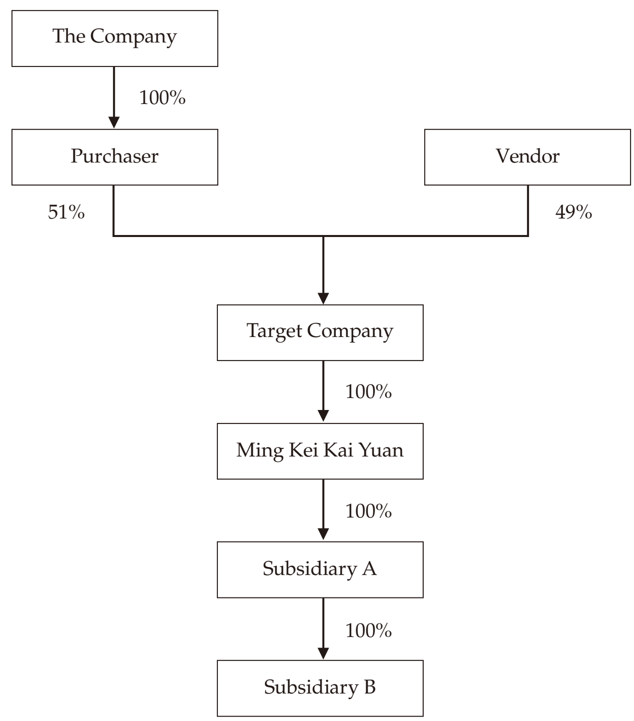
It is estimated that, for the one year following the issue of this circular, the Target Group would generate cash inflow from the sales of coal of approximately RMB95.25 million and incur cash outflow for production costs, administrative expenses and sales tax of approximately RMB95.14 million. The estimated net cash flow from operating activities of the Target Group for the one year period following the issue of this circular is approximately RMB0.11 million.

The Directors estimated that, for the one year following the issue of this circular, the Enlarged Group would have cash inflows of approximately HK$108.58 million from the coal mine operation and cash outflows of approximately HK$111.40 million for the payment of administrative fees, purchase of new mining equipments, payment of mining rights fee and the coal production costs. The estimated funds required of the Enlarged Group for the one year period following the issue of this circular (assuming Completion will takeplace) is approximately HK$2.82 million. 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 have sufficient working capital for its present requirements in the next 12 months from the date of the Circular.

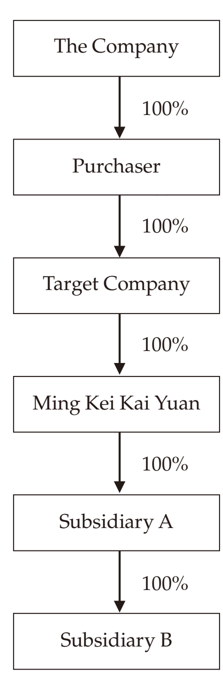
SHAREHOLDING STRUCTURE OF THE TARGET GROUP

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 financial information on the Target Group:

	For the year ended 31 March 2009 (audited) *HK$'000*	For the year ended 31 March 2010 (audited) *HK$'000*
Revenue	127,705	150,040
Loss before taxation	(1,128,483)	(53,364)
Loss after taxation	(836,342)	(43,476)

	As at 31 March 2009 (audited) *HK$'000*	As at 31 March 2010 (audited) *HK$'000*
Net assets/(liabilities)	(766,670)	145,790

FINANCIAL EFFECTS OF THE ACQUISITION

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

The audited consolidated net assets value of the Group was approximately HK$259.40 million as at 31 March 2010. Since the Target Group has already been a subsidiary of the Group before the Acquisition, the Completion of which would only have a minor effect on the net assets value of the Group. Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular, the total liabilities of the Group would remain the same at approximately HK$283.83 million whilst the total assets of the Group would decrease from approximately HK$543.23 million to HK$493.23 million due to the consideration of the Acquisition of HK$50 million assuming that there is no direct cost attributable to the Acquisition. Upon completion of the Acquisition, the net assets value of the Enlarged Group would decrease to HK$209.40 million.

As the Target Group has already been the Company's subsidiary before the Acquisition and the financial results of the Target Group has been incorporated into the Group, the actual financial effects brought by the Acquisition on the turnover and loss of the Enlarged Group are nil. Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular, the turnover of the Enlarged Group would increase to approximately HK$159.55 million from HK$96.09 million and the loss of the Enlarged Group for the year ended 31 March 2010 would drop to approximately HK$29.34 million from HK$33.97 million with the inclusion of results attributable to the Target Group as subsidiaries of the Company prior to the Former Acquisition, i.e. for the period from 1 April 2009 to 3 July 2009, as if the Former Acquisition had been completed on 1 April 2009.

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

RISK FACTORS

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

Our ability to carry on business in Xinjiang is subject to political risk

The Target Company, through its wholly-owned subsidiaries, is the beneficial owner of the entire interest in the Kaiyuan Open Pit Coal Mine and Zexu Open Pit Coal Mine and both mines are located in Xinjiang Uygur Autonomous Region. In September 2009, the capital of the Xinjiang Uyghur Autonomous Region in the PRC experienced a period of unrest in the aftermath of the July 2009 Urumqi riots. Whilst the Company has not experienced any major political instability, the emergence of such political instability in the future may lead to outbreaks of civil unrest which may have an adverse effect on the Company's mining business, and may affect the Company's overall financial position and operating results and profitability.

Governmental policies and regulations

The coal mine business is subject to extensive and rather strict governmental policies, laws, regulations and controls in the PRC. There can be no assurance that the relevant governmental authorities in the PRC will not change such policies, laws and regulations or impose additional or more stringent policies, laws or regulations. Failure to comply with the relevant policies, laws and regulations in the mine development and natural resources production projects may adversely affect the Company's business, results of operations and financial condition.

Coal reserves decline upon continuous exploitation

As the estimated total coal reserve would decline upon continuous exploitation, the Company cannot assure any acquisition of new coal reserves, development of new coal mining projects and expansion of existing coal mining operations in the future.

Uncertainty on the 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 October 2011 respectively. Their renewals are subject to the approval of the relevant governmental authorities in the PRC. As the exploration permit granted to Subsidiary B will expire in October 2011, according to the Directors, 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 governmental authorities in the PRC. 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 in the Coal Mines respectively which will materially and adversely affect the operation of the Target Group.

Coal markets are cyclical and the Group is vulnerable to fluctuation in coal prices

The Group's turnover is derived from coal operations, which makes the Group's business and operating results dependent upon domestic coal demand and the average purchase price and sales price in the PRC domestic markets. Coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. Such fluctuations are subject to numerous factors beyond the Group's control, including, among others, the general economic conditions in the PRC and overall global economic conditions, as well as fluctuations in the development and growth of the industries with high demand for coal, such as power and steel industries. There can be no assurance that the PRC demand for coal and coal-related products will not experience excess supply. A significant decline in demand for or an over-supply of, coal and coal-related products may have a material adverse effect on the Group's business, results of operations and financial condition.

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, increase in 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, causing significant business interruptions, personal injuries, property or environmental damage, as well as increasing the mining costs.

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 adversely affect the Company's financial condition.

Risks and uncertainties associated with the findings of the competent person's 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 Competent Person. The actual volume of the coal reserves, rates of production and coal characteristics may be different from the findings in the competent person's report.

Environmental protection policies

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

The Group's future performance is dependent on its ability to attract and retain key qualified personnel

The Group's future performance depends, to a significant extent, on its ability to continue to attract, retain and motivate key qualified personnel, key senior management and other employees in our business. The Group cannot assure that these key qualified personnel will continue to provide services to it or will honor the agreed terms and conditions of their employment or service contracts. Moreover, the Group do not maintain insurance for the loss of any key qualified personnel. Any loss of key qualified personnel or failure to recruit and retain such personnel may have a material adverse effect on its business, financial condition, results of operations and future prospect.

The Group's insurance coverage may be insufficient to cover its business risks

The Group faces various operational risks in connection with its business, including:

- production interruptions caused by operational errors, electricity outages, raw materials shortages, the failure of equipment and other production risks;
- operating limitations imposed by environmental or other regulatory requirements;
- social, political and labor unrest;
- environmental or industrial accidents; and
- catastrophic events such as fires, earthquakes, explosions, floods, collapse of mine or other natural disasters.

As at the Latest Practicable Date, the Group maintains the employee insurance as required by PRC laws and regulations. In line with the industry practice in the PRC, the Group does not maintain fire, earthquake, liability or other property insurance with respect to its property, equipment or inventory. The Group also does not maintain any business interruption insurance or third party liability insurance against claims for property damage, personal injury and environmental liabilities. Any uninsured losses and liabilities incurred by the Group may have a material adverse effect on its business, financial condition and results of operations.

The Group cannot assure that the safety measures it has had in place for its operation will be sufficient to mitigate or reduce industrial accidents. The Group also cannot assure that casualties or accidents will not occur or that its insurance coverage would be sufficient to cover costs associated with major accidents. In the event that the Group incurs substantial losses or liabilities and its insurance is unavailable or inadequate to cover such losses or liabilities, its business, financial condition and results of operations may be materially and adversely affected.

Shareholders and potential investors are advised that the Group will be exposed to the above risk factors and/or other risks in connection with the Acquisition. Completion of the Acquisition and the transaction(s) contemplated thereunder may or may not take place. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

LISTING RULES IMPLICATION ON THE ACQUISITION

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the transaction(s) contemplated under the Sale and Purchase Agreement are more than 100%, the entering into of the Sale and Purchase Agreement constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

The Vendor, which owns 49% equity interest in the Target Company (which is a non wholly-owned subsidiary of the Company), is a substantial shareholder of the Target Company and is therefore a connected person of the Company. As such, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Sale and Purchase Agreement will be subject to the Shareholders' approval by way of poll at the SGM. As no Shareholder or Directors has 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(s) contemplated thereunder.

SGM

The SGM will be held at Suites 1003-1006, 10/F., Two Pacific Place, 88 Queensway, Hong Kong on Thursday, 12 August 2010 at 11:30 a.m.. The notice of SGM is set out on pages 253 to 254 to this circular. The purpose of SGM is to consider and, if thought fit, approve ordinary resolution(s) to approve, among other things, the Sale and Purchase Agreement and the transaction(s) contemplated thereunder.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend 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 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the 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 Board (with the opinion of the Independent Board Committee set out in the paragraph below) considers that the terms of the Sale and Purchase Agreement and the transaction(s) contemplated thereunder are fair and reasonable and the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of the resolution(s) with in respect of the Sale and Purchase Agreement to be proposed at the SGM.

The Independent Board Committee, having taken into account of the advice of Emperor Capital, is of the opinion that the terms of the Sale and Purchase Agreement and the transaction(s) contemplated thereunder are fair and reasonable so far as the Company and the Shareholders are concerned, and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Therefore, the Independent Board Committee recommends the Shareholders to vote in favour of the resolution(s) as set out in the notice of SGM to approve the Sale and Purchase Agreement and the transaction(s) contemplated thereunder.

Your attention is drawn to the "Letter from the Independent Board Committee" set out on pages 22 to 23 of this circular which contains its recommendation to the Shareholders in relation to the Acquisition. Your attention is also drawn to the letter of advice from Emperor Capital set out on pages 24 to 39 of this circular which contains its advice to the Independent Board Committee and the Shareholders in relation to the Acquisition. You are advised to read the said letters from the Independent Board Committee and Emperor Capital before deciding how to vote at the SGM.

GENERAL

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

By order of the Board of
China Sonangol Resources Enterprise Limited
Kwan Man Fai
Executive Director

CHINA SONANGOL RESOURCES ENTERPRISE LIMITED
安中資源實業有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1229)

27 July 2010

To the Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – FURTHER ACQUISITION OF 49% EQUITY INTEREST IN STAR FORTUNE INTERNATIONAL INVESTMENT COMPANY LIMITED

We refer to the circular of China Sonangol Resources Enterprise Limited (the "Company") dated 27 July 2010 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Sale and Purchase Agreement are fair and reasonable so far as the interests of the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Emperor Capital has been appointed as the independent financial advisor to advise us and you regarding the terms of the Sale and Purchase Agreement and the transaction(s) contemplated thereunder. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in the "Letter from Emperor Capital" on pages 24 to 39 of the Circular. Your attention is also drawn to the "Letter from the Board" set out on pages 6 to 21 of the Circular and the additional information set out in the appendices to the Circular.

Having considered the terms of the Sale and Purchase Agreement and the advice of Emperor Capital and the other principal factors contained in the "Letter from the Board" in the Circular, we are of the opinion that the terms of the Sale and Purchase Agreement and the transaction(s) contemplated thereunder are fair and reasonable so far as the Company and the Shareholders are concerned, and that the Acquisition is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Sale and Purchase Agreement and the transaction(s) contemplated thereunder.

Yours faithfully,
The Independent Board Committee

Mr. Wong Man Hin, Raymond	**Mr. Lam Ka Wai, Graham**	**Mr. Chan Yiu Fai, Youdey**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice from Emperor Capital, the independent financial advisor to the Independent Board Committee and the Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Shareholders in respect of the Acquisition.

英皇融資有限公司
Emperor Capital Limited

28/F, Emperor Group Centre
288 Hennessey Road
Wanchai, Hong Kong

27 July 2010

To: The Independent Board Committee and the Shareholders of
China Sonangol Resources Enterprise Limited

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION RELATING TO
THE FURTHER ACQUISITION OF 49% EQUITY INTEREST IN
STAR FORTUNE INTERNATIONAL INVESTMENT COMPANY LIMITED

INTRODUCTION

We refer to our appointment as the independent financial advisor to advise the Independent Board Committee and the Shareholders in connection with the Acquisition, details of which are set out in the letter from the Board (the "Letter from the Board") in the circular dated 27 July 2010 (the "Circular") issued by the Company to the Shareholders of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 20 May 2010, the Company, the Purchaser, the Vendor and the Vendor's Guarantor entered into a conditional Sale and Purchase Agreement for the acquisition of the 49% equity interest of the Target Company by the Purchaser at the Consideration of HK$50,000,000. The Consideration of the Acquisition is to be satisfied as to (i) HK$20 million in cash as a refundable deposit and part payment of the Consideration, which has been deposited into an escrow account with the Purchaser's solicitors on the date of execution of the Sale and Purchase Agreement and shall be released to the Vendor or its nominee on the Completion Date pursuant to the Escrow Agreement and (ii) HK$30 million in cash on the Completion Date.

The Sale and Purchase Agreement will be subject to Shareholders' approval by way of poll at the SGM. 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 transactions contemplated thereunder.

We, Emperor Capital, have been appointed as the independent financial advisor to advise the Independent Board Committee and the Shareholders as to whether the terms of the Sale and Purchase Agreement are on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Shareholders on how to vote in respect of the Acquisition, in compliance with Rule 13.39 (6)(b) of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and facts supplied by the Company and its advisors, and the opinions expressed by and the representations of the Directors and the management of the Company, which we have assumed to be true, accurate and complete at the time they were made and continue to be true up to and including the date of the SGM. We have also assumed that all the information and representations contained or referred to in the Circular are true and accurate in all respects at the date thereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility and confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information currently available to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendations. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of any member of the Group, the Vendor, the Target Group, or any of their respective subsidiaries or associates or the affairs of the Coal Mines, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition.

This letter is issued for the information of the Independent Board Committee and the Shareholders solely in connection with their consideration of the Sale and Purchase Agreement and the transactions contemplated thereunder and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent. We have no obligation to update this letter after the date of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation and giving advice to the Independent Board Committee and the Shareholders, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for entering into the Sale and Purchase Agreement

(a) The historical performance and development of the Group

Set out below is a summary of the audited financial results of the Group for each of the three financial years ended 31 March 2010 as extracted from annual reports of the Company for each of the three financial years ended 31 March 2010:

	Year ended 31 March		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	129,940	23,105	96,090
Loss attributable to the equity holders of the Company	22,245	28,764	33,970

	As at 31 March		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Net assets	234,161	213,468	259,401

During the three financial years ended 31 March 2010, the Group was principally engaged in marketing and trading of clocks and other office related products, marketing operation of energy saving lighting products (discontinued during the financial year ended 31 March 2008), trading of metals (discontinued during the financial year ended 31 March 2009), provision of management services related to oil trading (the service contract of which has been expired in January 2010), and the coal mining business under the Target Company.

The Company had been streamlining its business since 2007. We have discussed with the Company and we were advised that one of the stated business objectives of the Group is to actively seek for investment opportunities in order to broaden and expand the business and operations of the Group, particularly in natural resources industry and/or the PRC properties markets. As disclosed in the annual report of the Company for the financial year ended 31 March 2008, in view of the prospects relating to natural resources industry, the Company entered into a subscription agreement with Ascent Coal Investments Limited ("Ascent Coal") in January 2008. The proceeds from the subscription would 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 Coal, 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. During the financial year ended 31 March 2009, the Company further streamlined its business and had ceased the operation of metal trading business.

During the financial year ended 31 March 2010, the Company continued to operate the marketing and trading of clocks and other office related products and the provision of the management services related to oil trading (the service contract of which has been expired in January 2010). The Company also commenced its coal mining business following the completion of the Former Acquisition of the 51% equity interest in the Target Company by the Group on 3 July 2009.

The Group generated a turnover of approximately HK$96.09 million for the financial year ended 31 March 2010, representing a substantial increase of about 315.88% compared to the previous year. Such increase was mainly attributable to the coal mining business commenced in July 2009, which contributed a turnover of approximately HK$86.51 million or approximately 90% of the total turnover of the Group. The clock and other office related products division achieved a turnover of only approximately HK$4.58 million which represented a decrease of approximately HK$14.53 million or 76.05% as compared to the same period last year. Whereas the Group's provision of management services on oil trading division recorded a turnover of HK$5 million which represented an increase of HK$1 million or 20% as compared to the same period last year.

We note from the Letter from the Board and the audited accounts of Subsidiary A for the financial year ended 31 December 2009 that Subsidiary A recorded a net profit of approximately RMB37.37 million (equivalent to approximately HK$42.60 million) while Subsidiary B has not yet commenced operation. However, the performance of the Target Group was deteriorated in the last quarter of the financial year ended 31 March 2010 as coal price was adjusted radically on the lingering effect of the financial tsunami as well as the sluggish economic activities in the Xinjiang region during the period. As a result, the Group made an impairment loss on inventory amounting to approximately HK$16.8 million at the year end date in order to reflect the realizable value of inventory. Nevertheless, we are advised that the Group already monitored the coal price rebounce quite smoothly recently.

As discussed in the Letter from the Board, the Group's management remains positive about the long term prospects of the coal and energy segment and expects the continuous growth in energy consumption and demand for coal in the PRC in the long term. The Acquisition has provided the Company an opportunity for the Group to further penetrate in the natural resources industry and the Directors consider such expansion of the Group's business is beneficial to the Group as a whole.

Details of the financial information of the Target Group are set out in paragraph (b) in this letter below and in the accountants' report of the Target Group set out in Appendix II to the Circular.

(b) Information on the Target Group and the coal mining industry in the PRC

The Target Group is owned as to 51% by the Purchaser and as to 49% by the Vendor. 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. We noted that the Target Company directly holds 100% equity interest in Ming Kei Kai Yuan, an investment holding company incorporated in Hong Kong with limited liabilities, 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. 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. Save for holding the Exploration Permit, Subsidiary B has not yet commenced production, sale and distribution of coals since its incorporation.

Background of Kaiyuan Open Pit Coal Mine

Kaiyuan Open Pit Coal Mine, 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 (採礦許可證) of the Kaiyuan Open Pit Coal Mine 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 is valid from June 2008 until June 2018.

As mentioned in the competent person's report (the "Competent Person's Report") on the Coal Mines 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 were approximately 14.43 million tonnes and 4.58 million tonnes respectively as of 31 March 2010.

Background of Zexu Open Pit Coal Mine

Zexu Open Pit Coal Mine, 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 October 2009 until October 2011. The renewal of the exploration permit (礦產資源勘查許可證) issued to Subsidiary B, upon its expiry in October 2011, is subject to the approval of the relevant government authorities in the PRC. As advised by the management of the Company, the exploration permit can only be renewed when it is expired and the Company is confident to further renew the exploration permit in view of latest successful renewal of the exploration permit on 22 October 2009.

Zexu Open Pit Coal Mine is in greenfield status at present and, according to the Competent Person's Report, the estimated measured coal resources and the estimated indicated coal resources of the Zexu Open Pit Coal Mine were approximately 56.58 million tonnes and 62.80 million tones respectively as at 31 March 2010.

Financial information of the Target Group

Set out in the table below is a summary of the audited financial information of the Target Group for the period from 12 April 2007 (date of incorporation) to 31 March 2008 and for the two financial years ended 31 March 2010 as extracted from Appendix II to the Circular:

	For the period from 12 April 2007 (date of incorporation) to 31 March 2008	**For the year ended 31 March 2009**	**For the year ended 31 March 2010**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	35,071	127,705	150,040
Gross Profit	3,402	43,931	12,278
Profit/(loss) before tax	51,259	(1,128,483)	(53,364)
Profit/(loss) after tax	53,233	(836,342)	(43,476)

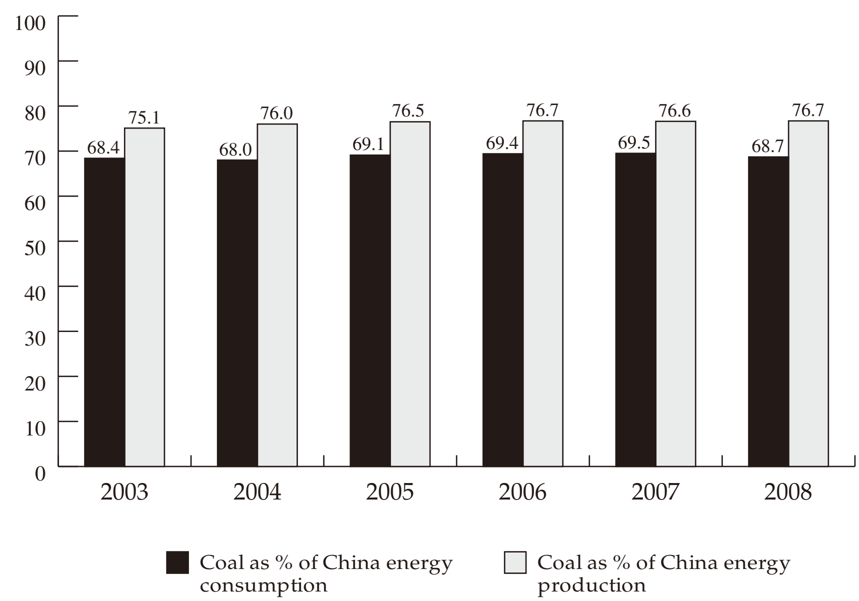
	As at 31 March 2008	**As at 31 March 2009**	**As at 31 March 2010**
	HK$'000	*HK$'000*	*HK$'000*
Net assets/(liabilities)	116,465	(766,670)	145,790

It is noted from the above table that the Target Group recorded a turnover of approximately HK$150.04 million, a gross profit of approximately HK$12.28 million and a loss after tax of approximately HK$43.48 million for the financial year ended 31 March 2010. We also note from the accountants' report of the Target Group that such loss is mainly attributable to an impairment loss on intangible assets of approximately HK$54.56 million recorded during the same period which is a non-cash item.

Prospects of the coal mining business in the PRC

Coal is a very important energy source in China. As noted from the chart below illustrating the coal consumption and production as a percentage of China's total energy consumption and production from 2003 to 2008, more than two-third of the energy consumption and more than three fourths of the energy production in China have been contributed by coal for the indicated period.

The coal consumption and production as a percentage of China's total energy consumption and production from 2003 to 2008



Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

As advised by the Company, the coal extracted by the Coal Mines can be mainly used for coal-fired electricity generation and power generation in the PRC market. We noted from an article dated 6 May 2010 from Bureau of Economic Operations Adjustment (經濟運行調節局) with the National Development and Reform Commission of the PRC ("NDRC") (中華人民共和國國家發展和改革委員會) that coal is the essential fuel for the continuous chemical, construction, steel production and non-ferrous metals business development which in turn helps to boost the gross domestic product of the country. Also, with the still-strong domestic demand and supportive Chinese government's policies, China, as the largest emerging economy, is expected to expand 10.0% in 2010 and 9.7% in 2011 according to International Monetary Fund. We have also reviewed the "11th Five-Year Plan for Energy Development" released by NDRC in 2007. According to the plan, China's total primary energy consumption will be around 2.7 billion tonnes of standard coal in 2010, with annual average growth of 4%, of which coal accounts for 66.1% or 1.78 billion tonnes. In conclusion, both the continuous robust growth of the economy in the PRC and coal consumption will continuously boost the demand on coal in the PRC.

(c) Conclusion

Having considered that (i) the satisfactory contribution to the revenue of the Group from the Target Group in the financial year ended 31 March 2010 following completion of the Former Acquisition; (ii) the opportunities of the Group to further enhance the asset and revenue base of the Group; (iii) the Acquisition is in line with the Group's stated business objective and expansion strategy in the coal mining sector; and (iv) the prospects of the coal mining sector in the PRC, we concur with the Directors' view that it is beneficial for the Company to increase its shareholding in the Target Group and the Acquisition may further increase both the revenue and profit contribution from the Target Group to the Group in the long term and is therefore in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Sale and Purchase Agreement

(a) The Consideration and its basis of determination

The Consideration of HK$50 million was arrived at after arm's length negotiations between the Purchaser and the Vendor, taking into account of (i) the 100% equity interest in the Target Company to be held by the Company upon Completion and (ii) a price to earnings ratio (the "P/E ratio") of approximately 2.4 times based on the audited net profit after tax of Subsidiary A for the year ended 31 December 2009.

The Company has only made reference to the financial information of Subsidiary A in determining the basis of the Consideration because Subsidiary B has not yet commenced business. Since the financial information of the Target Group as a whole for the year ended 31 December 2009 is not available and given the Target Group recorded a net loss for the financial year ended 31 March 2010 as shown in the accountants' report set out in Appendix II to the Circular, we consider assessing the fairness and reasonableness of the Consideration by comparing the market comparables of P/E ratio of similar transactions may either not completely relevant or not applicable. Alternatively, we have considered the net asset value of the Target Group and the valuation of the Coal Mines in assessing the fairness and reasonableness of the Consideration.

(b) Net asset value of the Target Group

We noted from the accountants' report of the Target Group as set out in Appendix II to the Circular that the net asset value ("NAV") of the Target Group as at 31 March 2010 was approximately HK$145.79 million. Accordingly, the 49% interest of the Target Group contemplated under the Acquisition amounted to approximately HK$71.44 million and based on which the Consideration represents a discount of approximately 30.01% to the NAV of the Target Group as at 31 March 2010. We are advised by the Company and the reporting accountant of the Target Group that the NAV of the Target Group as at 31 March 2010 has taken into account of the valuation of the Coal Mines of approximately HK$158.95 million as at 31 March 2010 as valued by Greater China Appraisal Limited. As such we have further considered the valuation report of the Coal Mines as at 30 April 2010 set out in Appendix VI to the Circular in assessing the fairness and reasonableness of the Consideration.

(c) Valuation of the Coal Mines

We have also considered the valuation of 100% interest in the Coal Mines prepared by Greater China Appraisal Limited ("GCA") in assessing the Consideration. According to the valuation report (the "Valuation Report") as set out in Appendix VI to the Circular, the fair market value of the Coal Mines as at 30 April 2010 is valued based on the income approach performed by GCA (the "Valuation").

We have reviewed and discussed with GCA regarding, among other things, the assumptions, bases and methodologies adopted for the Valuation, particular of which are contained in Valuation Report. It is noted that GCA has adopted the income approach to assess the fair market value of Coal Mines. We have enquired GCA for the reason of choosing the income approach instead of other classical valuation approaches, namely the asset approach and market approach. We understand from GCA that in the asset approach, the value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. GCA decided against the asset approach because the values of the mineral assets are determined by the amount of reserves/resources in the mine deposits from which economic benefits can be derived, rather than the cost of replacement of the estimated mineral reserves/resources. While in the market approach, value is established based on the principle of substitution and the price of two alike and similar items should approximate one another. GCA rejected the market approach because the market approach is the approximate transaction price of a company/business in the market place. However, there is no comparable transaction in the public market. Moreover, available public information in relation to acquisitions frequently involves specific buyers who pay a premium/discount under their unique circumstances. This makes it difficult to know if the price paid truly represents the approximate price of the transaction.

Given the business nature and information available, GCA considers the income approach to be the most appropriate valuation approach for the Valuation because the economic benefit streams generated by the Coal Mines can be forecasted based on historical financial information provided by the management of the Company, as well as the coal reserves and resources, production schedule and cost estimates provided by the management of the Company, as well as detailed in the Competent Person's Report.

We have discussed with GCA and observed that the Valuation, which has adopted the income approach, has been performed by using a discounted cashflow methodology. It is also set out in the Valuation Report that for the purpose of and in arriving at the opinion of the Valuation, GCA has referred to the historical financial information provided by the management of the Company to identify and ascertain the economic benefit streams generated by the Coal Mines.

Details of the bases, assumptions and calculation of the Valuation are set out in the Valuation Report. Further to our discussion with GCA, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at the Valuation.

We have also discussed with the reporting accountant of the Target Group and was advised that the fair value of the intangible assets of the Group included in the consolidated statement of financial position of the Group as at 31 March 2010 has been arrived at after taking into account the valuation of the Coal Mines as at 31 March 2010 as valued by GCA. Since the Valuation of the Coal Mines is approximately HK$159.89 million as at 30 April 2010 as valued by GCA which is slightly higher than the Valuation of the Coal Mines as at 31 March 2010 of approximately HK$158.95 million, we do not expect there will be a material difference between the NAV of the Target Group as at 31 March 2010 and 30 April 2010 respectively that will affect our assessment of the fairness and reasonableness of the Consideration against the NAV of the Target Group as set out in paragraph (b) above.

(d) Method and timing of the settlement of the Consideration

The Consideration for the Acquisition amounts to HK$50 million and shall be settled by the Company as to:

(i) HK$20 million in cash as a refundable deposit and part payment of the Consideration, which has been deposited into an escrow account with the Purchaser's solicitors on the date of execution of the Sale and Purchase Agreement and shall be released to the Vendor or its nominee on the Completion Date pursuant to the Escrow Agreement; and

(ii) HK$30 million in cash on the Completion Date.

According to the annual report of the Company for the financial year ended 31 March 2010, the bank balances and cash of the Group amounted to approximately HK$286.71 million (approximately HK$273.08 million if excluding the cash balance of the Target Group) as at 31 March 2010 and the current liabilities of the Group amounted to approximately HK$248.68 million as at 31 March 2010. The Company has outstanding convertible loan notes of principal amount of HK$200,000,000 which is due on 13 March 2011. As noted from the Letter of the Board, the Company has settled the refundable deposit and will settle the remaining portion of the Consideration by using its internal resources. We have discussed with the Directors the cash position of the Company in light of the cash settlement of the Consideration. The Directors consider that the Company has maintained a strong financial position and that the Consideration represents only approximately 17.44% (or 18.31% if excluding the cash balance of the Target Group) of the bank balances and cash of the Group as at 31 March 2010.

(e) Performance guarantee in the Former Acquisition

Pursuant to the Former Sale and Purchase Agreement, the Vendor and the Vendor's Guarantor have jointly, severally, unconditionally and irrevocably guaranteed to the Purchaser and the Purchaser's Guarantor that (i) the audited net profit after tax of Subsidiary A shall not be less than HK$40 million for the period from 1 January 2009 to 31 December 2009 (the "Profit Guarantee"); and (ii) 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 (the "Performance Guarantee").

Based on the audited accounts of Subsidiaries A for the year ended 31 December 2009, the audited net profit after tax of Subsidiary A for the year ended 31 December 2009 was approximately RMB37.37 million (equivalent to approximately HK$42.60 million), and the Profit Guarantee has been met. Pursuant to the Sale and Purchase Agreement, the Purchaser and the Purchaser's Guarantor agreed to waive the obligation of the Vendor and the Vendor's Guarantor to perform the Performance Guarantee for the Second Annual Period subject to Completion. The Performance Guarantee for the First Annual Period will continue to be settled in accordance with the terms and conditions of the Former Sale and Purchase Agreement. We noted from the Letter from the Board that the Performance Guarantee for the First Annual Period has been met. Taking into account (i) the Target Company will become an indirect wholly-owned subsidiary of the Company; (ii) the Vendor will cease to be a shareholder of the Target Company following Completion; and (iii) the waiving of the obligation of the Vendor and the Vendor's Guarantor to perform the Performance Guarantee for the Second Annual Period is subject to Completion, we concur with the Directors' view that the said provision is fair and reasonable.

(f) Non-competition and non-solicitation provisions

For a period of two years following the Completion, except for 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 or indirectly 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; (ii) directly or indirectly solicit or entice away any person who is or has been a customer of the Target Company or the Target Group within two years before the Completion; (iii) directly or indirectly solicit or endeavour to entice away from or discourage from being employed by the Target Company or the Target Group any person who is at the date of the Sale and Purchase Agreement an officer or employee of the Target Company or the Target Group whether or not such person would commit a breach of contract by reason of leaving service (save and except for those director(s) and/or supervisor(s) and/or company secretary(ies) and/or legal representative(s) appointed or designated by the Vendor in each member of the Target Group who will resign from their respective positions immediately upon Completion); or (iv) directly or indirectly employ or engage or attempt to employ or engage or negotiate or arrange the employment or engagement by any other person, firm or company of any person who is at the date of the Sale and Purchase Agreement an officer or employee of the Target Company or the Target Group (save and except for those director(s) and/or supervisor(s) and/or company secretary(ies) and/or legal representative(s) appointed or designated by the Vendor in each member of the Target Group who will resign from their respective positions immediately upon Completion).

As the non-competition and non-solicitation provisions are in favour of the Group and serve to protect the Group's interest in its current business activities, we consider that the non-competition and non-solicitation provisions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(g) Other major terms of the Sale and Purchase Agreement

We have also reviewed other major terms of the Sale and Purchase Agreement (including, but not limited to, "Warranties and Undertakings", "Pre-Completion Obligations", "Termination", etc) and are not aware of any unusual terms. As such, we are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned.

(h) Conclusion

Having considered the Consideration and the terms of the Sale and Purchase Agreement, we are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. **Financial impacts of the Acquisition on the Group**

(a) **Earnings and net asset value**

Upon Completion, the Group's interest in the Target Group will increase from 51% to 100% and the Target Group will become indirect wholly-owned subsidiaries of the Group. As the Target Group has already been the Company's subsidiary before the Acquisition, there will not be any financial effects on the overall turnover and earnings of the Group. However, based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group set out in Appendix III to the Circular, the loss for the year ended 31 March 2010 of the Enlarged Group would be reduced by approximately HK$2.18 million as a result of the elimination of the loss attributable to minority interest attributable to the 49% interest in the Target Group if the Acquisition had been completed on 1 April 2009.

Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group set out in Appendix III to the Circular, the net assets of the Group attributable to equity Shareholders (i.e. excluding minority interests) as at 31 March 2010 were approximately HK$181.40 million. The net assets of the Enlarged Group attributable to equity Shareholders would be approximately HK$209.40 million assuming the Completion took place on 31 March 2010, representing an increase of approximately HK$28 million in the net assets value attributable to equity Shareholders.

(b) **Cashflow**

As stated in the Letter from the Board, the Consideration of HK$50 million has been or will be settled by internal resources of the Group. We note from the unaudited pro forma consolidated statement of cash flows of the Enlarged Group in the Appendix III to the Circular, the Acquisition would result in a reduction in cash and cash equivalents of HK$50.56 million.

It is also noted from the Letter from the Board that the estimated funds required by the Enlarged Group for the one year period following the issue of the Circular (assuming Completion will take place) is approximately HK$2.82 million. The Directors, after due and careful enquiry, are of the opinion that, taking into account the internal resources of the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements in the next 12 months from the date of the Circular.

(c) Gearing

According to the annual report of the Company for the financial year ended 31 March 2010, the Group had no long-term borrowings and the convertible loan notes became a component of current liabilities for the year ended 31 March 2010. Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming Completion took place on 31 March 2010, the gearing ratio (expressed as a percentage of the Group's total liabilities to equity attributable to equity holders of the Group) of the Group would be increased from 1.09 times to 1.36 times. The increase in the gearing ratio was mainly due to the elimination of the minority interests of the Enlarged Group and the payment of the Consideration for the Acquisition.

Concluding from the above, the Acquisition shall have a positive effect on the Group's net asset value while the gearing and cash position of the Group shall have a negative impact. Having considered the positive outlook of the Target Group and the coal mine industry in the PRC, and the potential future benefit of the Acquisition to be brought to the Group, we are of the view that the negative impact of the Acquisition on the gearing and cashflow is commercially justifiable.

It should be noted that the aforementioned analysis is for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon Completion.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the background of and reasons for the Acquisition as discussed in section (1) above;

- that the Acquisition is in line with the Group's stated business objective and strategy as discussed in section (1) above;

- that the Consideration is fair and reasonable having considered, among other things, the NAV of the Target Group and the Valuation of the Coal Mines;

- that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and

- the impact on the financial position of the Group as a result of the Acquisition to be acceptable;

we consider that the entering into of the Sale and Purchase Agreement by the Group is conducted in the ordinary and usual course of the Company's business in line with the Group's stated business objective and strategy; and that the Sale and Purchase Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Shareholders, and the Independent Board Committee to recommend the Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Acquisition.

Yours faithfully,
For and on behalf of
Emperor Capital Limited
Louisa Choi
Director

A. THREE-YEAR FINANCIAL INFORMATION

Financial information with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts of the Group for each of the three years ended 31 March 2008, 2009 and 2010 are disclosed in pages 38 to 150 of annual report 2008, pages 31 to 106 of annual report 2009 and pages 26 to 102 of annual report 2010 of the Company respectively, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.chinasonangol.com.hk).

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 March 2010

Business review

In its financial year ended 31 March 2010, the Company continues to operate the marketing and trading of clocks and other office related products, the provision of management services related to oil trading, as well as the coal mine business.

Clocks and other office related products

The marketing and trading of clocks and other office related products division achieved a turnover of approximately HK$4,576,000 in the year under review, which represents a reduction of approximately HK$14,529,000 or 76.05% as compared with the same period last year. A segment trading loss of approximately HK$2,844,000 for the year ended 31 March 2010, representing a decrease of approximately HK$11,580,000 or 80.28% from approximately HK$14,424,000 last year.

Management fee income

For the year ended 31 March 2010, the Group recorded a turnover of HK$5,000,000 from providing the management services on oil trading to China Sonangol International Limited ("China Sonangol"), the holding company of Ascent Goal Investments Limited ("Ascent Goal"), the controlling Shareholder.

Coal Mine Business

The coal mine business segment contributed a turnover of HK$86,514,000 for year ended 31 March 2010. It was a new business segment generating a new source of income for the Group. However, the performance was deteriorated in the last quarter of the financial year as coal price was adjusted radically on the lingering effect of the financial tsunami as well as the sluggish economic activities in the Xinjiang region during the period. The Group prudently made an impairment loss on inventory amounting to HK$16,800,000 at the year end date in order to reflect the realizable value of inventory while there seemed to be a smooth rebounce of the coal price recently.

Financial review

For the year ended 31 March 2010, the Group recorded a turnover of approximately HK$96,090,000, representing an increase of approximately HK$72,985,000 or 315.88% as compared with last year. The gross profit of the Group for the year ended 31 March 2010 was increased to approximately HK$8,078,000 or 35.29% as compared with last year. Loss of the Group for the year ended 31 March 2010 was increased 18.10% to approximately HK$33,970,000 as compared with last year, mainly due to the increase in finance cost and the impairment loss on goodwill.

As at 31 March 2010, the Group had bank balances and cash of approximately HK$286,711,000, which were the major components of the Group's current assets of approximately HK$363,530,000. The Group had net current assets of approximately HK$114,852,000, and its current liabilities of approximately HK$248,678,000 were mainly composed of amount due to a minority shareholder HK$28,500,000 and convertible loan notes (liability component only) with carrying amount of approximately HK$180,410,000.

Liquidity and financial resources

As at 31 March 2010, the Group had no bank borrowings and no obligations under finance leases which were due within one year. The Group had non-current liabilities of approximately HK$35,154,000, which were composed of deferred tax liability of HK$33,364,000.

Since the convertible loan notes (liability component only) were parts of the current liabilities as at 31 March 2010, the Group's gearing ratio was greatly decreased to approximately nil. The computation is based on long-term borrowings of the Group divided by shareholder's equity before minority interests as at 31 March 2010.

Charges on Group's assets

As at 31 March 2010, none of the Group's trade receivables, leasehold land and buildings or investment properties were pledged to secure any borrowings or general banking facilities granted to the Group.

Significant investments and material acquisitions

On 3 July 2009, the Group completed the acquisition of 51% equity interest in the Target Company, which engages in mining, sales and distribution of coal in the PRC, at an aggregate consideration of HK$104,066,000 including legal and professional fees directly attributable to the acquisition amounting to approximately HK$4,066,000. The transaction has been accounted for using the acquisition method of accounting.

Discontinued operation

During the year ended 31 March 2010, there was no discontinuing operation in the Group.

Foreign exchange exposure

The Group mainly earns revenue and incurs costs in Euro, US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is 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 will be minimal as the Group's Germany subsidiary is under liquidation. 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, currency 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 2010, the Group did not have any contingent liabilities.

Employees

As at 31 March 2010, the Group had 115 employees spreading among Hong Kong, the PRC and Germany. Industrial relationship has been well maintained. The Group has adopted an extensive training policy for its employees. It has also sponsored senior executives for higher education programs. The Group has 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 the 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.

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.

Significant investments and material acquisitions

There were no significant investments or material acquisitions during the 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, currency 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.

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 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, 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.

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, currency 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 financial 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.

C. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Business review

For the year ended 31 March 2010

The Target Group continued to operate the coal mine business, which generated a turnover of approximately HK$150.04 million for the year ended 31 March 2010. The performance was deteriorated in the last quarter of the financial year as coal price was adjusted radically on the lingering effect of the financial tsunami as well as the sluggish economic activities in the Xinjiang region during the period. The Target Group prudently made an impairment loss on the intangible assets amounting to approximately HK$54.56 million at the year end date in order to reflect the estimated recoverable amounts of the exploration and evaluation assets while there seemed to be a smooth rebounce of the coal price recently. As a result, the Target Group reported a net loss of approximately HK$43.48 million for the year ended 31 March 2010.

For the year ended 31 March 2009

Benefited from the strong sales of coal and the increase in the average coal selling price, the Target Group recorded a 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.

For the period from 12 April 2007 (date of incorporation) to 31 March 2008

The Target Company entered into an 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 and Subsidiary B principally engaged in the operation and management of the Zexu Open Pit Coal Mine.

For the period from 12 April 2007, which is the date of incorporation of the Target Company, to 31 March 2008, the Target Group recorded a turnover and a net profit of approximately HK$35.07 million and HK$53.23 million respectively. A turnover and profit of approximately HK$35.07 million and HK$8.60 million of the Target Group for the period ended 31 March 2008 were attributable to the additional business generated by Ming Kei Kai Yuan since its acquisition in November 2007.

Financial Summary

Set out below is the financial summary extracted from the accountants' report on the Target Group for the period from 12 April 2007 (date of incorporation) to 31 March 2008, the year ended 31 March 2009 and the year ended 31 March 2010:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	**Year ended 31 March 2009**	**Year ended 31 March 2010**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	35,071	127,705	150,040
Profit/(loss) before tax	51,259	(1,128,483)	(53,364)
Profit/(loss) after tax	53,233	(836,342)	(43,476)

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, 2009 and 2010 respectively:

	As at 31 March 2008 *HK$'000*	**As at 31 March 2009** *HK$'000*	**As at 31 March 2010** *HK$'000*
Total assets	1,562,929	343,994	238,140
Total borrowing	1,051,784	1,014,172	28,500
Total liabilities	1,446,464	1,110,664	92,350
Net assets/(liabilities)	116,465	(766,670)	145,790
Gearing ratio	90%	410%	16%

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

As at 31 March 2010

As at 31 March 2010, the Target Group's audited net assets and net current assets were approximately HK$145.79 million and HK$28.86 million respectively. The Target Group had total cash and bank balances of approximately HK$13.63 million as at 31 March 2010, and the corresponding current ratio was approximately 1.47 (calculated as a ratio of current assets over current liabilities). As at 31 March 2010, the total borrowings of the Target Group were approximately HK$28.50 million.

As at 31 March 2009

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$43.36 million as at 31 March 2009, and the corresponding current ratio was approximately 0.112 (calculated as a ratio of current assets over current liabilities). As at 31 March 2009, the total borrowings of the Target Group were approximately HK$1,014.17 million. The total borrowings of the Target Group as at 31 March 2009 include amount due to immediate holding company of approximately HK$987.73 million, 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.

As at 31 March 2008

As at 31 March 2008, the Target Group's audited net assets and net current liabilities were approximately HK$116.47 million and HK$975.54 million respectively. The Target Group had total cash and bank balances of approximately HK$4.27 million as at 31 March 2008, and the corresponding current ratio was approximately 0.106 (calculated as a ratio of current assets over current liabilities). As at 31 March 2008, the total borrowings of the Target Group were approximately HK$1,051.78 million. The total borrowings of the Target Group as at 31 March 2008 include amount due to immediate holding company of approximately HK$1,010.71 million and amount due to ultimate holding company and director and shareholder of ultimate holding company of approximately HK$11.44 million. The borrowings due to the immediate holding company and a fellow subsidiary were unsecured, interest free and have no terms of fixed repayment.

Product mix

For the period from 12 April 2007 (date of incorporation) to 31 March 2008 and for the two years ended 31 March 2009 and 2010, there have been 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 has been the main product of Subsidiary A. 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

For the period from 12 April 2007 (date of incorporation) to 31 March 2008 and for the two years ended 31 March 2009 and 2010, the Target Group has principally been engaged in a single business segment of mining, exploration and sale of coal. Its turnover has been earned within the PRC and all operating assets of the Target Group have been located in the PRC.

In the period ended 31 March 2008, the Target Company acquired 100% equity interests of Ming Kei Kai Yuan and its subsidiaries on 19 November 2007 with a view that the coal mining business would be growing with immense potential and that such acquisition would diversify the business of the Target Company. However, there were a number of unforeseeable and uncontrollable factors that happened subsequent to such investment decision in the global economy in 2008 which resulted in the coal mining industry not growing as fast as expected.

The prospect of coal mining business grows in line with the economy. For the year ended 31 March 2009, the global recession was negatively hindering the manufacturing activities in the PRC which in turn affected the demand of, and put pressure on the market price of coals and other core natural resources used for generating electricity to support those manufacturing activities.

There was a breakout of a series of massive riots in Xinjiang in the PRC during the year ended 31 March 2010. However, in view of the improvement of efficiency and effectiveness of the operation in relation to the Target Group's mining right, productivity and sales during the year ended 31 March 2010, the Target Group believed that the coal mining business would be picking up.

Charges on assets

As at 31 March 2008, 2009 and 2010, the Target Group did not have any charges on assets.

Significant investments and material acquisitions 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 investments or material acquisitions or disposal for each of the three years ended 31 March 2010.

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. For the period from 12 April 2007 (date of incorporation) to 31 March 2008 and for the two years ended 31 March 2009 and 2010, the Target 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, currency 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 financed from its holding companies or minority beneficial owner. All borrowings are denominated in RMB. For the period from 12 April 2007 (date of incorporation) to 31 March 2008 and for the two years ended 31 March 2009 and 2010, 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 or loans from a minority beneficial owner.

Contingent liabilities

As at 31 March 2008, 2009 and 2010, the Target Group did not have any contingent liabilities.

Employees and remuneration

The Target Group employed 116, 116 and 105 people in the PRC as at 31 March 2008, 2009 and 2010 respectively. Total staff costs incurred for the period from 12 April 2007 (date of incorporation) to 31 March 2008 and each of the two years ended 31 March 2009 and 2010 were approximately HK$1.05 million, HK$4.19 million and HK$7.04 million respectively.

Future plans for material investments

The directors of the Target Group do not have any future plans for material investments as at the Latest Practicable Date.

D. INDEBTEDNESS

As at the close of business on 31 May 2010, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Enlarged Group had amount due to a minority shareholder of approximately HK$28,500,000 (equivalent to RMB25,000,000). As at 31 May 2010, the Group had no un-drawn facilities.

Also, the Enlarged Group had outstanding convertible loan notes with principal amount of approximately HK$200,000,000, which are convertible into the Company's shares at the prevailing conversion price of HK$0.2 per conversion share from the date of issue of the convertible loan notes and ending on a date falling 36 months of the date of issue of the convertible loan notes. The carrying amount of the convertible notes as at 31 May 2010 was approximately HK$183,700,000.

Commitment

As at the close of business on 31 May 2010, the Enlarged Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK$354,000.

Contingent liabilities

As at the close of business on 31 May 2010, 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 at the close of business on 31 May 2010.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding as at the close of business on 31 May 2010 any loan capital issued and outstanding 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 have sufficient working capital for its present requirements in the next 12 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 2010, 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

The business performance of the existing clock and office related products trading business has deteriorated in light of the global recession. 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 explore a new source of income and to penetrate into the coal mine industry, the Group entered into the Former Sale and Purchase Agreement to acquire 51% equity interest in the Target Company at a consideration of HK$100,000,000.

This new segment contributed a new revenue stream to the Group. During the less than three months post-acquisition operation history ended 30 September 2009, this segment recorded a revenue of approximately HK$32,532,000 derived from the continuing operations of sale and distribution of coal and an operating profit of approximately HK$12,986,000, which contributed to approximately 90.62% of the total revenue of the Group and approximately 361.12% of the total profit of the Group for the six months ended 30 September 2009. For the year ended 31 March 2010, this new segment contributed a turnover of HK$86,514,000. The Directors believe that the coal mine industry would continue to have high potentials and the Acquisition would be beneficial to the Group and the Shareholders as a whole.

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. Pursuant to the "11th Five-Year" plan of the PRC, 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.

After considering the future prospects relating to natural resources industry and the experiences of the existing management of the Company in the areas of exploring, developing and investing in natural resources, the Directors believe that it is beneficial for the Company to further explore opportunities in the energy and basic materials sectors. The Directors believe the global recession resulting from the credit crunch has gradually subdued and they are cautiously optimistic on the performance of their current business mix. The Directors are still actively seeking investment opportunities in order to broaden the business of the Group and are confident that their investments can add value for the Shareholders.

Liquidity and financial resources

As 31 March 2010, the Group has working capital of approximately HK$114,852,000, and its current ratio, being the proportion of total current assets against total current liabilities, was 1.46 times. The Group continues to maintain a strong financial position. At 31 March 2010, the Group has cash and bank balances of approximately HK$286,711,000.

As at 31 March 2010, there was no long-term bank and other borrowing in the Group.

The gearing ratio of the Group was nil, calculated on the basis of the Group's total long-term borrowings over shareholders equity before minority interests as at 31 March 2010.

H. PROPERTY INTERESTS AND VALUATION OF THE PROPERTIES

Greater China Appraisal Limited, an independent property valuer, has valued the property interests of the Enlarged Group as at 30 April 2010. The full text of the letter, summary of valuation and the valuation certificates are set out in Appendix IV to this circular.

The statement below shows the reconciliation between the net book value of property interests of the Enlarged Group as at 31 March 2010 and the valuation of such property interests as at 30 April 2010 set out in Appendix IV to this circular:

	HK$
Net book value of the property interests of the Enlarged Group as at 31 March 2010	7,454,000
Movements for the one month ended 30 April 2010:	
– Additions (unaudited)	0
– Depreciation (unaudited)	40,000
– Disposals (unaudited)	0
Net book value as at 30 April 2010	7,414,000
Valuation surplus as at 30 April 2010	4,386,000
Valuation of property interests as at 30 April 2010 subject to valuation as set out in Appendix IV to this circular	11,800,000

The following is the text of an accountants' report on the Target Group, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants.

A. ACCOUNTANTS' REPORT

BDO

Tel: +852 2541 5041
Fax: +852 2815 2239
www.bdo.com.hk

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

香港干諾道中111號
永安中心25樓

27 July 2010

The Board of Directors
China Sonangol Resources Enterprise 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 the two years ended 31 March 2009 and 2010 (the "Relevant Periods"), prepared on the basis set out in Note 1 of Section C below, for inclusion in the circular dated 27 July 2010 (the "Circular") of China Sonangol Resources Enterprise Limited ("China Sonangol") in connection with, among other things, the proposed further acquisition of 49% equity interest in the Company by Lasting Power Investments Limited ("Lasting Power"), a wholly-owned subsidiary of China Sonangol. As of the date of this report, the Company is a 51%-owned subsidiary of Lasting Power.

Prior to 3 July 2009, the Company's immediate holding company was Star Fortune International Development Company Limited ("SFID"), a company incorporated in the British Virgin Islands with limited liability, and the Company's ultimate holding company was Ming Kei Holdings Limited (formerly known as Ming Kei Energy Holdings Limited), 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 continued in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Since 3 July 2009, the Company's immediate holding company was Lasting Power, a company incorporated in the British Virgin Islands with limited liability, and the Company's ultimate holding company was China Sonangol which was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of the Stock Exchange.

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 Suites 1003-1006, 10th Floor, Two Pacific Place, 88 Queensway, Hong Kong.

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 Coal 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 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) (merged with BDO McCabe Lo Limited (renamed as BDO Limited) on 1 May 2009) and those for the year ended 31 March 2010 were audited by BDO Limited, in accordance with Hong Kong Standards on Auditing issued by the HKICPA; and the statutory financial statements of Mulei County Kai Yuan Coal 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, 2008 and 2009 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 within 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 2010.

The financial information and the notes thereto for the Relevant Periods (the "Financial Information") have been prepared based on the Underlying Financial Statements in accordance with HKFRSs.

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 China Sonangol 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information of the Group is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information of the Group. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Financial Information of the Group whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information of the Group 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 Financial Information of the Group.

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

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, 2009 and 2010 and of the consolidated results and cash flows of the Group for each of the Relevant Periods in accordance with HKFRSs.

B. FINANCIAL INFORMATION

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Period from 12 April 2007 (date of incorporation) to 31 March 2008 HK$'000	Year ended 31 March 2009 HK$'000	Year ended 31 March 2010 HK$'000
Turnover	6	35,071	127,705	150,040
Cost of sales		(31,669)	(83,774)	(137,762)
Gross profit		3,402	43,931	12,278
Impairment loss on intangible assets, net	14	–	(1,160,219)	(54,561)
Excess of the Group's share of net fair value of the interests in subsidiaries acquired over the cost of the acquisition	24	50,777	–	–
Other income and gains	6	152	336	1,327
Selling and distribution costs		(421)	(1,192)	(1,642)
Administrative expenses		(1,822)	(10,646)	(10,498)
Finance costs	8	(829)	(693)	(268)
Profit/(loss) before income tax	7	51,259	(1,128,483)	(53,364)
Income tax	10	1,974	292,141	9,888
Profit/(loss) for the period/year		53,233	(836,342)	(43,476)
Other comprehensive income for the period/year:				
Exchange differences on translation of financial statements of overseas subsidiaries		63,232	(46,794)	(2,670)
Total comprehensive income for the period/year attributable to owners of the Company		116,465	(883,136)	(46,146)
Dividend	11	–	–	–
Earnings/(loss) per share (HK$'000)	12			
– Basic		53,233	(418,171)	(435)
– Diluted		53,233	(418,171)	(435)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 March 2008 HK$'000	As at 31 March 2009 HK$'000	As at 31 March 2010 HK$'000
ASSETS AND LIABILITIES				
NON-CURRENT ASSETS				
Property, plant and equipment	13	16,921	37,974	23,626
Intangible assets	14	1,430,193	187,385	122,345
Security deposit	15	–	–	1,844
		1,447,114	225,359	147,815
CURRENT ASSETS				
Inventories	17	2,877	49,494	63,407
Accounts and bills receivable	18	75,802	11,909	11,377
Prepayments, deposits and other receivables		32,870	13,870	1,828
Amount due from a fellow subsidiary of a minority beneficial owner	27(c)	–	–	81
Cash and cash equivalents	19	4,266	43,362	13,632
		115,815	118,635	90,325
CURRENT LIABILITIES				
Accounts and bills payable	20	44,842	18,415	20,192
Accrued expenses and other payables		24,360	28,127	12,776
Loan from a minority beneficial owner	27(c)	–	–	28,500
Amount due to ultimate holding company	27(b)	8	–	–
Amount due to immediate holding company	27(b)	1,010,714	987,727	–
Amount due to a fellow subsidiary	27(b)	–	23,000	–
Amount due to a director and a shareholder of ultimate holding company	27(a)	11,430	–	–
Current tax payable		–	1,712	–
		1,091,354	1,058,981	61,468
NET CURRENT (LIABILITIES)/ASSETS		(975,539)	(940,346)	28,857
TOTAL ASSETS LESS CURRENT LIABILITIES		471,575	(714,987)	176,672
NON-CURRENT LIABILITIES				
Deferred tax liabilities	21	355,110	45,083	29,092
Provision for close down, restoration and environmental costs	26	–	6,600	1,790
		355,110	51,683	30,882
NET ASSETS/(LIABILITIES)		116,465	(766,670)	145,790
CAPITAL AND RESERVES				
Issued capital	22	–	1	1
Reserves	23	116,465	(766,671)	145,789
TOTAL EQUITY		116,465	(766,670)	145,790

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital HK$'000 (Note 22)	Capital reserve HK$'000 (Note 23(iii))	Statutory reserve fund HK$'000 (Note 23(i))	Exchange reserve HK$'000 (Note 23(ii))	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Issue of shares at date of incorporation	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	63,232	53,233	116,465
Appropriation	–	–	862	–	(862)	–
At 31 March 2008 and 1 April 2008	–	–	862	63,232	52,371	116,465
Total comprehensive income for the year	–	–	–	(46,794)	(836,342)	(883,136)
Issue of new shares *(Note 22)*	1	–	–	–	–	1
Appropriation	–	–	3,994	–	(3,994)	–
At 31 March 2009 and 1 April 2009	1	–	4,856	16,438	(787,965)	(766,670)
Total comprehensive income for the year	–	–	–	(2,670)	(43,476)	(46,146)
Waiver of amount due to the former immediate holding company of the Company *(Note 28(a)(ii))*	–	958,606	–	–	–	958,606
Appropriation	–	–	8,116	–	(8,116)	–
At 31 March 2010	1	958,606	12,972	13,768	(839,557)	145,790

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009	Year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*
Cash flow from operating activities			
Profit/(loss) before income tax	51,259	(1,128,483)	(53,364)
Adjustments for:			
Impairment loss on intangible assets, net	–	1,160,219	54,561
Impairment loss on inventories	–	–	16,800
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	406	2,640	2,315
Amortisation of intangible assets	9,599	17,939	6,414
Loss/(gain) on disposal of property, plant and equipment	–	765	(1,036)
Provision for close down, restoration and environmental costs	–	6,600	–
Interest income	(33)	(117)	(112)
Finance costs	829	693	268
	11,283	60,256	25,846
Increase in security deposit	–	–	(1,844)
Increase in inventories	(2,582)	(46,617)	(30,713)
(Increase)/decrease in accounts and bills receivable	(44,499)	63,893	532
(Increase)/decrease in prepayments, deposits and other receivables	(4,729)	19,000	12,042
Increase in amount due from a fellow subsidiary of a minority beneficial owner	–	–	(81)
Increase/(decrease) in accounts and bills payable	35,425	(26,427)	1,777
(Decrease)/increase in accrued expenses and other payables	(4,461)	3,767	(15,351)
Decrease in amount due to immediate holding company	(25)	(22,987)	(621)
Increase/(decrease) in amount due to a director and a shareholder of ultimate holding company	11,430	(11,430)	–
Increase/(decrease) in amount due to a fellow subsidiary	–	23,000	(598)
Increase/(decrease) in amount due to ultimate holding company	8	(8)	–
Decrease in provision for close down, restoration and environmental costs	–	–	(4,820)
Cash generated from/(used in) operations	1,850	62,447	(13,831)
Interest received	33	117	112
Interest paid	(829)	(693)	(268)
Tax paid	–	–	(6,739)
Net cash inflow/(outflow) from operating activities	1,054	61,871	(20,726)

	Period from 12 April 2007 (date of incorporation) to 31 March 2008 *HK$'000*	Year ended 31 March 2009 *HK$'000*	Year ended 31 March 2010 *HK$'000*
Cash flow from investing activities			
Acquisition of subsidiaries	2,407	–	–
Purchase of items of property, plant and equipment	(1,235)	(26,723)	(8,838)
Direct costs on disposal of property, plant and equipment	–	–	(385)
Proceeds from disposal of property, plant and equipment	–	2,558	–
Additions to intangible assets	(38)	–	–
Net cash inflow/(outflow) from investing activities	1,134	(24,165)	(9,223)
Cash flow from financing activity			
Proceeds from issue of new shares	–	1	–
Net cash inflow from financing activity	–	1	–
Net increase/(decrease) in cash and cash equivalents	2,188	37,707	(29,949)
Cash and cash equivalents at beginning of period/year	–	4,266	43,362
Effect of foreign exchange rate changes, net	2,078	1,389	219
Cash and cash equivalents at end of period/year	4,266	43,362	13,632
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents	4,266	43,362	13,632

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 16.

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 HKFRSs (which in collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to the accountants' report included in the listing documents of circulars.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

Throughout the Relevant Periods, the Group has applied all of the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for the Relevant Periods.

The following new or revised HKFRSs that are potentially relevant to the Group, have been issued but are not effective for the Relevant Periods and have not been early adopted:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010 [3]
Amendments to HKFRS 1	Additional Exemptions for First-time Adopters [4]
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 for First-time Adopters [5]
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions [4]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKFRS 3 (Revised)	Business Combinations [1]
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners [1]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments [5]
HKAS 24 (Revised)	Related Party Disclosures [6]
HKFRS 9	Financial Instruments [7]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
4 Effective for annual periods beginning on or after 1 January 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable HKFRSs.

(b) Basis of preparation

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

(c) Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries. Control is achieved when 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 and disposed of during the Relevant Periods are included in the consolidated statements of comprehensive income 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.

(d) 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(f) below.

(e) Subsidiaries

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

(f) 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.

(g) 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 the date of each reporting period, 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

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.

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.

(h) 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.

Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for use.

(i) 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 statement of financial position, where appropriate, when the actual stripping ratios vary from the planned mine average stripping ratios. Deferral of costs to the statement of financial position is not made where the actual stripping ratio is expected to be evenly distributed. Costs, which have previously been deferred to the consolidated statement of financial position (deferred overburden removal costs), are included in the profit or loss 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.

(j) 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 profit or loss. 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 profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

(k) Impairment of other assets excluding goodwill

At end of reporting period, 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.

(l) 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.

(m) 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 fair value through profit or loss, which are initially measured at fair value. At the end of each reporting period, 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 the end of each reporting period. 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.

(n) 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.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits at banks, and, for the purpose of consolidated statements of cash flows, 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.

(p) Leases

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

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 statement of financial position as a finance lease obligation.

The Group as lessee

Rental payable under operating leases is charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease in property, plant and equipment.

(q) 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 end of each reporting period, 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 profit or loss on a prospective basis over the remaining life of the operation. Provision for close down and restoration costs does not include any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at the end of each reporting period to reflect changes in conditions.

(r) 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 each of the Relevant Periods. Taxable profit differs from profit as reported in the profit or loss 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 end of each reporting period.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profits, 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 the end of each reporting period 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 end of reporting period. 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 end of reporting period, 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.

(s) 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 entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. 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 other comprehensive income and accumulated in equity as 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 end of each reporting period. Income and expense 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 recognised in other comprehensive income and accumulated in equity as the Group's exchange reserve. Such translation differences are reclassified to 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.

(t) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses, and paid annual leaves are accrued in the period/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 profit or loss as they become payable in accordance with the rules of the central pension scheme.

(u) Borrowing costs

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

(v) 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.

(w) 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.

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, where appropriate, and impairment losses. 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 assessment 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 profit or loss 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 allowance 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 the end of each reporting period.

(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 income 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 regulations in the PRC. 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 26.

(g) Write down of inventories

The Group performs regular review of the carrying amount of inventories with reference to aged inventories analysis, applicable information on the estimated net realisable value, expected future consumption, and management judgement. Based on this review, the carrying amount of inventories will be written down when it declines below the estimated net realisable value. However, actual consumption or realisation of inventories may be different from estimation and management judgement. If future events do not correspond to management judgement, the estimated net realisable value will need to be revised, and this may have an impact on the Group's results of operations or financial position. Details of the write down of inventories are set out in Note 17.

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.

Revenue from 3 customers for 2008 and 1 customer for 2009 and 2010 contributed more than 10% of the Group's revenue amounting to HK$28,204,000 (in aggregate), HK$21,948,000 and HK$26,773,000 for the period/years ended 31 March 2008, 2009 and 2010, respectively.

6. TURNOVER AND OTHER INCOME AND GAINS

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 turnover, other income and gains is as follows:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	**Year ended 31 March 2009**	**Year ended 31 March 2010**
	HK$'000	*HK$'000*	*HK$'000*
Turnover:–			
Sale of coals	35,071	127,705	150,040
Other income and gains:–			
Gain on disposal of property, plant and equipment	–	–	1,036
Sundry income	119	219	179
Interest income	33	117	112
	152	336	1,327

7. PROFIT/(LOSS) BEFORE INCOME TAX

The Group's profit/(loss) before income 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**	**Year ended 31 March 2010**
	HK$'000	*HK$'000*	*HK$'000*
Cost of inventories sold	31,669	83,774	137,762
Write-down of inventories*	–	–	16,800
Auditors' remuneration	1	3	29
Depreciation of property, plant and equipment *(Note 13)*	406	2,640	2,315
Amortisation of intangible assets *(Note 14)**	9,599	17,939	6,414
Loss on disposal of property, plant and equipment	–	765	–
Provision for close down, restoration and environment costs *(Note 26)**	–	6,600	–
Staff costs (excluding directors' remuneration *(Note 9(a))*			
Salaries and wages	959	3,854	6,488
Pension scheme contributions	91	338	553
	1,050	4,192	7,041
Minimum lease payments under operating lease for land and buildings	–	29	246

* *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	Year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*
Interest on loan from a minority beneficial owner	–	–	217
Interest on trade financing	829	693	51
	829	693	268

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Details of directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, are as follows:

For the period from 12 April 2007 (date of incorporation) to 31 March 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

For the year ended 31 March 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 (resigned on 10 June 2008)	–	–	–	–
Ms. Yick Mi Ching Dawnibilly	–	–	–	–
Mr. Cheung King Shan (resigned on 31 December 2008)	–	–	–	–
	173	–	–	173

For the year ended 31 March 2010

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	–	900	–	900
Ms. Yick Mi Ching Dawnibilly (resigned on 3 July 2009)	–	–	–	–
Ms. Lo Fong Hung (appointed on 3 July 2009)	–	–	–	–
Mr. Kwan Man Fai (appointed on 3 July 2009)	–	–	–	–
	–	900	–	900

There was no arrangement 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

During the year ended 31 March 2010, of the five highest paid individuals in the Group, one (2009: one; 2008: one) individual is a director of the Company whose emoluments is set out in Note 9(a) above. The emoluments of the remaining four (2009: four; 2008: four) non-director individuals are as follows:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009	Year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	121	750	1,419

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 (credit)/charge in the consolidated statements of comprehensive income represents:

	Period from 12 April 2007 (date of incorporation) to 31 March 2008	Year ended 31 March 2009	Year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*
Current tax – PRC	–	1,694	5,027
Deferred tax – PRC *(Note 21)*	(1,974)	(293,835)	(14,915)
	(1,974)	(292,141)	(9,888)

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for Hong Kong profits tax purposes in each of 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 Company 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 and up to 31 December 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 (i) the period from 1 January 2009 to 31 March 2009 in the year ended 31 March 2009; and (ii) the year ended 31 March 2010.

(b) The income tax for each of 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**	**Year ended 31 March 2010**
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before income tax	51,259	(1,128,483)	(53,364)
Tax calculated at the rate of 16.5% for years ended 31 March 2010 and 2009 (Period ended 31 March 2008: 17.5%)	8,970	(186,200)	(8,805)
Tax effect of tax rates of other jurisdictions	3,896	(95,917)	(1,652)
Profits exempted from income tax	(2,154)	(12,318)	(5,027)
Tax effect of income non-taxable for taxation purposes	(12,694)	–	–
Tax effect on unused tax losses not recognised and expenses not deductible for taxation purposes	8	2,294	5,596
Income tax for the period/year	(1,974)	(292,141)	(9,888)

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, loss of HK$836,342,000 for the year ended 31 March 2009 and loss of HK$43,476,000 for the year ended 31 March 2010 attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is 1, 2, and 100 ordinary shares for the period/years ended 31 March 2008, 2009 and 2010, respectively.

As no diluting event existed during the Relevant Periods, the basic and diluted earnings/loss per share amounts of the Group for each of the Relevant Periods are equal.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings located in PRC	Mining related machinery and equipment	Leasehold improvements	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 24)*	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
Additions	494	1,042	–	97	131	7,074	8,838
Disposals	(17,293)	–	(2,580)	–	(2,625)	–	(22,498)
Transfer	–	9,521	–	–	–	(9,521)	–
Exchange realignments	54	37	3	1	7	4	106
At 31 March 2010	9,677	17,769	–	623	1,266	–	29,335
Accumulated depreciation:							
At date of incorporation	–	–	–	–	–	–	–
Acquisition of subsidiaries *(Note 24)*	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
Disposals	(792)	–	(474)	–	(270)	–	(1,536)
Charge for the year *(Note 7)*	690	1,270	86	118	151	–	2,315
Exchange realignments	7	5	–	1	2	–	15
At 31 March 2010	2,223	2,740	–	219	527	–	5,709
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
At 31 March 2010	7,454	15,029	–	404	739	–	23,626

The leasehold land and buildings of the Group were located in the PRC and held under medium lease terms.

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 24)**	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
Exchange realignments	3,551	867	4,418
At 31 March 2010	1,187,008	290,098	1,477,106
Accumulated amortisation and impairment losses:			
At date of incorporation	–	–	–
Acquisition of subsidiaries *(Note 24)**	–	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
Amortisation for the year *(Note 7)***	–	6,414	6,414
Impairment loss ***	62,610	–	62,610
Reversal of impairment loss ****	–	(8,049)	(8,049)
Exchange realignments	8,476	7	8,483
At 31 March 2010	1,130,004	224,757	1,354,761
Carrying amount:			
At 31 March 2008	1,159,177	271,016	1,430,193
At 31 March 2009	124,539	62,846	187,385
At 31 March 2010	57,004	65,341	122,345

* *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 were initially recognised at their fair values on acquisition with reference to professional valuations performed by Greater China Appraisal Limited ("Greater China Appraisal"), an independent firm of professionally qualified valuers. At each of reporting period, 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 each of the Relevant Periods is included in the "cost of sales" in the consolidated statements of comprehensive income.

*** *In the period ended 31 March 2008, the Company acquired the 100% equity interests of Ming Kei Kai Yuan Investment Company Limited and its subsidiaries (the "MKKY Group") 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 were a number of unforeseeable and uncontrollable factors happened subsequent to such investment decision in the global economy in 2008 and had been continuing which resulted in the prospect of the coal mining industry that had not been growing as fast as expected.*

The prospect of coal mining business grows in line with the economy. For the year ended 31 March 2009, the global recession and slower economic growth of the PRC were negatively hindering the manufacturing activities in the PRC which in turn affected 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 the period of global recession for the year ended 31 March 2009, the prospect of the coal market would continue to be affected and the business in coal mining would continue to be difficult and challenging. The Group believed that the profitability potential of the MKKY Group would be reduced in the short and medium terms. The Group considered such decline indicated that the carrying amount of the Group's intangible assets had been impaired and an impairment loss of HK$1,160,219,000 had been recognised in the profit or loss 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 performed by Greater China Appraisal in respect of the coal mining business of the Group as at 31 March 2009.

**** *In view of the breakout of the series of massive riots in Xinjiang in the PRC (the autonomous region where the mining business resides) during the year ended 31 March 2010, the Group considered that there is indication that the Group's exploration and evaluation assets should be further impaired as the above event could bring significant changes with an adverse effect to the exploration and evaluation assets of the Group. With reference to a valuation report issued by Greater China Appraisal, the Group's exploration and evaluation assets was further impaired and an impairment loss of HK$62,610,000 has been recognised in the profit or loss for the year ended 31 March 2010, to reduce the carrying value of the exploration and evaluation assets to its estimated recoverable amounts. The estimated recoverable amounts of the exploration and evaluation assets of the Group were determined based on a value-in-use calculation of the Group's exploration and evaluation assets with reference to a valuation report issued by Greater China Appraisal.*

On the other hand, in view of the improvement of efficiency and effectiveness of the operation in relation to the Group's mining right, productivity and sales during the year ended 31 March 2010, the Group considered that there is indication that the impairment loss previously recognised on the Group's mining right may be reduced. Therefore, management re-assessed the carrying value of the mining right as at 31 March 2010. According to the recoverable amount of the mining right was determined based on a value-in-use calculation of the Group's mining right with reference to a valuation report issued by Greater China Appraisal in respect of the mining right of the Group as at 31 March 2010, there is a reversal of impairment loss of HK$8,049,000 recognised in the profit or loss for the year ended 31 March 2010.

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

Mines	Locations	Expiry dates
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)	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)	22 October 2011 *(Note (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.

During the year ended 31 March 2010, the exploration right was renewed to 22 October 2011. 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. SECURITY DEPOSIT

The balance represents a bank deposit placed for securing the Group's obligation in environmental restoration, which is interest-bearing at the prevailing bank saving interest rate and can be withdrawn upon the expiry of the Group's mining right.

16. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 March 2008, 2009 and 2010, all of which are unlisted entities are as follows:

Name of company	Place of establishment/ operation	Nominal value of issued ordinary share capital/ registered paid-in capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Ming Kei Kai Yuan Investment Company Limited	Hong Kong/ Hong Kong	HK$60,000,000	100	–	Investment holding
Kai Yuan Coal *	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 a wholly-foreign-owned enterprise with limited liability under the PRC law.*

17. INVENTORIES

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Coals	2,507	49,315	62,998
Ancillary materials, spare parts and small tools	370	179	409
	2,877	49,494	63,407

During each of the Relevant Periods, the Group has carried out its regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, applicable information on net-realisable value, expected future consumption and management judgement. As a result, the carrying amounts of the inventories as at 31 March 2010 were determined to decline below their estimated net realisable value in the aggregate amount of HK$16,800,000 (2009 and 2008: HK$Nil) and were recorded as a write-down in the profit or loss for the year ended 31 March 2010.

18. ACCOUNTS AND BILLS RECEIVABLE

(i) The aging analysis of the Group's accounts receivable as at the respective end of each reporting period, based on invoice date, is as follows:

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	7,870	5,190	747
91 to 180 days	–	1,709	514
181 to 365 days	–	1,565	–
Accounts receivable	7,870	8,464	1,261
Bills receivable	67,932	3,445	10,116
	75,802	11,909	11,377

(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 related to a wide range of customers for whom there was no recent history of default.

(iv) At 31 March 2008, 2009 and 2010, the Group's bills receivable of HK$41,070,000, HK$3,445,000 and HK$Nil (Note 20) were discounted to banks with recourse. The Group continued to recognise the full carrying amount of the bills receivable and recognised the cash received on the transfer as a secured borrowing which is included in bills payable.

(v) At 31 March 2008, 2009 and 2010, the Group's bills receivable of HK$Nil, HK$Nil and HK$4,558,000 were transferred to creditors by endorsement. The Group continued to recognise the full carrying amount of the bills receivable and the bills transferred to creditors of HK$4,558,000 are included as accounts payable.

19. 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	2010
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents were denominated in:			
Hong Kong dollars	610	604	–
Renminbi ("RMB")	3,656	42,758	13,632
Total	4,266	43,362	13,632

20. ACCOUNTS AND BILLS PAYABLE

An aging analysis of the accounts payable of the Group as at the respective end of each reporting period, based on the invoice date, is as follows:

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	3,575	11,615	19,352
91 to 180 days	197	2,150	278
181 to 365 days	–	1,205	562
Accounts payable	3,772	14,970	20,192
Bills payable *(Note 18(iv))*	41,070	3,445	–
	44,842	18,415	20,192

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

21. DEFERRED TAX LIABILITIES

The components of deferred tax liabilities recognised in the statements of financial position and the movements during each of the Relevant Periods are as follows:

	Intangible assets
	HK$'000
Balance at date of incorporation	–
Credited to profit or loss *(Note 10(a))*	(1,974)
Acquisition of subsidiaries *(Note 24)*	337,194
Exchange realignments	19,890
At 31 March 2008	355,110
Credited to profit or loss *(Note 10(a))*	(293,835)
Exchange realignments	(16,192)
At 31 March 2009	45,083
Credited to profit or loss *(Note 10(a))*	(14,915)
Exchange realignments	(1,076)
At 31 March 2010	29,092

The Group has no significant unprovided deferred tax for the Relevant Periods and as at 31 March 2008, 2009 and 2010.

22. 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	–
At 31 March 2008	1	–
Issue of additional shares *(Note (ii))*	99	1
At 31 March 2009 and 2010	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 shares 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.

23. 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 paid-up 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 policy set out in Note 3(s).

(iii) Capital reserve

Capital reserve represented the amount due to the former immediate holding company of the Company that was waived pursuant to a deed of waiver entered into by the Company and its former immediate holding company on 26 June 2009, which was considered as a contribution from equity participant of the Company for the year ended 31 March 2010.

24. BUSINESS COMBINATION

On 19 November 2007, the Group acquired 100% equity interests of the MKKY Group for a consideration of HK$1,000,000,000. This transaction has been accounted for using 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 Ming Kei Holdings Limited'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 Ming Kei Holdings Limited to the vendors; (iii) as to HK$288,000,000 by the issue of convertible bonds by Ming Kei Holdings Limited; and (iv) as to HK$282,000,000 by the issue of promissory notes by Ming Kei Holdings Limited. The above consideration with fair value of HK$1,010,739,000 on 19 November 2007 borne by Ming Kei Holdings Limited was accounted for as the Group's amount due to the then 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 business 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
Cash and cash equivalents		2,407	–	2,407
Accounts and bills payable		(9,417)	–	(9,417)
Other payables		(28,821)	–	(28,821)
Deferred tax liabilities	21	–	(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 equivalents balance 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.

25. OPERATING LEASE COMMITMENTS

During the Relevant Periods, the Group leases its staff quarters/office premises under operating lease arrangements, with leases negotiated for terms ranging from one to three years. None of the leases includes contingent rentals.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Within one year	–	54	246

26. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

	Period ended 31 March 2008	Year ended 31 March 2009	Year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*
At the beginning of period/year	–	–	6,600
Provision made during the year *(Note 7)*	–	6,600	–
Utilisation	–	–	(4,820)
Exchange realignments	–	–	10
At the end of period/year	–	6,600	1,790

The provision for close down, restoration and environmental costs, in relation to all of the two mines of the Group has been determined by the management and charged to cost of sales in the Relevant Periods.

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 the 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 affects 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 clean-up 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.

27. 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. Save for those disclosed elsewhere in the Financial Information, details of transactions between the Group and other related parties are disclosed below.

(a) The amount as at 31 March 2008 was unsecured, interest-free and repayable on demand. The amount due was repaid in full during the year ended 31 March 2009.

(b) The amounts as at 31 March 2008 and 2009 were unsecured, interest-free and had no fixed terms of repayment.

(c) The amount due from a fellow subsidiary of a minority beneficial owner as at 31 March 2010 was unsecured, interest-free and has no fixed terms of repayment.

The loan from a minority beneficial owner as at 31 March 2010 was unsecured, interest-bearing at a rate of 1.5% per annum and repayable on the date falling 6 months after the date of the loan facilities agreement (i.e. 3 July 2009) entered into between SFID, the Company, and Ming Kei Holdings Limited which shall be subject to further negotiation and the cash level of the Group to renew the loan for a further 6-month period. On 3 January 2010, the repayment date of the loan from a minority beneficial owner has been extended to 3 July 2010. Interests charged on this balance during the year ended 31 March 2010 amounted to HK$217,000 (2008 and 2009: HK$Nil) (Note 8).

As of the date of this report, the Group has not repaid any amount of the above loan from a minority beneficial owner after its expiry on 3 July 2010. In accordance with the loan facilities agreement, the interest expense continues to be charged at a rate of 1.5% per annum on the aggregate outstanding balance of the matured loan from the minority beneficial owner and its outstanding interest payable from its due date to the date of full repayment.

(d) During the year ended 31 March 2010, the Group disposed of certain land and buildings located in the PRC with its related leasehold improvements and certain motor vehicles to a then fellow subsidiary of the Company at a consideration of approximately HK$22,402,000. The then fellow subsidiary became a fellow subsidiary of a minority beneficial owner since 3 July 2009.

(e) During the year ended 31 March 2010, rental expenses of HK$699,000 (2008 and 2009: HK$Nil) were paid to a fellow subsidiary of a minority beneficial owner of the Company.

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

28. SIGNIFICANT NON-CASH TRANSACTIONS

(a) During the year ended 31 March 2010, the significant non-cash transactions of the Group are as follows:

(i) Property, plant and equipment with carrying amount of approximately HK$20,962,000 was disposed of to the then fellow subsidiary at an aggregate consideration of HK$22,402,000 (Note 27(d)), which is settled through the Group's current account with the then fellow subsidiary.

(ii) Pursuant to a deed of waiver dated 26 June 2009 entered into by the Company and the then immediate holding company, the amount due to the then immediate holding company in the amount of HK$958,606,000 has been waived and credited to the capital reserve of the Group for the year ended 31 March 2010. The remaining amount due to the then immediate holding company in the amount of HK$28,500,000 was reclassified as the loan from a minority beneficial owner since 3 July 2009 pursuant to the change of immediate holding company on the same date.

(b) During the period ended 31 March 2008, 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 Ming Kei Holdings Limited, the then ultimate holding company of the Company and was accounted for as the Group's amount due to the then immediate holding company.

29. 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 statements of financial position, comprising amounts due to immediate holding company and a fellow subsidiary, loan from a minority beneficial owner and bills payable. Total capital is calculated as "equity", as shown in the consolidated statement of financial positions, plus borrowings. The gearing ratios of the Group at 31 March 2008, 2009 and 2010 were as follows:

	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Total borrowings	1,051,784	1,014,172	28,500
Equity	116,465	(766,670)	145,790
Total capital	1,168,249	247,502	174,290
Gearing ratio	90%	410%	16%

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.

30. 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 fair value 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

Coal price

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 did 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 prepayments included in the statements of financial position 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 receivable 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 if needed 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 or minority beneficial owner.

(d) Fair values

All financial instruments are carried at amounts not materially different from their estimated fair values as at 31 March 2008, 2009 and 2010.

31. 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, 2009 and 2010 may be categorised as follows:

	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables (including cash and cash equivalents), measured at amortised cost	109,506	62,385	27,668
Financial liabilities			
Financial liabilities measured at amortised cost	56,061	32,478	56,359

32. SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

SFID, a company holding 49% equity interest in the Company, entered into a conditional disposal agreement dated 20 May 2010 with Lasting Power, the immediate holding company of the Company, regarding the proposed disposal of the remaining 49% of the equity interests in the Company by SFID to Lasting Power at a cash consideration of 50 million, details of which are set out in the announcement of China Sonangol dated 2 June 2010 and this Circular.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 31 March 2010 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 2010.

Yours faithfully
For and on behalf of
BDO Limited
Certified Public Accountants
Hong Kong

Lam Siu Fung
Practising Certificate number: P05308

The following is the text of an accountants' report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information on the Enlarged Group.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying illustrative and unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information"), including the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows, has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed further acquisition (the "Acquisition") of 49% equity interest in Star Fortune International Investment Company Limited and its subsidiaries, the indirect 51%-owned subsidiaries (collectively referred to as the "Target Group") by the Group (defined below) as if the Acquisition had been completed on 31 March 2010 for the unaudited pro forma consolidated statement of financial position, and on 1 April 2009 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows. It is assumed that the recoverable amount of the goodwill and intangible assets of the Group attributable to the Target Group is the respective carrying amounts as shown in the audited financial statements of China Sonangol Resources Enterprise Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2010. The Group together with the Target Group is referred to as the Enlarged Group. Terms used herein shall have the same meanings as defined in the circular of the Company dated 27 July 2010 unless stated otherwise.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position or results of operations.

(I) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

The unaudited pro forma consolidated statement of financial position is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2010 which has been extracted from the audited financial statements of the Group for the year ended 31 March 2010, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated statement of financial position of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	The Group	**Pro forma adjustments**		**The Enlarged Group**
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	23,626			23,626
Intangible assets	139,168			139,168
Goodwill	15,065			15,065
Security deposit	1,844			1,844
	179,703			179,703
Current assets				
Inventories	63,407			63,407
Trade and other receivables	13,412			13,412
Bank balances and cash	286,711	(50,000)	*1*	236,711
	363,530			313,530
Current liabilities				
Trade and other payables	(39,600)	(28,500)	2	(68,100)
Amounts due to related companies	(168)			(168)
Amount due to a minority shareholder	(28,500)	28,500	2	–
Convertible loan notes	(180,410)			(180,410)
	(248,678)			(248,678)
Net current assets	114,852			64,852
Total assets less current liabilities	294,555			244,555

	The Group	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Non-current liabilities				
Deferred tax liabilities	(33,364)			(33,364)
Provision for close down, restoration and environmental costs	(1,790)			(1,790)
	(35,154)			(35,154)
Net assets	259,401			209,401
CAPITAL AND RESERVES				
Share capital	76,537			76,537
Reserves	104,860	28,004	*1*	132,864
Equity attributable to owners of the Company	181,397			209,401
Minority interests	78,004	(78,004)	*1*	–
	259,401			209,401

(II) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

The unaudited pro forma consolidated statement of comprehensive income is prepared based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 March 2010 which has been extracted from the audited financial statements of the Group for the year ended 31 March 2010, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of operations of the Enlarged Group for the year ended to which it is made up to or for any future period.

	The Group	**Pro forma adjustments**		**The Enlarged Group**
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Turnover	96,090	63,461	*4*	159,551
Cost of sales	(88,012)	(52,153)	*4*	(138,989)
		2,243	*6*	
		(1,067)	*7*	
Gross profit	8,078			20,562
Impairment loss on goodwill	(5,400)			(5,400)
Other operating income	2,752	80	*4*	2,832
Selling and distribution costs	(3,164)	(510)	*4*	(3,674)
Administrative expenses	(15,317)	(5,378)	*4*	(20,695)
Finance costs	(18,756)	(50)	*4*	(18,806)
Loss before tax	(31,807)			(25,181)
Income tax expense	(2,163)	(1,749)	*4*	(4,159)
		(514)	*6*	
		267	*7*	
Loss for the year	(33,970)			(29,340)
Other comprehensive income:				
Exchange difference arising on translation of overseas operation and net income directly recognised in equity	(419)	276	*4*	(143)
Total comprehensive income for the year	(34,389)			(29,483)

	The Group	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Loss for the year attributable to:				
– Owners of the Company	(31,789)	3,701	*4*	(29,340)
		(2,181)	*5*	
		1,729	*6*	
		(800)	*7*	
– Minority interests	(2,181)	2,181	*5*	–
	(33,970)			(29,340)
Total comprehensive income attributable to:				
– Owners of the Company	(32,071)	3,977	*4*	(29,483)
		(2,318)	*5*	
		1,729	*6*	
		(800)	*7*	
– Minority interests	(2,318)	2,318	*5*	–
	(34,389)			(29,483)

(III) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

The unaudited pro forma consolidated statement of cash flows is prepared based on the audited consolidated statement of cash flows of the Group for the year ended 31 March 2010, which has been extracted from the audited financial statements of the Group for the year ended 31 March 2010, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated statement of cash flows of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended to which it is made up to or for any future period.

	The Group	**Pro forma adjustments**		**The Enlarged Group**
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Cash flows from operating activities				
Loss before tax	(31,807)	5,450	*4*	(25,181)
		2,243	*6*	
		(1,067)	*7*	
Adjustments for:				
Net reversal of allowance for doubtful debts of trade receivables	(553)			(553)
Depreciation	1,677	666	*4*	2,343
Amortisation of intangible assets	3,201	2,243	*4*	4,268
		(2,243)	*6*	
		1,067	*7*	
Finance costs	18,756	50	*4*	18,806
Impairment of goodwill	5,400			5,400
Loss on disposal of property, plant and equipment	100			100
Interest income	(120)	(27)	*4*	(147)
Write down of inventories	16,800			16,800
	13,454			21,836
Increase in inventories	(8,266)	(20,803)	*4*	(29,069)
Decrease in trade and other receivables	18,399	(4,229)	*4*	14,170
Decrease in trade and other payables	(25,074)	9,802	*4*	(15,272)
Decrease in provision	(4,816)			(4,816)
Decrease in amounts due to related companies	(3,056)			(3,056)

	The Group	Pro forma adjustments	Notes	The Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*
Cash used in operations	(9,359)			(16,207)
Oversea tax paid	(5,029)	(1,712)	*4*	(6,741)
Net cash used in operating activities	(14,388)			(22,948)
Cash flows from investing activities				
Acquisition of subsidiaries	(69,605)	69,605	*4*	(109,264)
		(59,264)	*3*	
		(50,000)	*1*	
Purchases of property, plant and equipment	(6,447)	(2,397)	*4*	(8,844)
Increase in security deposit	(1,844)			(1,844)
Interest received	120	27	*4*	147
Proceeds on disposal of property, plant and equipment	30			30
Net cash used in investing activities	(77,746)			(119,775)
Cash flows from financing activities				
Interest paid	(217)	(50)	*4*	(267)
Net cash used in financing activities	(217)			(267)
Net decrease in cash and cash equivalents	(92,351)			(142,990)
Cash and cash equivalents at beginning of year	378,997			378,997
Effect of foreign exchange rate, net	65	79	*4*	144
Cash and cash equivalents at end of year	286,711			236,151
Analysis of the balances of cash and cash equivalents				
Cash and cash equivalents	286,711			236,151

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group:

(1) The adjustment reflects the effect of the further acquisition of 49% equity interest in the Target Group to the consolidated statement of financial position of the Group as if the Acquisition had been completed on 31 March 2010, which included (i) derecognition of the minority interests of HK$78,004,000 and (ii) excess of the Group's minority interests over the cost of the Acquisition in the amount of HK$28,004,000 included in reserves which is arrived at the comparison of the minority interests of HK$78,004,000 less the consideration of the Acquisition of HK$50,000,000 assuming that there is no direct cost attributable to the Acquisition.

(2) The adjustment reflects the re-classification of the amount due to minority shareholder amounting to HK$28,500,000 to other payables assuming the Acquisition had been completed on 31 March 2010, pursuant to which the minority shareholder would become a third party to the Group thereafter.

(3) The adjustment reflects the net cash outflow amounting to approximately HK$59,264,000 resulting from the Former Acquisition assuming that the Former Acquisition had taken place on 1 April 2009, which is calculated by taking into account (i) the estimated net cash consideration paid for the Former Acquisition of HK$102,066,000, being the aggregate amount of HK$100,000,000 and direct costs directly attributable to the Former Acquisition amounting to approximately HK$4,066,000, of which an amount of HK$2,000,000 was paid by the Group before 31 March 2009; and (ii) the cash and bank balance of the Target Group (after adjustment for the effect of a group reorganisation before completion of the Former Acquisition) of approximately HK$42,802,000 as at 1 April 2009 acquired (being the cash and bank balance of the Target Group of HK$43,362,000 less cash settlement of current accounts of HK$560,000 by the Target Group to the minority owner as part of the group reorganisation) assuming that the Former Acquisition had been completed as at 1 April 2009.

(4) The adjustment reflects the inclusion of results and cash flows attributable to the Target Group as subsidiaries of the Company in prior to the Former Acquisition, i.e. for the period from 1 April 2009 to 3 July 2009, as if the Former Acquisition had been completed on 1 April 2009. The actual net cash outflow from the Former Acquisition is also reversed, which is replaced by the unaudited pro forma net cash outflow from the Former Acquisition as mentioned in Note 3 above.

It is also assumed that the fair value of the Target Group's assets and liabilities as at 1 April 2009 was equal to the fair value as at 3 July 2009, the completion date of Former Acquisition.

(5) The adjustment represents the reversal of the loss for the year attributable to the Group's minority interests of the Target Group for the period from 4 July 2009 to 31 March 2010, assuming the Acquisition had been completed on 1 April 2009.

(6) The adjustment represents the reversal of amortisation of intangible assets and corresponding deferred tax expenses for the period from 1 April 2009 to 3 July 2009 recorded by the Target Group already included in the pro forma adjustment as mentioned in Note 4 above. These charges are replaced by the re-calculation of amortisation of intangible assets on a new basis as further detailed in Note 7 below.

(7) The adjustment represents the amortisation of intangible assets and corresponding deferred tax expenses for the period from 1 April 2009 to 3 July 2009. Based on the amortisation of HK$3,201,000 charged by the Group for the period from 4 July 2009 to 31 March 2010 (approximately 9 months), the amortisation that should have been charged for the period from 1 April 2009 to 3 July 2009 (approximately 3 months) should amounted to HK$1,067,000 on a time portion basis and the deferred tax is estimated at HK$267,000 based on the assumption that the fair value of the applicable intangible assets as at 3 July 2009 is also their fair value as at 1 April 2009 and the applicable income tax rate of 25% in the People's Republic of China.

The following is the text of an accountants' report from BDO Limited, the independent reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

BDO

Tel: +852 2541 5041
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

27 July 2010

The Board of Directors
China Sonangol Resources Enterprise Limited
Suites 1003-1006, 10th Floor
Two Pacific Place
88 Queensway
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of China Sonangol Resources Enterprise Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out in Appendix III to the Company's Circular dated 27 July 2010 in connection with the proposed further acquisition of 49% equity interest in Star Fortune International Investment Company Limited and its subsidiaries, the indirect 51%-owned subsidiaries of the Company (collectively referred to as the "Target Group"), which have been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the Group's proposed further acquisition of 49% equity interest in the Target Group (the "Acquisition"), might have affected the financial information of the Group. The Group together with the further 49% equity interest in the Target Group is referred to as the Enlarged Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix III to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the stated accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 March 2010 or any future date; or

- the financial results and cash flows of the Enlarged Group for the year ended 31 March 2010 or for any future period.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
For and on behalf of
BDO Limited
Certified Public Accountants
Hong Kong

Lam Siu Fung
Practising Certificate number: P05308

The following is the text of the report of the valuation of the property interests on the Enlarged Group dated 27 July 2010 prepared by Greater China Appraisal 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

27 July 2010

The Directors
China Sonangol Resources Enterprise Limited
Suites 1003-1006, 10/F
Two Pacific Place
88 Queensway
Hong Kong

Dear Sirs,

In accordance with the instructions from China Sonangol Resources Enterprise Limited ("the Company") to value the property interests of the enlarged group (the "Enlarged Group") in the People's Republic of China (the "PRC") after further acquisition of 49% equity interest in Star Fortune International Investment Company Limited (the "Target Company"), 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 30 April 2010 (referred to as the "date of valuation").

It is our understanding that this valuation is for very substantial acquisition and connected transaction 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

Unless as stated otherwise, 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.

For the property numbered 1, due to the nature of buildings and structures constructed, there are no readily identifiable market comparables to them. We have applied the cost method of valuation in assessing the property. It is a method of using current replacement cost to arrive at the value to the business in occupation of the property as existing at the date of valuation. This method of valuation, cost method, is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

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 property numbered 1 in the PRC, as it is held under long term Land Use Rights, we have assumed that the owner of the property have free and uninterrupted rights to use or transfer the property for the whole of the unexpired term of the 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), 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 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 RMB87.905 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 (member of Hong Kong Institute of Surveyors and member of The Royal Institution of Chartered Surveyors) and a 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 30 April 2010 *(HK$)*
Group I – Property interests owned by the Enlarged Group in the PRC		
1.	Land and structures located at Jiangjungebi Qitai County Xinjiang Uygur Autonomous Region The PRC	11,800,000
2.	A Parcel of Land located at Beitashan Qitai County Xinjiang Uygur Autonomous Region The PRC	No commercial value
3.	A Parcel of Land located at Beitashan Qitai County Xinjiang Uygur Autonomous Region The PRC	No commercial value
	Sub-total:	HK$11,800,000
Group II – Property interests leased to the Enlarged Group in the PRC		
4.	A Parcel of Industrial Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin approximately 90 km northeast of Qitai County) Mulei County Xinjiang Uygur Autonomous Region The PRC	No commercial value

No.	Property	Market Value as at 30 April 2010 *(HK$)*
5.	A Parcel of Residential Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin approximately 90 km northeast of Qitai County) Mulei County Xinjiang Uygur Autonomous Region The PRC	No commercial value
6.	Unit 2 on 6th Floor Block A Yema Building No. 158 Kunming Road Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value
7.	Room 1807 Baixin Zuanshiyuan Beijing Nan Road Xinshi District Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value
8.	Room 402, Unit 1 Block 4, Xuanjingyuan Xinzhou Chengshihuayuan No. 80 Suzhou Road Urumqi Xinjiang Uygur Autonomous Region The PRC	No commercial value
9.	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 30 April 2010 *(HK$)*
10.	Room 1-3-202, Ancillary block 3 Yuxinhuayuan No. 12 Beijing Nan Road Xinshi District Urumqi Xinjiamg Uygur Autonomous Region The PRC	No commercial value
11.	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
	Grand Total:	**HK$11,800,000**

VALUATION CERTIFICATE

Group I – Property interests owned by the Enlarged Group in the PRC

No.	Property	Description	Particulars of Occupancy	Market Value as at 30 April 2010 *(HK$)*
1.	Land and structures 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 and various structures erected on the Land. 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.	11,800,000

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 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) 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.

(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 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 30 April 2010 *(HK$)*
2.	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 kilometers. The property is held by the Enlarged Group under a Temporary Land Use Rights Certificate for a term from 1 January 2009 top 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 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) for a term from 1 January 2009 to 31 December 2010 for industrial use.

(ii) PRC Subsidiary A has paid a land use fee of RMB120,000 for a period of 2 years from 1 January 2009 to 31 December 2010 for a total land area of 1.169 square kilometers, which are described as property nos. 2, 4 and 5 in this report.

(iii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A has obtained a 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.

(c) The property is not subject to any mortgage.

No.	Property	Description	Particulars of Occupancy	Market Value as at 30 April 2010 *(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 1.067 square kilometers. The property is held by the Enlarged Group under a Temporary Land Use Rights Certificate for a term from 25 July 2009 to 25 July 2011 for industrial and warehouse use.	The property is currently occupied by PRC Subsidiary A for temporary dump.	No commercial value

Notes:

(i) According to a Temporary Land Use Rights Certificate (奇國土批臨(2009)字18號) dated 25 July 2009, the land use rights is held by 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) for a term from 25 July 2009 to 25 July 2011 for industrial and warehouse use.

(ii) PRC Subsidiary A has paid a land use fee of RMB50,000 for a period of 2 years from 25 July 2009 to 25 July 2011 for a land area of 1.067 square kilometers.

(iii) Opinions of the PRC Lawyer are summarized as follows:

(a) PRC Subsidiary A has obtained a 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.

(c) The property is not subject to any mortgage.

Group II – Property interests leased to the Enlarged Group in the PRC

No.	Property	Description	Particulars of Occupancy	Market Value as at 30 April 2010 *(HK$)*
4.	A parcel of Industrial Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin, approximately 90 km northeast of Qitai 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 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) for an undefined term for industrial use.

(ii) PRC Subsidiary A has paid a land use fee of RMB120,000 for a period of 2 years from 1 January 2009 to 31 December 2010 for a total land area of 1.169 square kilometers, which are described as property nos. 2, 4 and 5 in this report.

(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 land use rights of the Land have been leased to PRC Subsidiary A for an undefined term for industrial use.

(b) PRC Subsidiary A has paid the land rent or land use fee.

(c) PRC Subsidiary A has the right to use the land in accordance with the State-owned Land Use Rights Certificate.

No.	Property	Description	Particulars of Occupancy	Market Value as at 30 April 2010 *(HK$)*
5.	A parcel of Residential Land located at Beishan Mining Area (Southeastern region of Dzungarian Basin, approximately 90 km northeast of Qitai 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 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) for an undefined term for residential use.

(ii) PRC Subsidiary A has paid a land use fee of RMB120,000 for a period of 2 years from 1 January 2009 to 31 December 2010 for a total land area of 1.169 square kilometers, which are described as property nos. 2, 4 and 5 in this report.

(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 land use rights of the Land have been leased to PRC Subsidiary A for an undefined term for residential use.

(b) PRC Subsidiary A has paid the land rent or land use fee.

(c) PRC Subsidiary A has the right to use the land in accordance with the State-owned Land Use Rights Certificate.

No.	Property	Description and Occupancy	Market Value as at 30 April 2010 *(HK$)*
6.	Unit 2 on 6th Floor Block A Yema Building No. 158 Kunming Road Urumqi Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit within a 27-storey building completed in or about 2006. The gross floor area of the property is approximately 1,811.65 square metres. The property is held under a tenancy agreement dated 3 July 2009 between 深圳星力投資顧問有限公司 (Shenzhen Xingli Investment Consultation Company Limited) as lessor and 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) as lessee for a term of 1 year from 3 July 2009 to 2 July 2010 at a yearly rent of HK$980,000 inclusive of furniture and management fee. The tenancy is not assignable. 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) 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.

(c) The tenancy agreement has not yet proceeded to register at the property leasing administration authority. There exists a risk that the lessor is liable for the administrative penalty.

No.	Property	Description and Occupancy	Market Value as at 30 April 2010 *(HK$)*
7.	Room 1807 Baixin Zuanshiyuan Beijing Nan Road Xinshi District 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 23 July 2009 between 夏紅艷 (Xia Hongyan) as lessor and 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) as lessee for a term of 1 year from 9 July 2009 to 9 July 2010 at a yearly rent of RMB18,600 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.

(c) The tenancy agreement has not yet proceeded to register at the property leasing administration authority. There exists a risk that the lessor is liable for the administrative penalty.

No.	Property	Description and Occupancy	Market Value as at 30 April 2010 (HK$)
8.	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 8 April 2009 between 金正 (Jin Zheng) as lessor and 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) as lessee for a term of 1 year from 16 June 2009 to 15 June 2010 at a yearly rent of RMB18,000 inclusive of furniture and management fee. Subsequent to the date of valuation, the tenancy agreement has been renewed on 15 June 2010 by which the property is leased for a further term of 1 year from 16 June 2010 to 15 June 2011 at a yearly rent of RMB18,000 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 renewed tenancy agreement is legal and binding.

(c) The renewed tenancy agreement has not yet proceeded to register at the property leasing administration authority. There exists a risk that the lessor is liable for the administrative penalty.

No.	Property	Description and Occupancy	Market Value as at 30 April 2010 (HK$)
9.	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 2010 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 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) as lessee for a term of 1 year from 1 January 2010 to 31 December 2010 at a yearly 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.

(d) The tenancy agreement has not yet proceeded to register at the property leasing administration authority. There exists a risk that the lessor is liable for the administrative penalty.

No.	Property	Description and Occupancy	Market Value as at 30 April 2010 (HK$)
10.	Room 1-3-202, Ancillary block 3 Yuxinhuayuan No. 12 Beijing Nan Road Xinshi District Urumqi Xinjiamg Uygur Autonomous Region The PRC	The property comprises a unit within a 6-storey building completed in about 2000. The gross floor area of the property is approximately 96.21 square metres. The property is held under a tenancy agreement date 23 April 2010 between 任麗 (Ren Li), anthorized by the owner 陳永利 (Chen Yongli), as lessor and 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Company Limited, "PRC Subsidiary A", a wholly-owned subsidiary of the Target Company) as lessee for a term of 1 year from 24 April 2010 to 23 April 2011 at a yearly rent of RMB18,000 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 owner 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.

(c) The tenancy agreement has not yet proceeded to register at the property leasing administration authority. There exists a risk that the owner is liable for the administrative penalty.

No.	Property	Description and Occupancy	Market Value as at 30 April 2010 (HK$)
11.	Room 201 in Unit 2 Block No. 3 Lihuajian Industry and Commerce Bureau Qitai County Xinjiang Ugyur Autonomous Region The PRC	The property comprises a unit within a 6-storey 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 2010 between 黃健明 (Wang Jianming) as lessor and 奇台縣澤旭商貿有限責任公司 (Qitai County Zexu Trading Company Limited, "PRC Subsidiary B", a wholly-owned subsidiary of the Target Company) as lessee for a term of 1 years from 1 January 2010 to 31 December 2010 at a yearly rent of RMB2,000 exclusive of utilities. The tenancy is not assignable. The property is currently occupied by PRC Subsidiary B as an office.	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 B.

(b) The tenancy agreement is legal and binding.

(c) The tenancy agreement has not yet proceeded to register at the property leasing administration authority. There exists a risk that the lessor is liable for the administrative penalty.

The following is the text of the competent person's report dated 27 July 2010 in respect of the Coal Mines prepared by the Competent Person for the purpose of inclusion in this circular.

John T. Boyd Company

Mining and Geological Consultants

Pittsburgh
4000 Town Center Boulevard,
Suite 300
Canonsburg, PA 15317
(724) 873-4400
(724) 873-4401 Fax
jtboydp@jtboyd.com

Denver
(303) 293-8988
jtboydd@jtboyd.com

Brisbane
61 7 3232-5000
jtboydau@jtboyd.com

Beijing
86 10 6500-5854
jtboydcn@jtboyd.com

London
44 208 748-5344 Tel/Fax

www.jtboyd.com

27 July 2010

Board of Directors
China Sonangol Resources Enterprise Limited
Suites 1003-1006, 10/F
Two Pacific Place
88 Queensway, Hong Kong

Subject: Competent Person's Report
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. 3420, Independent Technical Review, issued in June 2009) for the Kaiyuan and Zexu Openpit Coal Mine projects, which are located approximately 80 km north of Mulei County in Xinjiang Uygur Autonomous Region (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. 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

TABLE OF CONTENTS

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.
China Sonangol	China Sonangol Resources Enterprise Limited.
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	Stratum containing coal, also known as coal bed.
CPR	Competent Person's Report.

CV	Calorific value, heat content of the coal seam.
d	Dry basis, as in coal quality reporting.
daf	Dry, ash-free basis, as in coal quality reporting.
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, an environmental impact study is performed separately.
Fm	Formation.
FOB	Free-on-board, a mercantile term meaning that the seller is responsible for delivering goods to a specified location.
FSR	Feasibility Study Report, the document produced as a result of a feasibility study conducted by a Chinese design institute.
GAAP	Generally accepted accounting principles.

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.
Hr	Hour.
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.
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	Kaiyuan Openpit Coal Mine, owned and operated by Kaiyuan Company.
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.
Kcal/kg	Kilocalorie per kilogramme, measure of coal heat content.
km	Kilometer.
m	Meter.
m^2	Square meter.
m^3	Cubic meter.
Marketable Reserves	Saleable coal product from Recoverable Reserves after accounting for mining and processing losses.
Marketable Resources	Saleable coal product from recoverable resources, at specified moisture and after accounting for mining and processing losses. Reported in terms of Probable Marketable Coal Reserves or Proved Marketable Coal Reserves.
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. The locations are spaced closely enough to confirm geological and quality continuity.
MINCOM	MINCOM Limited, developer and marketer of geologic modeling and mine scheduling software.
Mine Plan	The current documentation of the state of development and exploitation of a deposit, including mining plans. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in economic viability as determined by operating costs and prices, application of relevant technology, environmental and 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 autonomous region authorities to conduct mining activities within the subject area, specifying mining elevations, coal seams, mining method, annual output level specified, holder of record, area boundary coordinates, and validity period.
MLR	Ministry of Land and Resources of the PRC.
mm	Millimeter.
Mt	Million tonnes.
Mtpa	Million tonnes per annum.
Non-caking Coal	Designation within the Chinese coal classification system (Code No. 31) for coals with volatile matter (daf basis) in the range of 24% to 37%, and no measureable caking index (G) value.
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.

PDR	Preliminary Design Report, official documented report of the final design study conducted by a recognized Chinese mine design institute. The Preliminary Design study is undertaken after an FSR has been issued for the subject project. The PDR is a more detailed, comprehensive version of the FSR and generally expands the FSR with additional mine planning analysis, includes detailed mine opening and construction plans for initial work to full production status, and serves as a guide for mine construction and development.
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, for example, tonnes per employee-year.

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.
Qgr.d	Gross calorific value or higher heating value on a dry basis.
Qnet.ar	Net calorific value or lower heating value on an as-received basis.
Qnet.d	Net calorific value or lower heating value on a dry basis.
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 coal processing. Refers to that portion of the coal seam that can be recovered with the mining techniques specified in the feasibility or design study. The portion of in-place seam tonnage recovered during the mining but before OSD and coal processing consideration.
Recoverable Resources	Tonnage after mining recovery, mining dilution, and moisture gain factors have been applied. Tonnages are classified as resources because the mining rights have not been obtained.
Reverse Fault	The hanging wall has moved upward along the fault plane relative to the footwall.
RMB	Renminbi – Chinese currency.

ROM	Run-of-mine, the as-mined material as it leaves the mine site.
Saleable Product	May include varying proportions of raw and clean coal.
SEHK	The Stock Exchange of Hong Kong.
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).
Temporary Personnel	Workers employed on a temporary basis at a mining operations to perform specific construction or maintenance tasks. These workers are not reflected in mine employment figures.
Tonne	Metric ton, equal to 1,000 kilograms.
tpd	Tonnes-Per-Day.
tph	Tonnes-Per-Hour.
VM	Volatile Matter, characteristic for coal quality reporting.
Whittle	Whittle (Version 4.0) by Gemcom Software International Inc.
Xinjiang	Xinjiang Uygur Autonomous Region of the People's Republic of China.
Zexu	Zexu Openpit Coal Mine, greenfield status, exploration rights held by Zexu Company.
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 June 2010 by China Sonangol Resources Enterprise Limited (China Sonangol) to complete a competent person's report ("CPR") 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 CPR report (Report No. 3420) for the two mines for Artfield Group Limited (Artfield) (former name of China Sonangol) to support a Material Acquisition filing on The Stock Exchange of Hong Kong (SEHK). China Sonangol, proposes to acquire 49% of the enterprise not already controlled by the company.

A profile of the Kaiyuan and Zexu openpit coal mine projects is as follows:

- Kaiyuan Openpit Coal Mine is currently in operation and Mulei County Kaiyuan Coal Company Limited (Kaiyuan Company) owns and operates the mine. Mine expansion is complete; output capacity is under review and verification.

- Detailed exploration at the greenfield Zexu Openpit Coal Mine area is completed.

- The Kaiyuan design capacity is 0.9 Mtpa; however, the mine produced nearly 3 Mt in 2009. For 2010, output of 1.5 Mt. is projected.

- The Zexu design capacity is also 0.9 Mtpa; expansion to higher output capacity of 1.5 to 1.8 Mtpa is under consideration.

- Kaiyuan Company controls the Mining Rights and Qitai County Zexu Trading Company Limited (Zexu Company) controls the Exploration Rights to their respective resource areas.

- Principal coal seams 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 BN 31 classification).

- Processing is limited to screening (there are no plans for washing the coal). Coal is 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 (2010-2015) 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 reflect mining activity (coal removal) through 31 March 2010; Zexu resources and exploration data 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. In our opinion, the level of economic review was adequate to validate there is reasonable expectation that the reported reserves are economically mineable. However, we did not perform any life-of-mine projections or any discounted cash flow calculations. This report is prepared in accordance with public filing requirements for the SEHK Chapter 18 rules.

1.3 Work Program

A comprehensive list of required source data was forwarded to China Sonangol upon initiating project preparation work in June 2010, with information provided to BOYD's Beijing office.

During the course of this study, a two-member team of BOYD's China technical specialists in coal mining completed a site visit from 9 to 11 June 2010. 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.

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.

9. **Environmental Impact Assessment Report of Kaiyuan Mine Expansion Project**, February 2007, as prepared by the Environmental Protection Technology Consulting Center of Xinjiang Uygur Autonomous Region, PRC.

Supplemental data for Kaiyuan included in the following:

- Detailed exploration resource estimation maps.

- Surveyed monthly pit status with corresponding tonnages.

- Primary earthmoving equipment list.
- Screening plant modification flowsheet and parameters, etc.
- Financial data for 2008, 2009 and YTD March 2010.
- Raw coal quality test reports.
- Environmental and water resource data.
- Plans for future equipment replacement.
- Mine safety related data.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this CPR was provided by Kaiyuan and Zexu companies, the basis of our professional opinion is founded on technical expertise and broad Chinese and international experience of the contributing BOYD team members. To ensure our interpretation of the Kaiyuan Openpit Coal Mine data was reasonable, follow-up discussions were conducted with company representatives after our initial analysis to confirm our findings and, where necessary, to compile additional information.

The findings and conclusions presented in this CPR are supported by the text, tables, and figures contained herein.

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 39 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 29 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 33 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. Rongjie (Jeffrey) 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.

Dr. Zhiqiang (Andrew) Wang – Mining Engineer, Ph.D. (Mining Engineer)

Dr. Wang has one year of mining industry experience.

Mr. Tao Liang Zhong – Environmental Associate

Mr. Tao has over 40 years experience in the mining industry, much of it performing 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, where 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
- Asset appraisals
- Fuel and energy supply planning
- Minerals industry restructuring
- Permitting and environmental analysis
- Privatization studies
- Contract negotiations
- Geologic, reserve and mine plan modeling
- Market and transport analysis
- Exploration design and supervision
- Economic feasibility studies and valuations
- Reserve and geotechnical studies
- Assessment of existing operations
- Technical assistance in legal matters
- Strategic business planning
- Monitoring of operating companies
- Transport issues
- 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 a CPR for MP Logistics International Holdings Limited's (Ming Kei Energy Holdings Limited) acquisition of two openpit mines in Xinjiang Uygur Autonomous Region that are the subject of this report and subsequently for Artfield Group Limited's acquisition of these same assets from Ming Kei Energy Holdings Limited, a CPR for Fushan International Energy Group Limited's acquisition of Fortune Dragon Group Limited mines in Shanxi Province, and a CPR for GCL-Poly Energy Holdings Limited for its acquisition of the Duolun Mine in Inner Mongolia Autonomous Region. Our Chinese non-coal projects include the CPR for the Lumena Resources Corporation IPO on the SEHK.

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. BOYD is not a group, holding or associated company of the Company. None of the firm's partners or officers are officers or proposed officers of any group, holding or associated company of the Company. 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 China Sonangol. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by China Sonangol. BOYD has not been indemnified by China Sonangol for this assignment.

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 Risk Assessment section.

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 CPR 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. We are not aware of material changes in the circumstances of these companies since submission of our CPR.

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

Rongjie (Jeffrey) Li
Geologist

Zhiqiang (Andrew) Wang
Mining Engineer

Jisheng (Jason) Han
Mining Engineer

Paul D. Anderson
Director of Geological Services

David Zhong
Managing Director – China

James F. Kvitkovich
Vice President

Ronald L. Lewis
Managing Director and
Chief Operating Officer

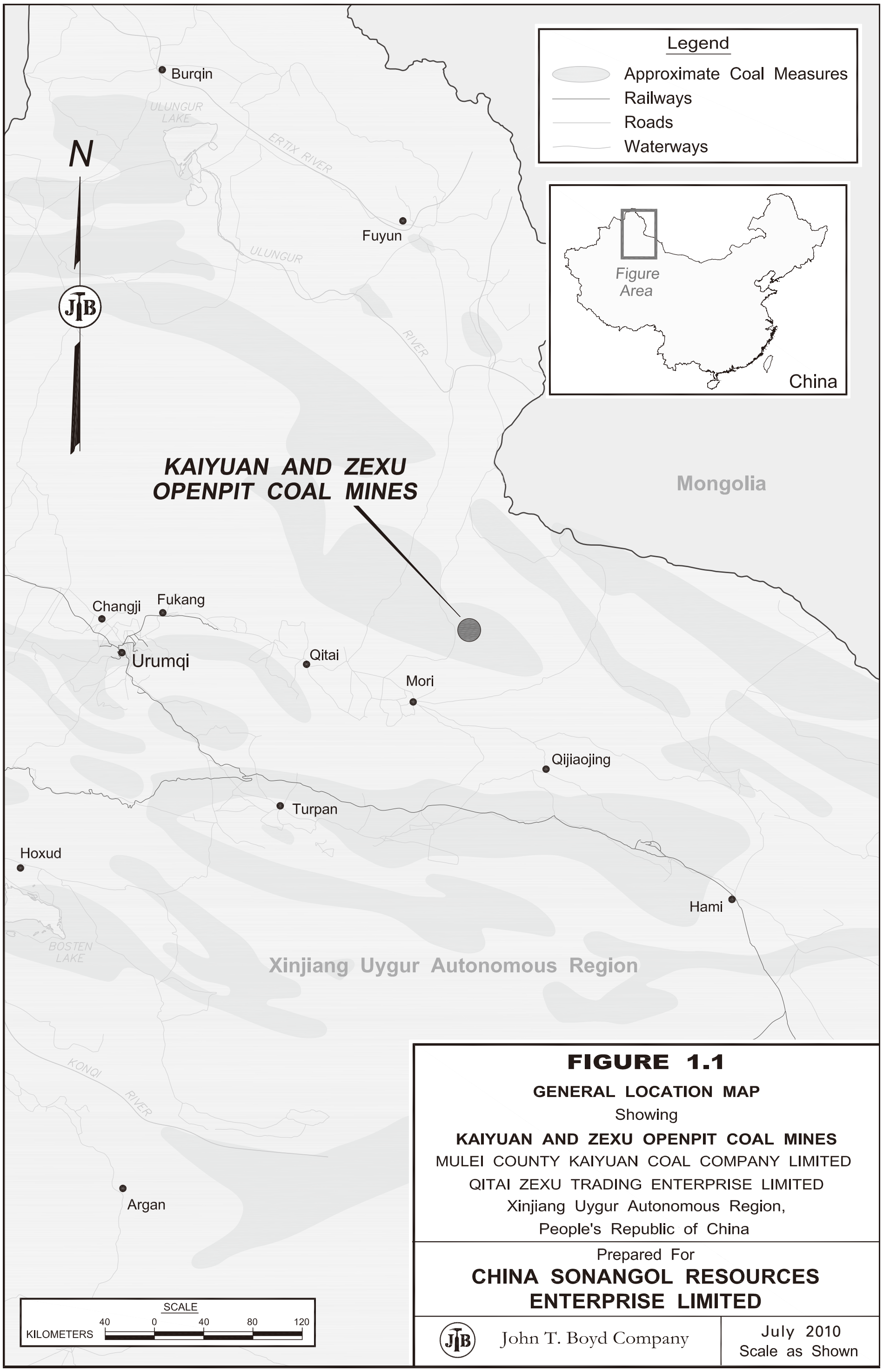


FIGURE 1.1

GENERAL LOCATION MAP

Showing

KAIYUAN AND ZEXU OPENPIT COAL MINES

MULEI COUNTY KAIYUAN COAL COMPANY LIMITED

QITAI ZEXU TRADING ENTERPRISE LIMITED

Xinjiang Uygur Autonomous Region,

People's Republic of China

Prepared For

CHINA SONANGOL RESOURCES ENTERPRISE LIMITED

John T. Boyd Company

July 2010

Scale as Shown

2.0 SUMMARIZED FINDINGS

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.

2.1 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, with 0.9 Mtpa design capacity, is projected to produce 1.5 Mt in 2010. Zexu Openpit Coal Mine was in greenfield status and Zexu Company holds the Exploration Rights to this area. The mining and exploration rights are summarized 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	2009/10	2011/10

OP = Open Pit

2.2 Conclusion

Our independent coal resource assessment concludes that the Kaiyuan mining rights area has 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 study areas, and reviewed mine plans, technical operating factors, and economic projections. We conclude that Zexu exploration right area has significant coal resources meeting JORC classification standards; however, estimated coal tonnages are reported as resources because the mining rights for the area have not been acquired.

Estimated reserves in the mining right area of Kaiyuan Openpit Coal Mine total 19.0 million marketable tonnes at an average stripping ratio of 0.9 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 25.7 million m^3 of re-handle material).

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 historical mining activity. 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. In making this determination, we have relied upon coal pricing provided by Kaiyuan Company.

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 and we have classified our estimates as resources.

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 31 March 2010			% of Total	Overburden (millions m^3)	Stripping Ratio (m^3/t)
		Proved	Probable	Total			
		North of Current Pit (Potentially Oxidized)					
B_2	13.1	–	4.58	4.58	100	5.23	1.1
		Mine Plan Area					
B_3	10.8	3.57	–	3.57	25	5.82	1.6
B_2	19.6	10.86	–	10.86	75	6.44	0.6
Total		14.43	–	14.43	100	12.26	0.8*
		Total					
B_3	10.8	3.57	–	3.57	19	5.82	1.6
B_2	17.7	10.86	4.58	15.44	81	11.67	0.8
Total		14.43	4.58	19.01	100	17.49	0.9*

* *Average reflecting total cubic meters of overburden and coal tonnage.*

Approximately 75% of the total reserves are classified as Proved.

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) As of 31 March 2010			Overburden (millions m^3)	Stripping Ratio (m^3/t)	% of Resources
		Measured	Indicated	Total			
			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.*

2.4 Coal Quality

2.4.1 Kaiyuan

Coal quality characteristics for Kaiyuan Mine as compiled from the Exploration Report are as follows:

Seam	% of Resources	M ad (%)	Ash d (%)	Volatile Matter daf (%)	Sulfur t.d (%)	Qnet.d (Kcal/kg)
B_3	19	8.2	10.9	35.4	0.59	5,940
B_2	81	10.6	7.1	34.3	0.59	6,330
Weighted Average	100*	10.1	7.8	34.5	0.59	6,260

* *Total*

BOYD's coal quality projections on an as received basis for the Kaiyuan Openpit Coal Mine reserves are as follows:

Average Product Coal Quality (15% Moisture Basis)

Seam	% of Resources	Ash (%)	Volatile Matter (%)	Sulfur (%)	Q.net (Kcal/kg)
B_3	19	11.2	26	0.50	4,880
B_2	81	6.6	26	0.52	5,370
Weighted Average	100*	7.4	26	0.51	5,280

* *Total*

2.4.2 Zexu

Coal quality characteristics for Zexu Mine area compiled from the Exploration Report are as follows:

Coal Quality – Geologic Report Basis

Seam	% of Resources	M ad (%)	Ash d (%)	Volatile Matter daf (%)	Sulfur t.d (%)	Qnet.d (Kcal/kg)
B_7	17	8.2	9.3	30.4	0.69	6,160
B_6	6	7.3	7.0	30.4	0.54	6,350
B_5	14	8.2	12.8	32.9	0.51	5,901
B_4'	1	6.6	16.7	34.4	0.24	5,683
B_4	14	7.8	14.4	33.5	0.27	5,830
B_3	13	7.2	8.7	33.0	0.34	6,310
B_2	35	6.7	6.4	33.8	0.22	6,580
Weighted Average	100*	7.5	9.3	32.8	0.38	6,250

* *Total*

BOYD's coal quality projections on an as-received basis for the Zexu Openpit Coal Mine Exploration Rights area are as follows:

Average Product Quality (15% Moisture Basis)

Seam	% of Resources	Ash (%)	Volatile Matter (%)	Sulfur (%)	Qnet.ar (Kcal/kg)
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*

2.5 Current Mine Status

The current status of the Kaiyuan Openpit Coal Mine operation was observed to be well advanced by BOYD representatives during our June 2010 site visit. 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 high standards of work (e.g., uniform highwalls, orderly bench development, etc.). Mining and stripping operations were outsourced to local independent mining contractors (for blasting and stripping, coal mining and coal handling) with ownership of all major equipment in the earthmoving fleet transferred to the contractors. The mine site equipment included four units of 50 m/h drill rigs, seven 1.5 m^3 excavators, two 1.6 m^3 excavators, seven 1.8 m^3 excavators, and eighty-eight rear-dump trucks (18-22 m^3 capacity) for stripping and coal loading operations. The mine operation appeared to be capable of supporting the current 1.5 Mtpa output level.

Zexu Openpit Coal Mine was in greenfield status at the time of BOYD's site visit to Kaiyuan Mine in June 2010.

2.6 Mine Design and Operation

2.6.1 Kaiyuan Openpit Coal Mine

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. 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 2010 representing approximately 32% 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; in March 2010, the stripping ratio was 1:0.9.

Due to an accelerated program implemented by Kaiyuan Company to enhance production in response to local government mandate, the proposed stripping/mining schedule for earthmoving and coal loading has been increased by a factor of two to three times in order to support substantially higher output levels in 2008 and 2009.

A summary of historical output tonnages is as follows:

Period	**Output** *(Mt)*
2007	0.81
2008	1.80
2009	3.06

2.6.2 Zexu Openpit Coal Mine

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, projected 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.

2.7 Economic Analysis

2.7.1 Kaiyuan Openpit Coal Mine

2.7.1.1 Mine Output

The current equipment fleet has sufficient capacity to achieve overburden stripping and coal loading requirements for an annual coal output of 1.5 Mt in 2010. According to Kaiyuan Company, the 3.06 Mtpa output capacity in 2009 was 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 a local government mandate requesting higher mine output levels. Output levels in 2010 and beyond projected at 1.5 Mtpa are reasonable and attainable.

2.7.1.2 Labor Force

Staffing in March 2010, according to Kaiyuan Company, was as follows:

Category	Number of Employees
Contractors	
Stripping	140
Mining	50
Coal handling	12
Subtotal	202
Kaiyuan Company	85
Total	287

2.7.1.3 Capital Expenditures

A breakdown of actual and projected capital spending is as follows:

Category	Capital Spending *(RMB-millions)*
Initial Construction/Expansion	
Spent (through March 2010)	63.15
Future (through 2015)	7.50
Subtotal	70.65
Original Investment	27.00
Total	97.65

The table above shows RMB7.5 million in future through 2015 (RMB1.5 million per year) capital expenditure after 2010. 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 1.5 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. Since mining and stripping operations are outsourced, no provisions have been made for replacement of production equipment.

2.7.1.4 Operating Costs

Historical operating costs are as follows:

	2006	2007	2008	2009	Jan. – Mar. 2010
Output (Mt)	0.25	0.81	1.80	3.06*	0.65
			RMB/Raw Tonne		
Cash Operating Cost	21.8	31.8	37.4	46.2	45.8

* *Coal sold was 2.1 Mt and the cash operating cost was on the 2.1 Mt basis.*

A breakdown of the 2009 operating costs (based on 2.1 Mt of coal sold) as reported by Kaiyuan Company is as follows:

Category	**Cost in 2009**	
	RMB/t	*RMB (millions)*
Direct Cash Operating Cost		
Stripping	18.5	38.9
Mining	8.5	17.9
Coal handling	3.0	6.3
Screening	2.0	4.2
Coal handling losses	3.0	6.3
Safety	3.0	6.3
Government fee	2.0	4.2
Mining right fee	1.5	3.2
Miscellaneous	0.7	1.5
Resource Compensation Fee	1.0	2.1
Resource Tax	3.0	6.3
Subtotal–Direct Cash Cost	46.2	97.2
Indirect Operating Cost		
Administrative Expenses	3.5	7.3
Selling & Distribution Expenses	0.6	1.3
Subtotal–Indirect Operating Cost	4.1	8.6
Total	50.3	105.8

Kaiyuan Company's 2010-2015 operating cost projection is as follows:

	Apr. – Dec. 2010	2011	2012 – 2015
Coal Output (Mt)	0.85	1.50	1.50
Coal Sold (Mt)			
Large Size	0.14	0.24	0.24
Middle Size	0.29	0.51	0.51
Small Size	0.14	0.25	0.25
Slack	0.26	0.46	0.46
Mixed	0.02	0.03	0.03
Total	0.85	1.50	1.50
Avg. Price (RMB/tonne)	73	80	88
Revenue (RMB-millions)	61.74	120.31	132.34
Cost of Sales (RMB/tonne)			
Direct Operating	40.00	40.0	40.0
Fees & Taxes	8.5	8.5	8.5
Miscellaneous	1.3	1.0	1.0
Mine Cash Cost	49.8	49.5	49.5
Indirect Operating Costs	7.0	6.3	6.4
Total	56.8	55.8	55.9

2.7.2 Zexu Openpit Coal Mine

2.7.2.1 Mine Output

According to the FSR, a 0.9 Mtpa coal output design capacity is planned for the Zexu Openpit Coal Mine. Zexu Company is also considering expanding the Zexu Openpit Coal Mine design capacity to the range of 1.5 Mtpa to 1.8 Mtpa.

2.7.2.2 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.

2.7.2.3 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 provided in the FSR. We anticipate that the stripping equipment, coal loading equipment, and support equipment will be replaced on 12-year cycles.

2.7.2.4 Operating Costs

At raw coal output of 0.9 Mtpa, the FSR (issued in 2007) projects Zexu Openpit Coal Mine operating costs, as follows:

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 at 0.90 Mtpa output is as follows:

Category	**RMB/Tonne**
Direct Operating	48.0
Fees & Taxes	7.0
Miscellaneous	5.0
Mine Cash Cost	60.0
Indirect Operating Costs	8.0
Total	68.0

2.7.3 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 market for Kaiyuan Openpit Coal Mine and Zexu Openpit Coal Mine output is anticipated. First quarter 2010 prices for coal (excluding fine coal and raw coal) for Kaiyuan approximate RMB68 to RMB73 per tonne (net of VAT). Mine cash margins are projected at RMB11 to RMB16 per tonne based on data provided by the company. BOYD concludes there is reasonable expectation that the estimated coal reserves can be economically mined.

2.8 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. The projected Kaiyuan expansion to 0.9 Mtpa has passed the environmental protection check and approval by the Environmental Protection Bureau of Mulei County. It is BOYD's opinion that planned and implemented environmental protection measures will adequately satisfy the need for environmental protection during mine operation at 0.9 Mtpa. However, no environmental impact assessment has not been performed for the planned 1.5 Mtpa output level. Environmental protection measures planned for Zexu openpit coal mine 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 and in June of 2010, 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	2009/10	2011/10

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 proposed 0.9 Mtpa expansion project has been included in the 11th five-year plan of Xinjiang Uygur Autonomous Region's coal industry (Coal Industrial Management Bureau reference [2007] 304, 18 June 2007). The application had not been approved as of the date of this report. Kaiyuan plans to operate at 1.5 Mtpa for the year 2010 and the years onward.

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 consist 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 which 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 B_3 seam. In the Kaiyuan Openpit Coal mine mining rights area, only the lower section of the coal sequence is present (seams B_2 and B_3); 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 sub-economic 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.

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 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 fall within the Measured and Indicated categories. Figures 3.1 through 3.4, following this text, show the location of the drill holes 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 spacing used in this study are conservative, but appropriate, and provide the required level of geological assurance.

Estimates of Measured and Indicated 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 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. Model anomalies were checked and corrected as needed.

The Kaiyuan and Zexu openpit coal mines' coal resource geologic models are developed on 20-m grid spacing. MINCOM's finite element method (FEM) interpolation was used to estimate grid values. After the in situ model are validated, estimates of in situ resource estimates are 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, updated for mining through March 2010. 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.

BOYD defined the extent of mineable resource areas using a minimum seam thickness (coal and parting) of 1.0 m. In-seam partings greater than 0.5 m were considered removable and excluded from the ROM tonnage estimate.

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 reported verbal agreement with the adjacent mineral holder to the south to allow the pit slope to extend from the B_2 seam at 40 degrees to the surface. In this case, 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 B_2 to be left by Zexu within their area for future mining by the adjacent mining right holder).

A 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 irregular configuration 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 Kaiyuan evaluation demonstrate that the resources within the openpit mine plan area are economically mineable. 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.

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 31 March 2010 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	5.23	1.1
		Mine Plan Area					
B_3	10.8	3.57	–	3.57	25	5.82	1.6
B_2	19.6	10.86	–	10.86	75	6.44	0.6
Total		14.43	–	14.43	100	12.26	0.8*
		Total					
B_3	10.8	3.57	–	3.57	19	5.82	1.6
B_2	17.7	10.86	4.58	15.44	81	11.67	0.8
Total		14.43	4.58	19.01	100	17.49	0.9*

* *Average reflecting total cubic meters of overburden and coal tonnage.*

Over 75% 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)	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 B_7 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 (BN31) and the coal rank using the American Society for Testing Materials (ASTM) is Bituminous B. The coal is 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.

3.8.1 Kaiyuan

Coal quality characteristics for Kaiyuan Mine as compiled from the Exploration Report are as follows:

Seam	% of Resources	M ad (%)	Ash d (%)	Volatile Matter daf (%)	Sulfur t.d (%)	Qnet.d (Kcal/kg)
B_3	19	8.2	10.9	35.4	0.59	5,940
B_2	81	10.6	7.1	34.3	0.59	6,330
Weighted Average	100*	10.1	7.8	34.5	0.59	6,260

* *Total*

BOYD coal quality projections on an as received basis for the reserves underlying the Kaiyuan Openpit Coal Mine area are:

Average Product Coal Quality (15% Moisture Basis)

Seam	% of Resources	Ash (%)	Volatile Matter (%)	Sulfur (%)	Qnet.ar (Kcal/kg)
B_3	19	11.2	26	0.50	4,880
B_2	81	6.6	26	0.52	5,370
Weighted Average	100*	7.4	26	0.51	5,280

* *Total*

3.8.2 Zexu

Coal quality characteristics for Zexu Mine as compiled from the Exploration Report are as follows:

Coal Quality – Exploration Report Basis

Seam	% of Resources	M ad (%)	Ash d (%)	Volatile Matter daf (%)	Sulfur t.d (%)	Qnet.d (Kcal/kg)
B_7	17	8.2	9.3	30.4	0.69	6,160
B_6	6	7.3	7.0	30.4	0.54	6,350
B_5	14	8.2	12.8	32.9	0.51	5,901
B_4'	1	6.6	16.7	34.4	0.24	5,683
B_4	14	7.8	14.4	33.5	0.27	5,830
B_3	13	7.2	8.7	33.0	0.34	6,310
B_2	35	6.7	6.4	33.8	0.22	6,580
Weighted Average	100*	7.5	9.3	32.8	0.38	6,250

* *Total*

BOYD's coal quality projections on an as-received basis 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 (%)	Qnet.ar (Kcal/kg)
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*

By PRC field exploration protocols, all coal seam core samples exclude individual in-seam partings measuring 0.05 m or greater in thickness, and clean coal qualities are completed at a 1.4 specific gravity. In actual practice, the total coal seam is mined (with some thicker partings selectively removed in some cases) and raw coal is processed (washed) at gravities higher than 1.4. 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

3.1: Coal Reserve Estimate, Kaiyuan Openpit Coal Mine

3.2: Coal Resource Estimate, Zexu Openpit Coal Mine Exploration Rights Area

Figures

3.1: Map Showing Kaiyuan Openpit Coal Mine and Surface Facilities

3.2: Cross Section 1-1′ Kaiyuan Openpit Coal Mine

3.3: Map Showing Zexu Openpit Coal Mine and Surface Facilities

3.4: Cross Section 2-2′ Zexu Openpit Coal Mine

TABLE 3.1

	As of 31 March 2010								
	In-Place Resources (Mt)			Recoverable Reserves (Mt)				Stripping	
Seam	Measured	Indicated	Total	Proved	Probable	Total	Burden (M m^3)	Ratio (m^3t)	% of Resources
				North of Current Pit (Potentially Oxidized)					
B_2	–	5.39	5.39	–	4.58	4.58	5.23	1.1	100
				Mine Plan Area					
B_3	4.20	–	4.20	3.57	–	3.57	5.82	1.6	25
B_2	12.78	–	12.78	10.86	–	10.86	6.44	0.6	75
Total	16.98	–	16.98	14.43	–	14.43	12.26	0.8*	100
				Total					
B_3	4.20	–	4.20	3.57	–	3.57	5.82	1.6	19
B_2	12.78	5.39	18.16	10.86	4.58	15.44	11.67	0.8	81
Total	16.98	5.39	22.36	14.43	4.58	19.01	17.49	0.9*	100

* *Average*

TABLE 3.2

Seam	As of 31 March 2009 In-Place Resources (Mt) Measured	Indicated	Total	Recoverable Reserves (Mt) Measured	Indicated	Total	Overburden Waste Rock (M m^3)	Stripping Ratio (m^3t)	% of 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*	1 00
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*	1 00

* *Average*

Note: The 189.83 million m^3 of overburden waste rock for the B_7 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 overying Districts 2 and 3 (which must be removed prior to mining).

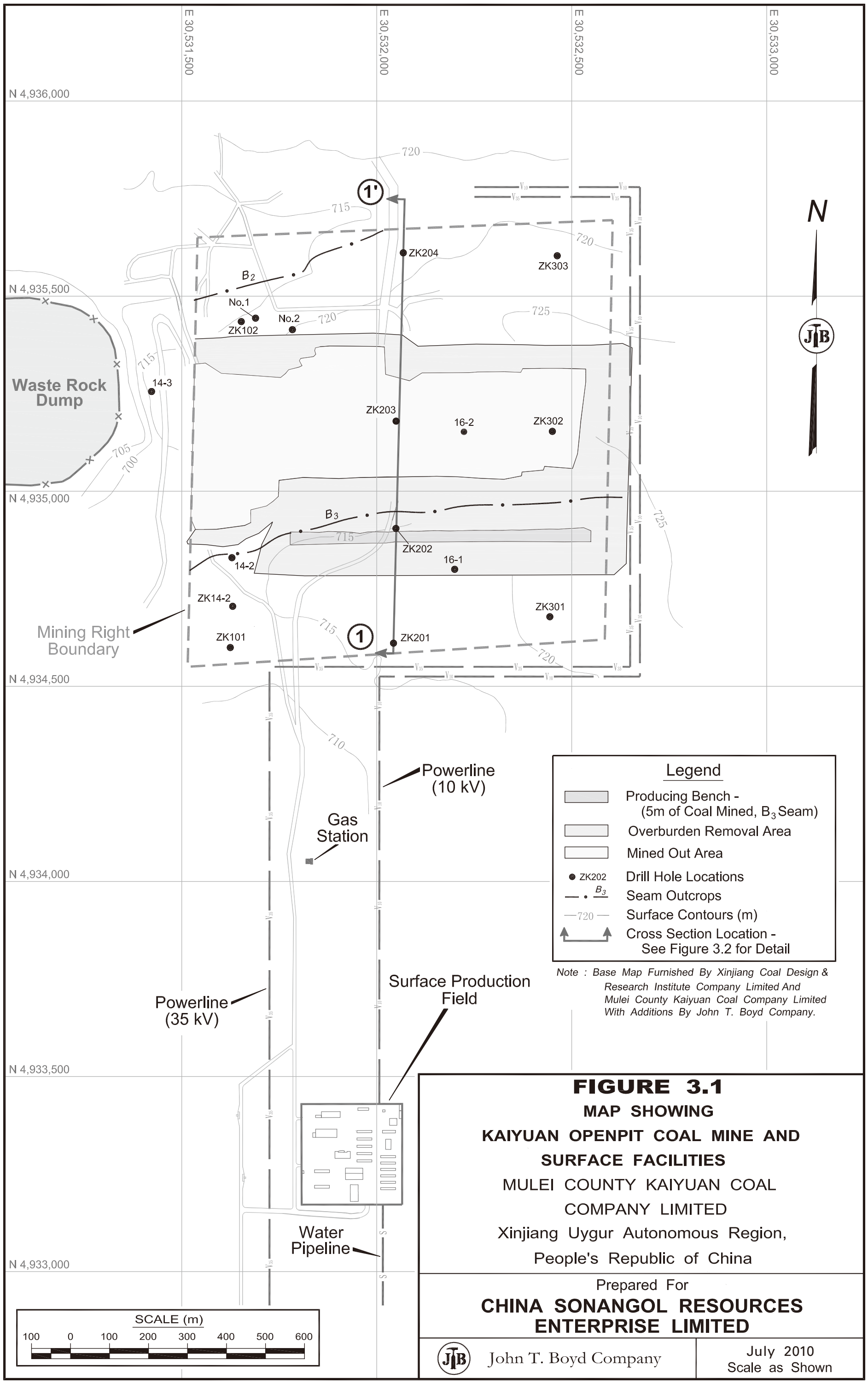


FIGURE 3.1

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

CHINA SONANGOL RESOURCES ENTERPRISE LIMITED

John T. Boyd Company

July 2010
Scale as Shown

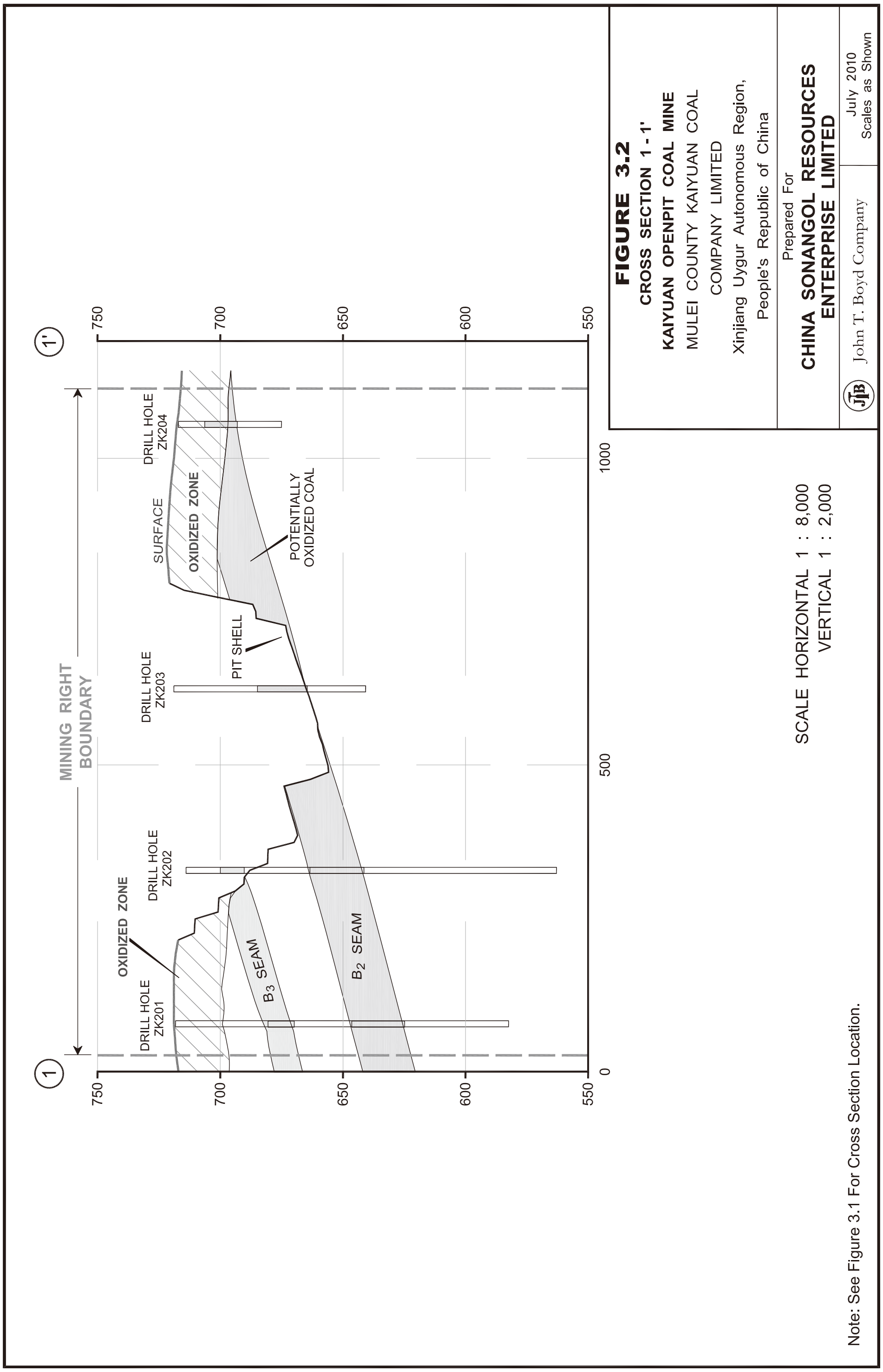


FIGURE 3.2
CROSS SECTION 1 - 1'
KAIYUAN OPENPIT COAL MINE
MULEI COUNTY KAIYUAN COAL COMPANY LIMITED
Xinjiang Uygur Autonomous Region, People's Republic of China
Prepared For
CHINA SONANGOL RESOURCES ENTERPRISE LIMITED
John T. Boyd Company
July 2010
Scales as Shown
MINING RIGHT BOUNDARY
DRILL HOLE ZK201
DRILL HOLE ZK202
DRILL HOLE ZK203
DRILL HOLE ZK204
OXIDIZED ZONE
SURFACE
PIT SHELL
POTENTIALLY OXIDIZED COAL
B3 SEAM
B2 SEAM
SCALE HORIZONTAL 1 : 8,000
VERTICAL 1 : 2,000
Note: See Figure 3.1 For Cross Section Location.

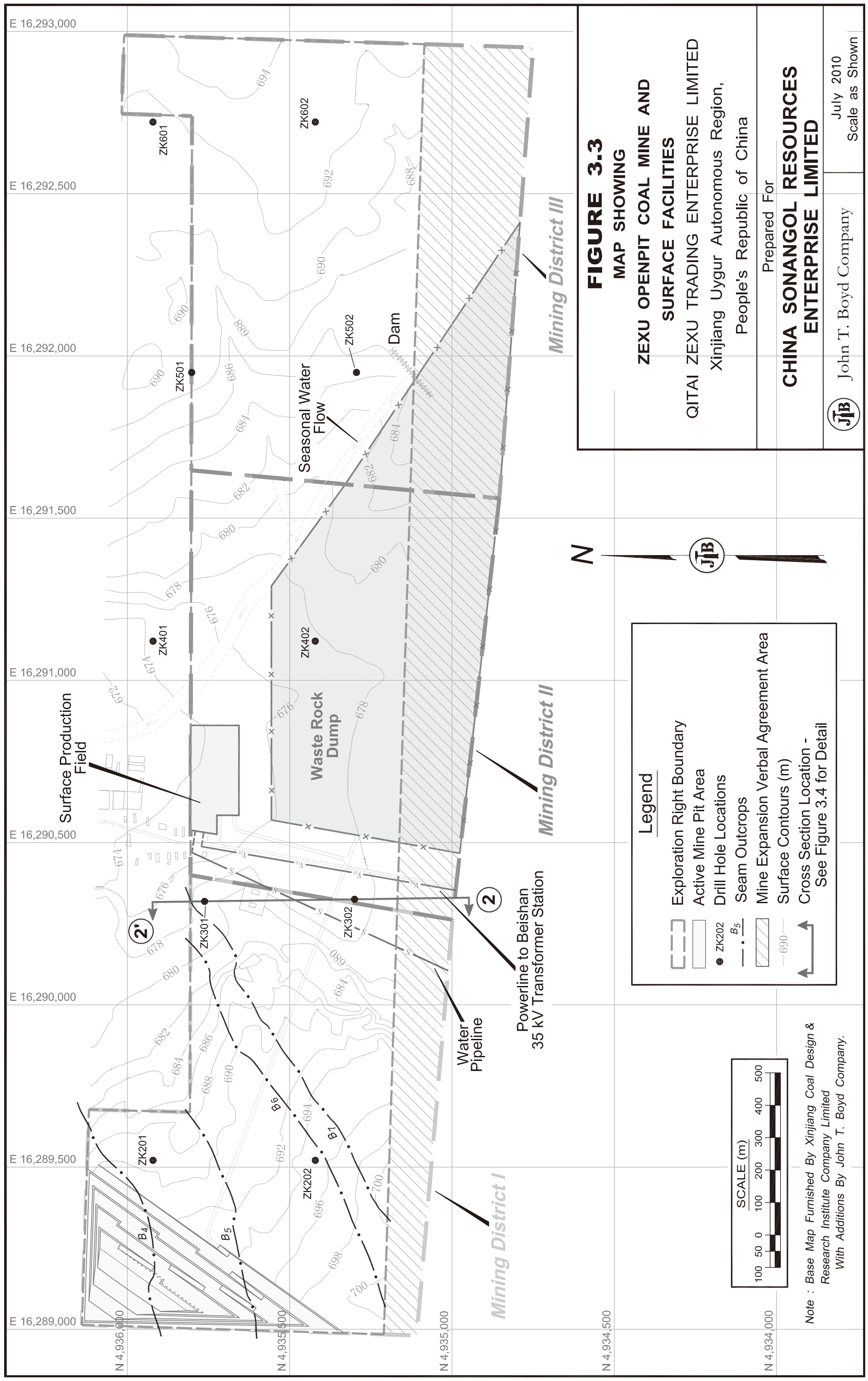


FIGURE 3.3
MAP SHOWING
ZEXU OPENPIT COAL MINE AND
SURFACE FACILITIES
QITAI ZEXU TRADING ENTERPRISE LIMITED
Xinjiang Uygur Autonomous Region,
People's Republic of China
Prepared For
CHINA SONANGOL RESOURCES
ENTERPRISE LIMITED
John T. Boyd Company
July 2010
Scale as Shown
Legend
Exploration Right Boundary
Active Mine Pit Area
Drill Hole Locations
Seam Outcrops
Mine Expansion Verbal 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.
Mining District I
Mining District II
Mining District III
Waste Rock Dump
Surface Production Field
Seasonal Water Flow
Dam
Water Pipeline
Powerline to Beishan 35 kV Transformer Station
N

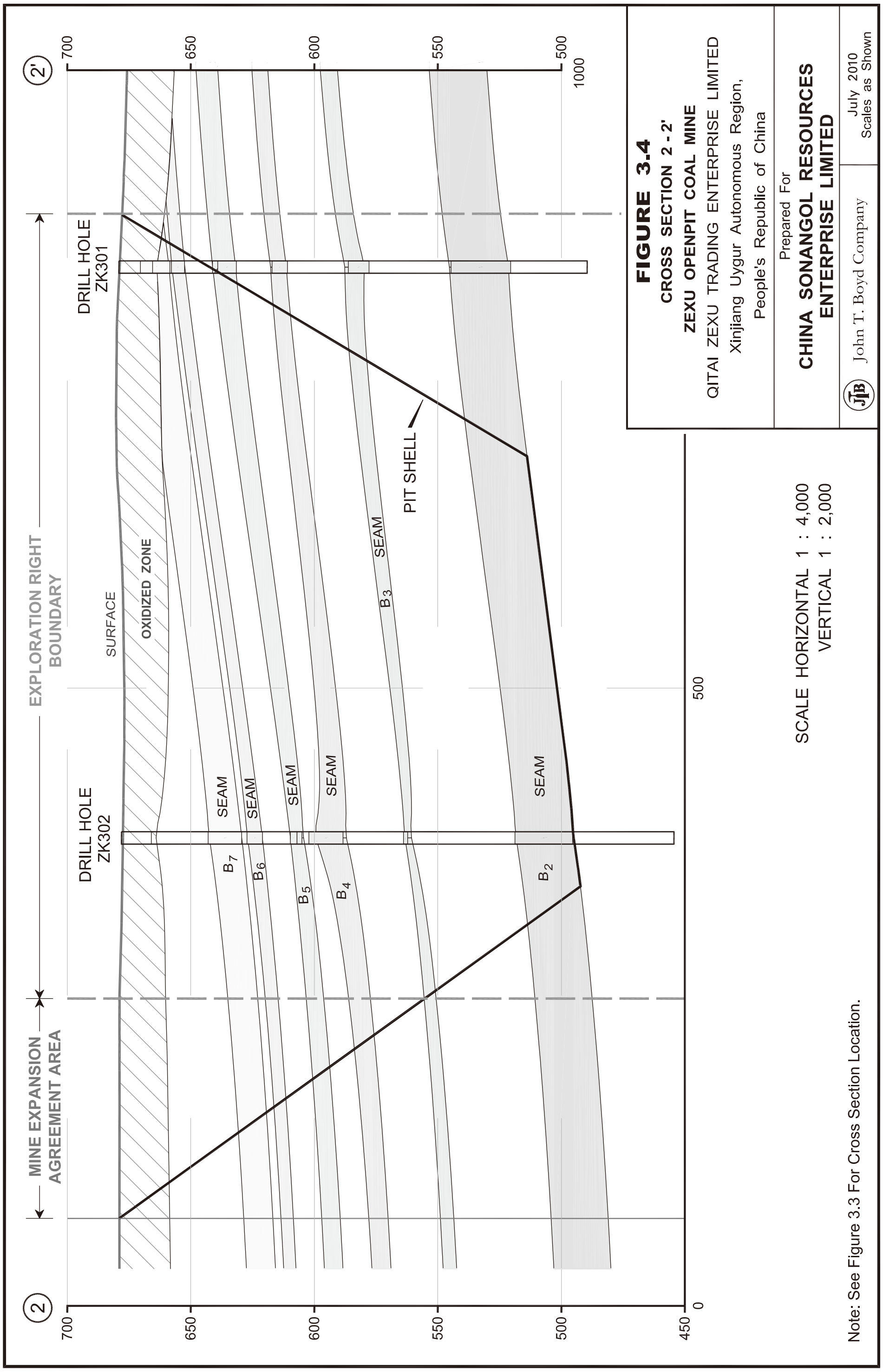


FIGURE 3.4
CROSS SECTION 2 - 2'
ZEXU OPENPIT COAL MINE
QITAI ZEXU TRADING ENTERPRISE LIMITED
Xinjiang Uygur Autonomous Region,
People's Republic of China
Prepared For
CHINA SONANGOL RESOURCES ENTERPRISE LIMITED
John T. Boyd Company
July 2010
Scales as Shown
SCALE HORIZONTAL 1 : 4,000
VERTICAL 1 : 2,000
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
B7 SEAM
B6 SEAM
B5 SEAM
B4 SEAM
B3 SEAM
B2 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 proposed 0.9 Mtpa expansion project has been included in the 11th five-year plan of Xinjiang Uygur Autonomous Region's coal industry (Coal Industrial Management Bureau reference [2007] 304, 18 June 2007). 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.

Review of the Kaiyuan Openpit Coal Mine presented in this section is mainly based on the FSR and other information provided to BOYD during our mine site visit on 9 to 11 June 2010 and in follow-up communications. Our initial visit to Kaiyuan Mine was in June 2007; a subsequent visit occurred in March 2009. Kaiyuan Openpit Coal Mine produced 3.06 Mt in 2009 (of which 2.1 Mt was sold). Output for calendar year 2010 and the period 2011 to 2015 is projected at 1.5 Mtpa. Output from the mine is screened and sold on a raw or ROM coal basis.

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 alluvial 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 installed 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). 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	30.49	22.49
630	2.19	4.39	32.68	26.88
620	–	0.13	32.68	27.01

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

Since opening, mining has progressed 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 660 to 670 m B_2 Seam floor elevations, with the B_2 Seam coal removed through the end of March 2010 representing approximately 32% 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; in March 2010, the stripping ratio was 1:0.9.

Due to an accelerated program implemented by Kaiyuan Company to enhance production in response to local government mandate, the proposed stripping/mining schedule for earthmoving and coal loading has been increased by a factor of two to three times in order to support substantially higher output levels in 2008 and 2009.

A summary of historical output tonnages is as follows:

Period	**Output** *(Mt)*
2007	0.81
2008	1.80
2009	3.06

Coal output in 2010 is projected at 1.5 Mt.

4.1.4 Mining Method and Mining Equipment

4.1.4.1 Mining Technology

Based on the geologic conditions at Kaiyuan Openpit Coal Mine, hydraulic 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 ROM 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 the time of BOYD's site visit on 9 to 11 June 2010, mining and stripping operations had been outsourced to local independent mining contractors (one for stripping, one for mining and one for coal loading) with ownership of all major earthmoving fleet transferred the contractors. The mine site equipment included four units of 50 m/h drill rigs, seven 1.5 m^3 excavators, two 1.6 m^3 excavators, seven 1.8 m^3

excavators, and eighty-eight rear-dump trucks (18-22 m^3 capacity) for stripping and coal loading operations. A list of the main stripping, mining and loading equipment is shown as follows:

Usage	Equipment	Model	Year Purchased	Quantity	Capacity
Stripping	Rear Dump Truck	Jingwangzi	2008	10	20 m^3
	Rear Dump Truck	Delong	2009	50	22 m^3
	Excavator	Hitachi 330	2009	3	1.5 m^3
	Excavator	Hitachi 360	2009	5	1.8 m^3
	Excavator	Hitachi 450	2009	1	2 m^3
	Hydraulic Breaker	240	2009	1	500 t
	Front-End Loader	Liugong 856	2006	2	3.6 m^3
	Downhole Drill	Xuanhua	2009	2	50 m/h
Mining	Downhole Drill	Japan	2007	1	50 m/h
	Downhole Drill	Swiss	2008	1	50 m/h
	Rear Dump Truck	Jingwangzi	2008	17	20 m^3
	Rear Dump Truck	HOWO	2009	8	20 m^3
	Excavator	Caterpillar 345	2009	2	1.8 m^3
	Excavator	Caterpillar 330	2008	1	1.6 m^3
	Excavator	Caterpillar 320	2005	1	1.5 m^3
	Excavator	Volvo	2009	1	1.5 m^3
	Front-End Loader	Shangong 650	2009	2	20 m^3
Coal Handling	Excavator	PC450	2010	1	1.6 m^3
	Excavator	PC350	2010	2	1.5 m^3
	Front-End Loader	550	2010	6	3.0 m^3
	Rear Dump Truck	HINO	2010	3	18 m^3

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 material handling rate of 4.15 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). Beishan Station, which is 10 km from the mine site, is under construction and is projected to be commissioned by the end of 2010.

4.1.6 Coal Processing

According to anticipated Kaiyuan Openpit Coal Mine raw coal quality and regional market coal quality requirements, the quality the as-mined 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 No.1 system has been idled due to the aging equipment and poor product quality. The No.2 system is planned to be upgraded due to remedy deficiencies. The No. 4 system, which is installed in-pit, has been halted due to interference with mining operations (inadequate space). Recent upgrades to the No.3 and No.5 systems have been completed and test runs were performed on both systems. Test run results show that each system has raw screening capacity of 1,400 tph. Refuse picking is not utilized in the processing. 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

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 is 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 embankment is designed at 2 m high and 100 m long; the is 2 m wide with a slope factor of 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 Kaiyuan Openpit Coal Mine operation at 1.5 Mtpa for the years 2010 and onward. Our review incorporates information, projections, and findings from documentation provided by Kaiyuan Company, including the FSR. BOYD has prepared an operating cost estimate to determine the economic viability of the Kaiyuan reserve.

4.2.2 Mine Output

Kaiyuan Openpit Coal Mine raw coal output is currently designed at 0.9 Mtpa capacity. However, actual output in 2009 reached 3.06 Mt, of which 2.1 Mt was sold. According to Kaiyuan Company, the coal output will be maintained at 1.5 Mtpa in 2010 and the next five years (2011 to 2015). Based on the capacity of available equipment, the maximum annual waste rock (overburden) stripping volume is projected to be 3.0 million m^3 (including re-handle).

During the first three months of 2010, Kaiyuan Openpit Coal Mine produced 0.65 Mt of coal. It is our understanding that the mine was in operation for about 75 working days during the first quarter of 2010, and the equipment was not running at full capacity. The proposed 1.5 Mt for 2010 is reasonable and attainable.

Currently, Kaiyuan Openpit Coal Mine has seventeen 1.5-2.0 m^3 capacity hydraulic excavators on-site which are used for coal mining, loading or overburden removal (stripping). We estimate that the coal loading capacity for this size of excavator at 140-150 tph. Assuming 4,750 annual working hours per unit, an average of three 1.6 m^3 capacity excavators would load 1.6 Mtpa. Excavator waste stripping capacity, estimated at 70 m^3/h (bank), or 0.33

million m^3 annually, requires 9 units of 1.8 m^3 excavators to achieve the anticipated 3.0 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 larger bucket size excavators to match the available truck capacity in order to achieve the optimum number of passes.

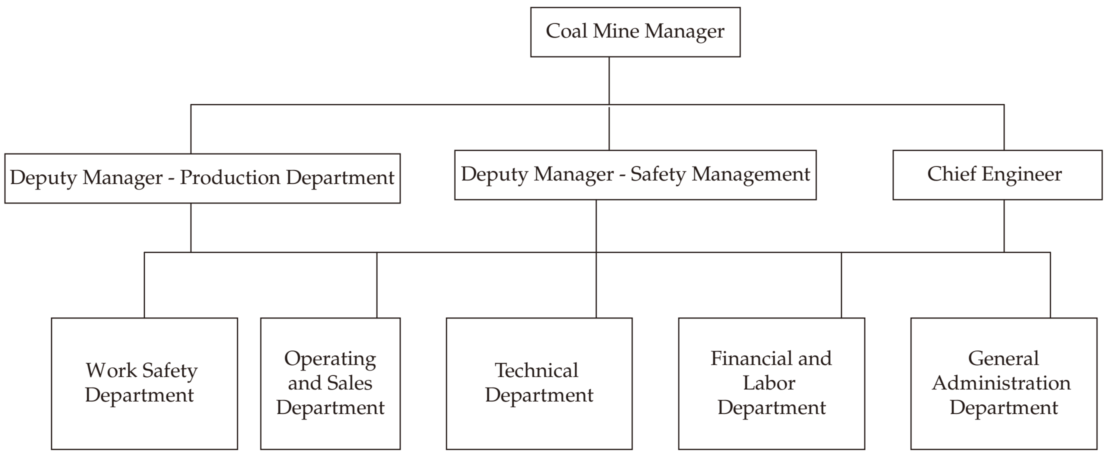
The 88 rear-dump trucks with 30-tonne load capacity are more than adequate to support transport of overburden and coal output. Actual output may be impacted by scheduled operating days lost for regulatory safety closures, mine incidents such as flooding, and unusual maintenance-related events (e.g., pit wall failures).

According to Kaiyuan Company, the higher-than-authorized 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.

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 2010, according to Kaiyuan Company, was as follows:

Category	**Number of Employees**
Contractors	
Stripping	140
Mining	50
Coal handling	12
Subtotal	202
Kaiyuan Company	85
Total	287

As shown in the table, the personnel for stripping, mining and coal handling are employed by contractors and 85 personnel on the Kaiyuan Company payroll.

The table below shows the historical Kaiyuan Company workforce by year:

Historical Company Personnel (excluding contractors)

Category	2007	2008	2009	year-to-date 31 March 2010
Management	8	12	13	7
Engineering	5	6	7	8
Operations	47	44	92	70
Total	60	62	112	85

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 (excluding RMB27 million investment for mine acquisition in 2006). The actual capital at the amount of RMB63.15 million had been expended as of March 2010. The capital budget did not include the RMB27 million investment for mine acquisition in 2006. According to company submittals, capital expenditures for the Kaiyuan Mine presently total RMB90.15 million (original investment, plus capital spending through March 2010). 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 RMB79.66 million.

A breakdown of actual and projected capital spending is as follows:

Category	Capital Spending *(RMB-millions)*
Initial Construction/Expansion	
Spent (through March 2010)	63.15
Future (through 2015)	7.50
Subtotal	70.65
Original Investment	27.00
Total	97.65

The above table shows RMB7.5 million in future through 2015 (RMB1.5 million per year) capital expenditure after 2010. 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 1.5 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. For instance, capital spending is not projected for the planned upgrade of the Nos.1 and 2 screening systems. 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**	**2009**	**Jan. to Mar. 2010**
Output (Mt)	0.25	0.81	1.80	3.06*	0.65
			RMB/Raw Tonne		
Cash Operating Cost	21.8	31.8	37.4	46.2	45.8

* *Coal sold was 2.1 Mt and the cash operating cost was on the 2.1 Mt basis.*

A breakdown of the 2009 operating costs (based on 2.1 Mt of coal sold) as reported by Kaiyuan Company is as follows:

Category	**Cost in 2009**	
	RMB/t	*RMB (millions)*
Direct Cash Operating Cost		
Stripping	18.5	38.9
Mining	8.5	17.9
Coal handling	3.0	6.3
Screening	2.0	4.2
Coal handling losses	3.0	6.3
Safety	3.0	6.3
Government fee	2.0	4.2
Mining right fee	1.5	3.2
Miscellaneous	0.7	1.5
Resource Compensation Fee	1.0	2.1
Resource Tax	3.0	6.3
Subtotal – Direct Cash Cost	46.2	97.2
Indirect Operating Cost		
Administrative Expenses	3.5	7.3
Selling & Distribution Expenses	0.6	1.3
Subtotal – Indirect Operating Cost	4.1	8.6
Total	50.3	105.8

According to Kaiyuan Company, the mining and stripping costs in the above table comprise costs for 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 internal operating cost projections for April 2010 through 2015 are as follows:

	Projections		
Category	**Apr to Dec 2010**	**2011**	**2012 to 2015**
Coal Output (Mt)	0.85	1.50	1.50
Coal Sold (Mt)			
Large Size	0.14	0.25	0.25
Middle Size	0.29	0.51	0.51
Small Size	0.14	0.25	0.25
Slack	0.26	0.46	0.46
Mixed	0.02	0.03	0.03
Total	0.85	1.50	1.50
Coal Price (RMB/t)			
Large Size	90	99	109
Middle Size	94	103	113
Small Size	90	99	109
Slack	33	36	39
Mixed	63	70	77
Average	73	80	88
Revenue (RMB millions)	61.74	120.31	132.34
Cost of Sales (RMB/t)			
Stripping	20.0	20.0	20.0
Mining	10.0	10.0	10.0
Coal handling	6.0	6.0	6.0
Screening	3.0	3.0	3.0
Coal handling losses	1.0	1.0	1.0
Safety	3.0	3.0	3.0
Government fee	3.0	3.0	3.0
Mining right fee	1.5	1.5	1.5
Miscellaneous	1.3	1.0	1.0
Resource Compensation Fee	1.0	1.0	1.0
Resource Tax	3.0	3.0	3.0
Total Cost of Sales	52.8	52.5	52.5
Gross Profit (RMB millions)	17.01	41.56	53.59
Gross Margin (%)	27.5	34.5	40.5
Administrative Expenses (RMB millions)	5.03	8.14	8.24
Selling & Distribution Expenses (RMB millions)	0.94	1.31	1.31
Total Operating Overhead (RMB millions)	5.97	9.45	9.55
Earnings before Income Tax (RMB millions)	11.04	32.11	44.04
Income Tax (RMB millions)	1.38	4.01	11.01
After-tax Earnings (RMB millions)	9.66	28.10	33.03

4.2.6 Market

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 the 7% to 10% range.*

Coal sales in 2009 were 2.1 million tonnes and in first quarter 2010 were 0.65 million tonnes. The top ten consumers of Kaiyuan coal products during the period from April 2009 to March 2010 as reported by Kaiyuan are as follows:

Customer	Coal Sales April 2009 to March 2010		Average Price
	Mt	*RMB (millions)*	*RMB/t*
Xinjiang Tianchang Coal Chemical Co., Ltd.	0.27	23.59	86.4
Shihezi Xinpeng Coal Distributing Company	0.23	7.33	32.3
Qitai Hongyuan Chemical Co., Ltd.	0.14	12.41	88.5
Zhu Jianhua	0.12	11.29	95.4
Zhu Hongbing	0.12	10.15	85.0
Xinjiang Xinsanchuan Trading Co., Ltd.	0.12	9.77	81.3
Zhang Guobin	0.12	7.02	57.7
Xu Wencai	0.09	7.21	78.6
Qitai Tiantai Coal Chemical Co., Ltd.	0.05	5.15	94.3
Zhai Yuping	0.05	4.42	89.2
Total	1.31	98.34	75.1

According to Kaiyuan, the revenue from the tonnage sold to the top ten consumers consumers accounts for 94.2% of the total revenue during this period.

Based on BOYD's site visit on 9 to 11 June 2010 and prior visits, we observe the following:

- The peak and low seasons for large size coal sales are in winter and summer, respectively.

- Upgrade of the Nos.3 and 5 screening systems has been completed.

- The Nos.1 and 2 screening systems need to be upgraded due to the aging equipment and facilities.

- Medium-small sizes are sold year-round to semi-coking and coal chemical plants, about 10 km distant, located in a designated industrial area. BOYD understands that semi-coke demand in the designated semi-coking industrial area 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).

- Fines are sold to middleman (for re-sale to power plants). Due to the poor market for fine coal, the price has dropped to RMB15/t in early 2010.

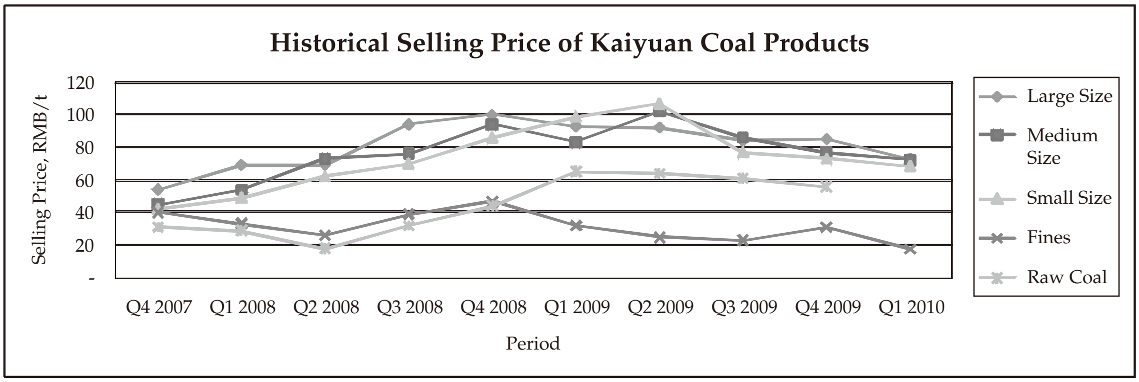
Kaiyuan Mine coal quality is suitable for both industrial and domestic uses. Recognizing China's economic development and the national policy of promoting development of western areas of the country, a market for Kaiyuan Openpit Coal Mine's coal output is anticipated.

The table below shows historical selling price data for Kaiyuan Mine quality coal between 2007 to 2010 (first quarter), excluding VAT.

	Historical Selling Price* (RMB/tonne)									
Type of Product	**Quarter 4 2007**	**2008 (Quarter) 1**	**2**	**3**	**4**	**2009 (Quarter) 1**	**2**	**3**	**4**	**Quarter 1 2010**
Large Size	54	69	69	94	100	93	92	84	85	73
Medium Size	45	54	73	76	94	83	102	86	77	72
Small Size	42	49	62	70	86	99	107	77	73	68
Fines	40	33	26	39	47	32	25	23	31	18
Raw Coal	31	29	18	32	44	65	64	61	56	–

* *Data Provided by Kaiyuan Company.*

The following is a chart showing historical selling prices for Kaiyuan Mine quality coals:



The above chart shows a declining trend in the selling prices for most coal products since fourth quarter 2008. According to Kaiyuan Company, this development is attributable to the global economic downturn and local economic conditions.

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 site visits.

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 evaporates 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 m3/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). 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:

	Stripping Volume (000-m^3)		
Bench Level	**Rock**	**Soil**	**Total**
+690	810	580	1,390
+680	2,020	560	2,580
+670	9,690	790	10,480
Total	12,520	1,930	14,450

FSR reserves, stripping volumes, and average stripping ratios for the individual mining districts are as follows:

Item	Unit	District No. 1	District No. 2	District No. 3	Total
Mineable Resources	Mt	35.38	37.68	40.68	113.74
Stripping Volume	million m^3	79.88	95.32	147.54	322.74
Average Stripping Ratio	m^3/tonne	2.26	2.53	3.63	2.84

Note: Figures may not add due to rounding.

BOYD's Zexu Mine resource analysis has more Mineable Resources at 119.38 Mt but significantly higher stripping volume of 423.43 million m^3, and a stripping ratio of 3.5 m^3/tonne. While our resources and stripping volumes for District 1 are in reasonable agreement with the FSR, the stripping volumes for Districts 2 and 3 are significantly higher.

FSR stripping volumes and coal reserves for the initial mining district (District 1) by 10-m bench intervals are as follows:

Stripping Level *(m)*	Overburden Stripping Volume *(million m^3)*	Coal Resources *(Mt)*	Cumulative Overburden Stripping Volume *(million m^3)*	Cumulative Coal Resources *(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:

		Stripping Volume (million m^3)			
Year	**Coal Output** *(Mt)*	**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	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	2.26
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	
14	0.90	0.55	1.79	2.34	2.60
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	79.82	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, hydraulic excavator/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 blast hole 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-m3 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.

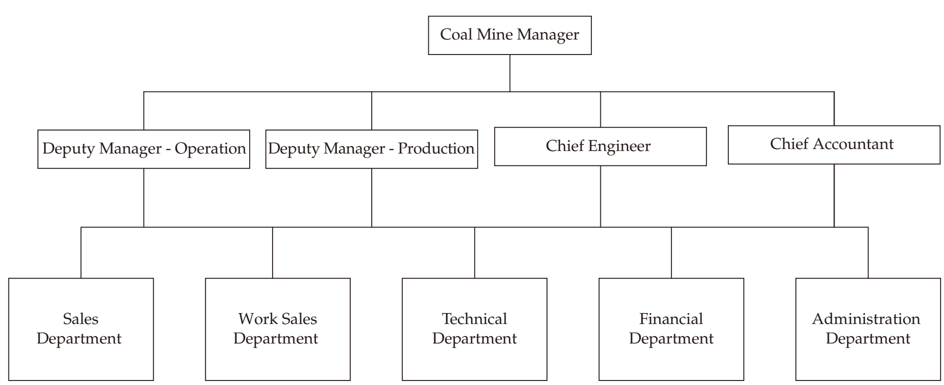
The proposed mine plan uses two 4-m^3 excavators and two 1.5-m^3 excavators, which can be used interchangeably for coal loading and overburden removal (stripping). We estimate the coal loading capacity for the 4-m^3 excavator at 150 tph, or 0.7 Mtpa, assuming 5,280 annual scheduled working hours, 330 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**	**Payroll* Factor**	**On Payroll**
Total	75	70	145	1.12	162

* *Payroll Factor provides for 7 day/week operations and coverage for absences.*

Openpit labor productivity, based on projected FSR 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 and are in reasonable agreement with current Kaiyuan staffing.

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, as shown in the table follows:

Category	**Projected Capital Expenditures** *RMB (millions)*
Mine construction	20.36
Civil engineering	15.88
Equipment	47.56
Installation	6.84
Other	8.58
Contingency	7.94
Mining rights	6.00
Working capital	8.43
Total	121.59

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, recognizing that additional capital monies for overburden removal will be needed, unless outsourced to contract services or equipment leasing is utilized.

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 provided 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, with breakdown as follows based on August 2007 costs:

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 the general mine cost structure is similar to that of Kaiyuan Mine with similar company staffing. Recognizing that the stripping ratio at the initial district approximates 2.3 m^3/t and material re-handle factor of 30%, the final stripping ratio approximates 3.0 m^3/t. Zexu Mine operating cost projections area as follows (assuming Zexu pays off the mining right fee up front prior to mine operation):

Raw Coal Output Tonnes (Mt): 0.9

Category	**RMB/Raw Tonne**	**RMB (millions)/Year**
Direct Operating Cost		
Stripping	31.5	28.35
Mining	10.5	9.45
Coal handling	3.0	2.70
Screening	3.0	2.70
Government fee	3.0	2.70
Miscellaneous	5.0	4.50
Resource Compensation Fee	1.0	0.90
Resource Tax	3.0	2.70
Subtotal – Direct Operating Cost	60.0	54.00
Indirect Operating Cost		
Administrative Expenses	6.0	5.40
Selling & Distribution Expenses	2.0	1.80
Subtotal – Indirect Operating Cost	8.0	7.20
Total	68.0	61.20

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 market for Zexu Openpit Coal Mine's coal output is anticipated.

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. Construction of Kaiyuan expansion to 0.9 Mtpa has passed the environmental protection check and approval by the Environmental Protection Bureau of Mulei County in December 2009.

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 post-mining 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 over its mine life. 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 equipped with filtering equipment 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/m^3)	Release Amount (tpa)	Release Content (mg/m^3)	Release Amount (tpa)	Release Content (mg/m^3)
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/m^3)	Release Amount (tpa)	Release Content (mg/m^3)	Release Amount (tpa)	Release Content (mg/m^3)
CZL1-1.25-A	2	1280	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 Kaiyuan EIR, a 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

The projected Kaiyuan expansion to 0.9 Mtpa has passed the environmental protection check and approval by the Environmental Protection Bureau of Mulei County. In the approval notice issued on 16 December 2009, it is recognized that the capital spent on environmental protection totals RMB4.41 million. It is BOYD's opinion that planned and implemented environmental protection measures will adequately satisfy the need for environmental protection during mine operation at 0.9 Mtpa. However, an environmental impact assessment has not been performed for the planned 1.5 Mtpa output level. The Kaiyuan EIR projects RMB1.75 million for fine mine reclamation. For this CPR, we have not reconciled these projections from China Sonangol.

7.0 RISK ASSESSMENT

7.1 Introduction

Coal mining operations are unlike other industrial facilities in that mines can be engineered or planned to a precise design capacity or cost structure, but there are inherent uncontrollable natural and external factors that can prevent the attainment of precise production, cost, and revenue targets. Mining operations are conducted in the earth's strata rather than within a homogeneous and controlled work environment.

There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be interpreted that coal mining is inherently risky. On the contrary, there are established measures that mine operators utilize to minimize the operational and financial impacts associated with such encounters. Coal mining operations in the region have a demonstrated track record in sustaining consistent and predictable levels of performance.

Assessment of risk associated with any enterprise is largely subjective in nature and relies on the relevant experience of the professional completing the study in the specific industry and operating venue applicable to the subject enterprise. There are three general categories of business risk inherent in a mining operation, namely: geologic, operational, and market. For purposes of this study and in accordance with SEHK guidelines, we define risk in three general categories of severity, as follows:

- Major Risk: A factor that would have a material adverse effect (15% to 20% or higher) on project cash flow for the risk assessment period, possibly leading to project failure, if the specific risk occurred and was not corrected.

- Moderate Risk: A factor that would have significant adverse effect (10% to 15%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

- Minor Risk: A factor that would have minimal or no adverse effect (less than 10%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

However, equally, or perhaps more, important, is the probability or likelihood that the specific risk will occur. For this study a seven-year risk assessment period is considered with the following probability of occurrence ratings:

- Likely: Event is likely to occur.

- Possible: Event may occur.

- Unlikely: Event is unlikely to occur.

The overall risk assessment combines these two components, severity and probability, to determine the final categorization of risk, as shown below:

Probability of Risk Occurring (within 7 years)	**Severity (Consequence) of Risk**		
	Minor	**Moderate**	**Major**
	Overall Risk Assessment		
Likely	Medium	High	High
Possible	Low	Medium	High
Unlikely	Low	Low	Medium

7.2 General Assessment

BOYD independently assessed the China Sonangol mining operations to be low to medium in overall risk for the following reasons:

- Overall assessment of the geologic setting of Kaiyuan and Zexu areas is simple to moderate (i.e., not geologically complex).

- Reserves projected to be mined during the seven-year risk assessment period are well explored by drilling and mining experience.

- The Kaiyuan and Zexu areas are located in an established coalfield where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.

- China Sonangol has the experienced management and technical capabilities to successfully operate their mines and to respond to operating interruptions and other event occurrences in a timely, professional, and proactive manner in order to minimize production and financial losses.

- Except for routine production risks, BOYD has not identified any extraordinary known risk issues related to the future operation of the Kaiyuan Mine over the risk assessment period.

- While not anticipated, naturally occurring events such as flooding due to excessive rainfall or an earthquake, could occur but their impact would be regional in extent (i.e., not unique to China Sonangol). Recognizing that openpit mining methods are utilized, the impacts of naturally occurring events are likely to be minor.

- China Sonangol produces low sulfur content coals, classified as "non-caking" (BN31) according to the Chinese coal classification system. The company has established markets for its coals, and risk of future sales is considered low based on the robust nature of the Chinese economy and the competitive cost structure of the Kaiyuan mine. China Sonangol bears significant marketing risk as regards coal pricing.

The following text provides an expanded discussion of mining-related risks and BOYD's assessment of China Sonagol's risk profile.

7.3 Geologic Risk

General Geologic Risk

On a global basis, the geologic setting of the coal deposits controlled by China Sonagol is judged to be simple to moderate (i.e., not geologically complex). Kaiyuan Mine reserves projected to be mined during the seven-year (2010-2016) risk assessment period are well defined by exploratory drilling and/or mining experience.

Geologic Anomalies

Unforeseen geological anomalies that extend over large areas could disrupt openpit mine operations and require alterations of mining plans. Such an event can result in the cessation of production activities for an undefined but extended period of time (measured in months) and a corresponding drop in revenue. Likewise, efforts to resume mining operations may result in cash losses during the period in which recovery and redevelopment activity is underway. Kaiyuan reserves to be mined within the seven-year risk assessment period, are well defined by both drilling and mining experience minimizing the risk of unforeseen geologic anomalies.

It is reasonable to expect that minor displacement faults will continue to be encountered in future mining, but impact on overall performance is not likely to be material over a long period. Undetected faulting would result in reserve loss, the magnitude of which would be determined by the extent and degree of faulting.

At the Kaiyuan Mine, an area of shallow coal occurrence in the 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 we recommend that drilling be conducted in this area to determine if the coal is oxidized.

Risk Assessment

Severity:	Low to Moderate
Probability:	Unlikely to Possible
Overall:	Low

7.4 Operational Risks – Naturally Occurring Events

Weather

Extraordinary weather occurrences (e.g., excessive rainfall) can result in disruption to the mining operations caused by power outages, loss of access into the mine site (movement of mine personnel, receipt of necessary operating supplies, etc.) and from the mine site (inability to load trucks to dispatch coal to market, etc.). China Sonangol is highly cognizant of the potential disruption to mining activities and takes appropriate precautions (diversion ditches and embankments) to avoid significant inrushes of water from storm sources.

Earthquakes

Available geologic background data report the general location of the Kaiyuan and Zexu areas is known to have seismic activity and there is a history of serious earthquake activity. However, the mines are openpit type so the impact on operations would be minor.

Assessment

Any naturally occurring events would affect the broader region where the China Sonangol mines are operated and the impact would be industry-wide.

Severity:	Minor to Moderate
Probability:	Unlikely to Possible
Overall:	Low

7.5 Operational Production Risks

Operational risks associated with openpit coal mining include those variations in physical mining conditions, mechanical failures, and operational activities that can temporarily disrupt production activities. The most common of these are as follows:

- Poor mining conditions (poor slope stability).
- Water accumulations/soft pit floor conditions.
- Variations in seam consistency, thickness, and structure.
- Failures or breakdowns of operating equipment and supporting infrastructure.

The preceding conditions and circumstances can adversely affect production in the short term, but are not regarded as significant to the long-term operation of the mining operations. Mine-level management is experienced and capable in dealing with these risks. BOYD does not regard the issues listed above as being material to China Sonangol's mining operations or otherwise significantly compromising projected financial performance over the long term, although some short-term variance to projected output and financial performance should be anticipated.

Forward mine planning uses productivity parameters and cost experience which incorporate historic experience (including routine interruptions to the mining process).

Assessment

Severity:	Minor
Probability:	Likely
Overall:	Low

7.6 External Risk – Regulation

Various levels of government are involved in the promulgation and enforcement of regulations under which the China Sonangol's Kaiyuan Mine must operate. These include operating standards and requirements, and the payment of fees and taxes. While governmental regulation policies are industry-wide, and beyond the control of China Sonangol, the company is responsible for operating their mines and facilities in compliance with all governmental regulations now in effect (or any future regulations).

Based on BOYD's review, we opine that China Sonangol has implemented appropriate environmental protection measures in response to national environmental protection laws. Generally, the company's environmental protection work is comparable to similar mining enterprises elsewhere in the PRC. While the particulars of current environmental practices may need to be upgraded, there do not appear to be environmental constraints to future coal mining operations. In our opinion, in meeting the relevant requirements as required by natural laws, the environmental protection practices of China Sonangol comply with the PRC and World Bank's requirements for environmental protection related to coal mining activities.

China Sonangol's Kaiyuan Mine will continue to be subjected to economic, political, and legal developments within the PRC. Furthermore, domestic coal prices are largely impacted by the government through regulation, taxes, and tariffs. These developments may impact Kaiyuan's output and cost structure and development of the Zexu Mine.

To our knowledge, China Sonangol is paying the required resource fees to obtain mining rights, and all governmental taxes and fees related to the Kaiyuan Mine.

Passage of more restrictive or onerous government regulations could have adverse effects on future China Sonangol operations, but such a risk would be industry-wide and is unquantifiable at this time.

Assessment

Severity:	Minor to Major
Probability:	Possible
Overall:	Low to Medium

7.7 Market Risk

Achieving China Sonangol cash flow projections for Kaiyuan over the seven-year risk assessment period depends on sustaining coal sales at prices specified in the company's forward business plans.

BOYD has reviewed the mine plans for 2010-2015 from the perspective of historical performance and site visits and believes the plans are generally achievable. We have not identified significant geological or mining-related issues during our review that would prevent Kaiyuan Mine from achieving projected raw coal output levels.

A reduction in market prices would have a material effect on financial performance. Such an event would occur if there were surplus alternative coals from other suppliers, or a reduction in demand from China Sonangol's customer base. It is BOYD's opinion that new competitors are unlikely to generate surplus production capacity. There are high barriers to entry, as new mine development requires significant capital investment and government approvals. However, such an event would directly impact (lower) total company revenues and could negatively impact the fixed cost structure and sustaining capital investments at individual mines.

Market risk is mitigated by the established nature of the Kaiyuan Mine and customer base, and the sustained growth of the Chinese and Xinjiang economies, which are expected to continue over the seven-year risk assessment study period.

Assessment

Severity: Moderate to Major
Probability: Possible
Overall: Medium to High

7.8 Summary of BOYD's Risk Assessment (2010-2016)

		Risk Assessment	
Hazard/Risk Issue	**Severity**	**Probability**	**Overall**
Geologic Overall (General)	Low	Unlikely	Low
Unforeseen Anomalies	Low to Moderate	Unlikely to Possible	Low
Naturally Occurring Events Weather	Minor to Moderate	Unlikely to Possible	Low
Earthquakes	Minor to Moderate	Unlikely to Possible	Low
Routine Operational Risks (Adverse mining conditions, equipment outages)	Minor	Likely	Low
Compliance to Existing Regulations	Minor to Major	Possible	Low to Medium
Marketing (Commercial)	Moderate to Major	Possible	Medium to High

The following is the text of the report of the valuation on Coal Mines dated 27 July 2010 prepared by Greater China Appraisal Limited for the purpose of inclusion in this circular.

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

27 July 2010

Board of Directors
China Sonangol Resources Enterprise Limited
Suites 1011-1012
10/F Two Pacific Place
88 Queensway
Hong Kong

Dear Sirs/Madams,

In accordance with the instructions from China Sonangol Resources Enterprise Limited (the "Company"), we have completed a valuation of the fair market value of the Mineral Assets of 木壘縣凱源煤炭有限責任公司 (transliterated as Mulei County Kaiyuan Coal Company Limited) ("Subsidiary A") and 奇台縣澤旭商貿有限責任公司 (transliterated as Qitai County Zexu Trading Company Limited) ("Subsidiary B"), which consist of the mining rights (the "Mining Rights") of the Kaiyuan Open Pit Coal Mine, and the exploration permit (the "Exploration Permit") of the Zexu Open Pit Coal Mine, respectively, as of 30 April 2010 (the "Valuation Date").

It is our understanding that our analysis will be used by management of the Company solely as a reference for investment purpose. We confirm that we have made relevant enquiries and obtained such information as we consider necessary for the purpose of providing our opinion of the fair market value of Mineral Assets of Subsidiary A and Subsidiary B as at the Valuation Date. Our work was performed subject to the assumptions and limiting conditions described in the Appendices of this report.

The accompanying valuation report presents the data, assumptions, and methodologies employed in developing our recommended estimate. Our report and analysis are in conformance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, 2005 Edition (the "VALMIN Code"), prepared by the VALMIN Committee. The VALMIN Code provides a set of fundamental principles and supporting recommendations regarding good professional practice to assist the preparation of the valuation of Mineral Assets.

We understand that this valuation will be used as a reference for your investment purpose, details of which are set out in the circular dated 27 July 2010 issued by the Company to the Shareholders (the "Circular"), of which this valuation report forms part. Unless otherwise stated, terms used in this valuation report have the same meanings as those defined in the Circular. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes. The standard of value is fair market value; whilst the premise of value is value in use, as part of going concern.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

PURPOSE OF ENGAGEMENT

As aforementioned, the purpose of this particular engagement is to assist the management of the Company in determining the fair market value of the Mineral Assets as of the Valuation Date for investment purpose in accordance with the VALMIN Code.

According to the VALMIN Code, the Fair Market Value of a Mineral Asset is defined as:

"the amount of money (or the cash equivalent of some other consideration) determined by in accordance with the provisions of the VALMIN Code for which the Mineral Asset should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion."

The premise of value is Going Concern, defined as:

"an ongoing and operating business enterprise"

Going Concern value is defined as:

"the value of a business enterprise that is expected to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained workforce, an operational plant, and the necessary licenses, systems, and procedures in place".

SCOPE OF SERVICES

We were engaged by the management of the Company to assist in their estimate of the fair value of the fair market value of the Mineral Assets of Subsidiary A and Subsidiary B associated as of the Valuation Date.

- We understand that the Company will use our valuation analysis solely as a reference for investment purpose.

- Our analysis and conclusion of fair market value of the Mineral Assets of Subsidiary A and Subsidiary B based on our discussions with the management of the Company and a review of key transaction documents and records, including:

  - Independent auditors' report of Mulei County Kai Yuan Company Limited as of 31 December 2009 prepared by BDO Limited;

  - Management accounts of Mulei County Kai Yuan Company ("Kai Yuen") for the year ended 31 December 2009 and for the 3-month period ended 31 March 2010;

  - Independent Technical Review of Kaiyuan Open Pit Coal Mine Project and Zexu Open Pit Coal Mine Project (the "Competent Person's Report") prepared by John T. Boyd Company ("BOYD") dated 27 July 2010;

  - A copy of the Mining Rights of the Kaiyuan Open Pit Coal Mine;

  - A copy of the Exploration Permit of the Zexu Open Pit Coal Mine; and

  - Other related business licenses of the mining and exploration operations.

We have also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and news.

COMPANY OVERVIEWS

Kaiyuan Open Pit Coal Mine

Overview

The Mining Rights cover an area of 1.158 km^2, and is held by the Subsidiary A with an expiry date of June 2018. The Kaiyuan Open Pit Coal Mine currently has a capacity of more than 1.8 Mtpa.

	Certificate No.	Mining Method	Area (km^2)	Grant Date	Expiry Date
Mining Rights	6500000830212	Open Pit	1.158	June 2008	June 2018

Mining Method

Open pit mining can be used for which coal is extracted from below the surface of the earth. Miners use excavators in conjunction with rear-dump trucks to remove the overburden, and large beds of ore will then be exposed. Mining equipments such as shovel/ trucking equipments are commonly used at other open pit mines in the PRC. Once the mining is finished, the dirt and rock are returned to the pit, the topsoil is replaced and the area is replanted. The land can then be used for croplands, wildlife habitats, or recreation, etc.

According to the management of the Company and the Competent Person's Report, Kaiyuan Open Pit Coal Mine will continue to utilize local contract mining companies for overburden stripping, coal loading, and blasting. Ownership of all major equipment in the earthmoving fleet is transferred to the contractors.

Estimated Coal Reserves

According to the Competent Person's Report, as well as the estimation provided by the management of Subsidiary A, the estimated coal reserves, as of 31 March 2010, for the Kaiyuan Open Pit Coal Mine is outlined in the following chart:

	Marketable Reserves (million tons) As of 31 March				Stripping Ratio
Seam	**Proven**	**Probable**	**Total**	**% of Total**	**(m^3/ton)**
B_3	3.57	–	3.57	19	1.6
B_2	10.86	4.58	15.44	81	0.8
Total	**14.43**	**4.58**	**19.01**	**100**	**0.9**

Estimated Coal Quality

According to the management of the Kai Yuan, the estimated quality of coal reserves for the Kaiyuan Open Pit Coal Mine is outlined in the following table:

	Average Coal Quality (15% Moisture Basis)				
Seam	**% of Reserves**	**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**

Mine Output

According to the Competent Person's Report, the current equipment fleet has sufficient capacity to achieve overburden stripping and coal loading requirements for an annual coal output of 1.5 Mt in 2010. Also according to the Subsidiary A, the 3.06 Mtpa output capacity in 2009 was supported by a circular from the local government urging major open pit coal mines in the district to accelerate their level of production without necessarily abiding by their authorized output capacity. Since the management of

Subsidiary A assumes there exists the possibility of the local government retracting the mandate requesting higher mine output levels, the output levels in 2010 and beyond are projected at 1.5 Mtpa.

Zexu Open Pit Coal Mine

Overview

The Exploration Permit covers an area of 2.87km^2, and is held by Zexu with an expiry date of September 2009. The area is located approximately 2 km southwest of the Kaiyuan Open Pit Coal Mine and is in Greenfield exploration status. According to the management of Subsidiary B, mining operation is scheduled to commence in year 2015, with an estimated output capacity of 1.8 Mtpa.

	Certificate No.	Mining Method	Area (km^2)	Grant Date	Expiry Date
Exploration Permit	T65120080901014093	Open Pit	2.87	Oct 2009	Oct 2011

Mining Method

The same mining method that is currently in place for the Kaiyuan Open Pit Coal Mine will also be applied to the Zexu Open Pit Coal Mine.

Estimated Coal Resources

The Zexu Open Pit Coal Mine has significant coal resources meeting the JORC classification standards; however, estimated coal tonnages are reported as resources because the mining rights for the area have yet to be acquired, which would grant them the legal right to recover the coal. According to the Competent Person's Report, the coal resources for the Zexu Open Pit Coal Mine are outlined in the following chart:

	Marketable Resources (million ton) As of 31 March				Stripping Ratio
Seam	Measured	Indicated	Total	% of Total	(m^3/ton)
B_7	10.23	10.46	20.69	17	9.7
B_6	2.77	3.98	6.75	6	1.6
B_5	5.80	10.42	16.22	14	3.1
$B_{4'}$	0.29	0.01	0.30	1	9.1
B_4	6.85	10.21	17.06	14	2.5
B_3	8.06	8.03	16.09	13	3.0
B_2	22.58	19.69	42.27	35	1.7
Total	**56.58**	**62.80**	**119.38**	**100**	**3.5**

Estimated Coal Quality

According to the management of Zexu and per the Competent Person's Report, the estimated quality of coal resources for the Zexu Open Pit Coal Mine is outlined in the following table:

	Average Coal Quality (15% Moisture Basis)				
Seam	**% of Reserves**	**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 (District 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**

Mine Output

According to the Competent Person's Report, a 0.9 Mtpa coal output design capacity is planned for the Zexu Open Pit Coal Mine, and in addition, the Subsidiary B is also plans to expand the Zexu Open Pit Coal Mine design capacity to the range of 1.5 Mtpa to 1.8 Mtpa.

Law and Regulations

The Mining Rights and Exploration Permit are under the jurisdictions of the administrative the Xinjiang Uygur Autonomous Regions and hence subject to all relevant PRC law and regulations that would be applied.

ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS

China's Economic Outlook

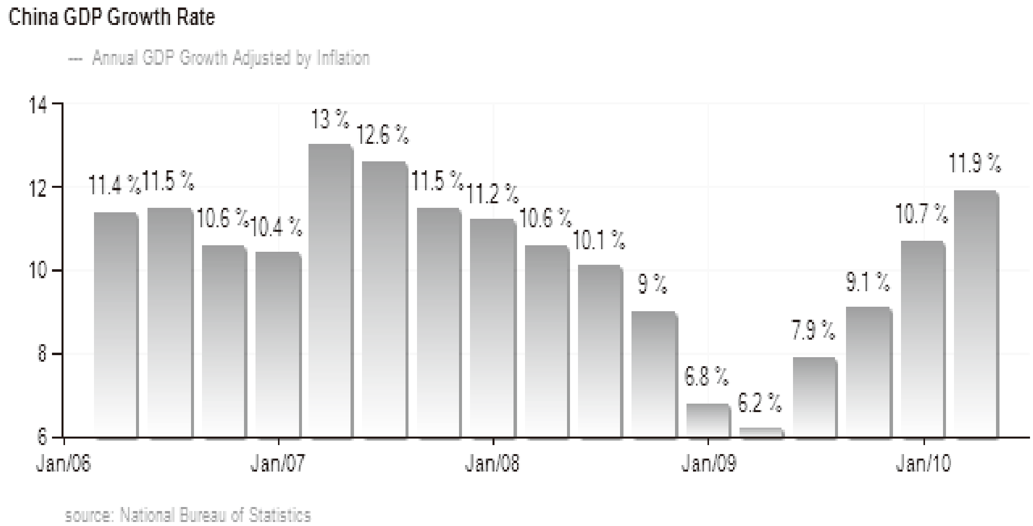
Boosted by the RMB4 trillion government stimulus plan and the cumulative effects of fiscal and monetary easing, China has shifted its economy driver from exports towards domestic consumption and made the most impressive recovery from the global financial crisis among all major economies. China recorded an impressive GDP growth of 8.7% in 2009. According to 2009 IMF's world GDP ranking, China's economy is now the third largest in the world after that of the United States and Japan. It should not be to anyone's surprise that if China can sustain its current growth rate, its GPD ranking will further advance in the foreseeable future.

Country	**GDP** *(Millions of USD)*
– United States of America	14,256,275
– Japan	5,068,059
– People's Republic of China	4,908,982
– Germany	3,352,742
World	**57,937,460**

Source: 2009 List by the International Monetary Fund

Entering 2010, with economies worldwide starting to settle down from the global financial crisis, China continues to exhibit strong momentum in its economic growth, particularly in the areas of investment in infrastructures, domestic consumption, and a rebound in exports from a year ago.

Riding on the momentum of its robust economic growth, the Chinese government has begun to plan for the exiting stimulus monetary policies with a focus on structural economic and social issues. In the annual National People's Congress meeting held in March this year, the Chinese government has clearly outlined the three main focal points of work for 2010. In order to achieve a sustainable growth in future years, Chinese government is determined to achieve a 8% economic growth while keeping the inflation rate target of around 3% and set the M2 money supply and new loan growth targets at 17% and RMB7.5 trillion, respectively.



However, there are still many challenges and uncertainties for the Chinese government to deal with in order to ensure a speedy economic recovery without the creation of excessive liquidity in the financial system, which will then lead to excessive asset inflation in both the stock and property markets. Managing inflation risk is also a key issue this year, and a series of fine tuning measures are expected to be implemented on a timely basis, such as stricter restrictions on mortgage lending, tighter requirement for second and third home purchases, and further increment of bank's reserve requirement ratio, or even an interest rate rise. Besides, as the global demand recovers and external exports grow, the Chinese government will face increasing pressure from its trading partners, who demand the Renminbi to be appreciated. Under tremendous pressure from various nations around the world, the Economist intelligence Unit[1] has forecasted that the Chinese government will allow Renminbi to rise moderately this year.

Despite these possible tightening measures, the Chinese government will continue its "proactive fiscal policy and moderately easing monetary policy" to maintain a healthy economic growth in longer term. The real GDP will still be able to expand by around 9.5% in 2010 and the growth will then slow to around 8.8% in 2011.

Economic Indicators	**2008 Actual**	**2009 Actual**	**2010 Forecast**	**2011 Forecast**
Real GDP growth (%)	9.0	8.7	9.5	8.8
Consumer price inflation (%)	5.9	-0.7	2.7	2.4
Current-account balance (% GDP)	9.6	6.1	4.2	3.5
Commercial bank prime rate (%)	5.31	5.31	5.25	5.75
Exchange rate RMB:US$ (average)	6.95	6.83	6.55	6.30

Source: National Bureau of Statistics of China and Bloomberg

[1] *Source:* Country Report China May 2010, The Economist Intelligence Unit. The Economist Intelligence Unit is the world's foremost provider of country, industry and management analysis. Founded in 1946, the Economist Intelligence Unit is now a leading research and advisory firm with more than 40 offices worldwide.

INDUSTRY OUTOOK

Worldwide Coal Industry

Coal is primarily used as a solid fuel to produce electricity and heat through combustion. World coal consumption is about 6.2 billion tons annually, of which about 75% is used for the production of electricity, and approximately 40% of the world electricity production uses coal[2]. Other usages of coal include iron and steel production, cement manufacturing, and as liquid fuel.

Countries and percentage of their electricity produced by Coal

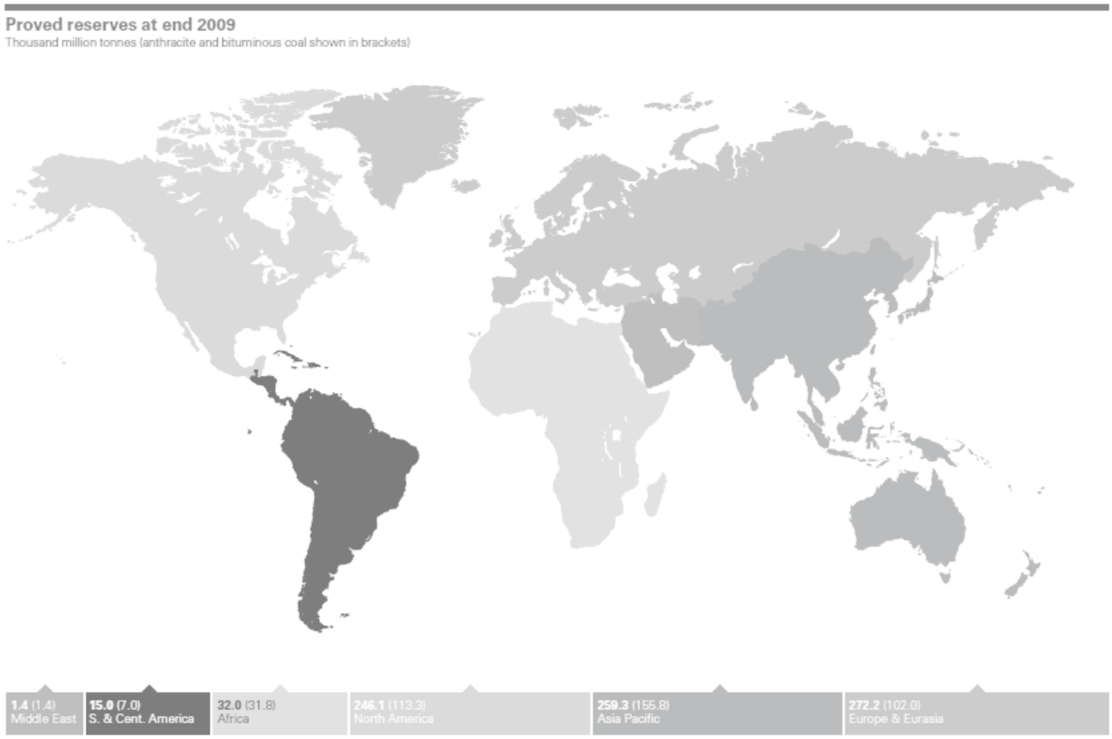
Poland	93%	Kazakhstan	70%
South Africa	93%	India	69%
Australia	80%	Morocco	69%
China	78%	Czech Republic	59%
Israel	71%	Greece	58%

Source: http://www.worldcoal.org/pages/content/index.asp?pageid=188

Coal reserves are available in almost every country, with recoverable reserves in around 70 countries. The recoverable coal reserves were around 800 to 900 gigatons, based on the International Energy Annual Report prepared by the Energy Information Administration of the US Government. At current production levels, proven coal reserves are estimated to last 119 years[3]. In contrast, proven oil and gas reserves are equivalent to around 41 and 63 years at current production levels respectively[6].

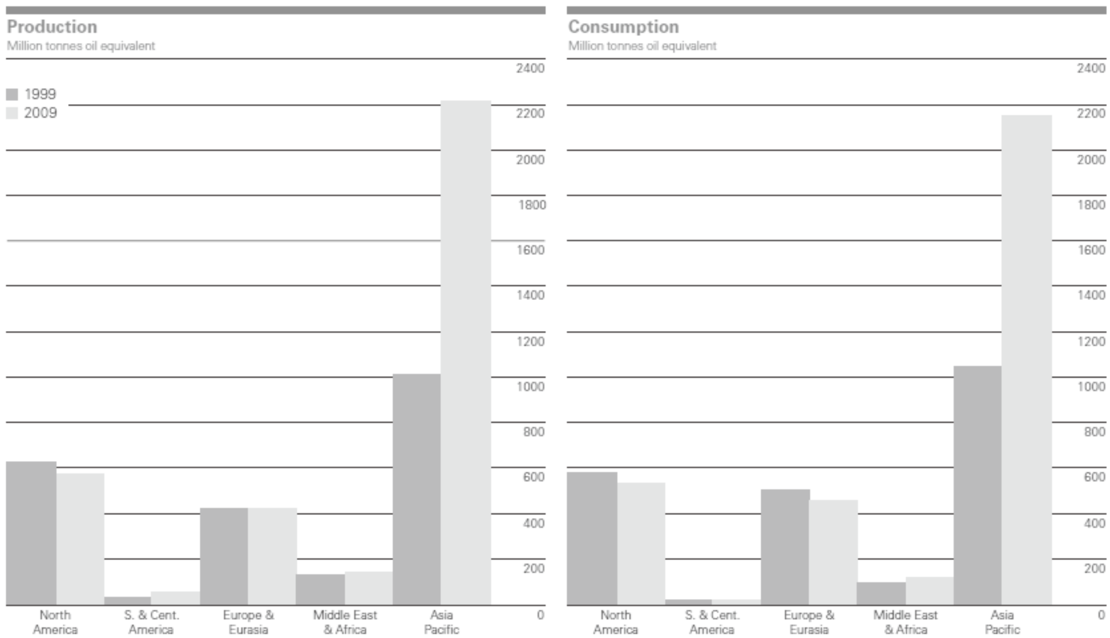
2 Clean coal facts and figures page by Rising Tide Newcastle. http://www.risingtide.org.au/cleancoal. Retrieved on 21 Oct 2008.

3 World Coal Institute. Retrieved on October 2, 2008., www.worldcoal.org/coal/where-is-coal-found



Over 6 billion tons of coal is currently produced each year worldwide[4]. The fastest growing region in terms of production is Asia, with China and India being the major contributors. On the other hand, developed economies like the ones in EU have been experiencing steady declines. Due to the local demand and high transportation cost, most of the global coal production is used in the country in which it was produced, and only a relatively small percentage of coal production is destined for the international coal market.

4 BP Statistical review of world energy June 2007 www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2007/STAGING/local_assets/downloads/spreadsheets/statistical_review_full_report_workbook_2007.xls. Retrieved on 20 Oct 2008.



World coal consumption was essentially flat in 2009, the weakest year since 1999. For the first time since 2002 coal was not the fastest-growing fuel in the world. The OECD and Former Soviet Union experienced the steepest declines on record, while growth elsewhere was near average, largely due to above-average growth in China, which accounted for 46.9% of global coal consumption.

Source: BP Statistical Review of World Energy June 2010

Coals are actively traded all over the world, as countries that do not have sufficient natural resources, such as Japan, Korea and Taiwan, require imports to supply their energy demands. Currently, international trade in coal reached 800 million tons, while this is a significant number, but it still accounts for a relatively small percentage of total coal consumed.

Going forward, aggressive research is being undertaken to increase efficiency in the coal industry, with focus on new strategies for gasification and CO2 capture. These efforts are aimed primarily at reducing the carbon content and greenhouse gas emissions responsible for global warming.

Coal Industry in China

Coal Resources

China is the largest consumer of coal in the world, and it is also the largest consumer of coal-derived electricity. With approximately 13 percent of the world's proven reserves, China has enough coal to sustain its economic growth for a century or more even though demand is currently outpacing production.

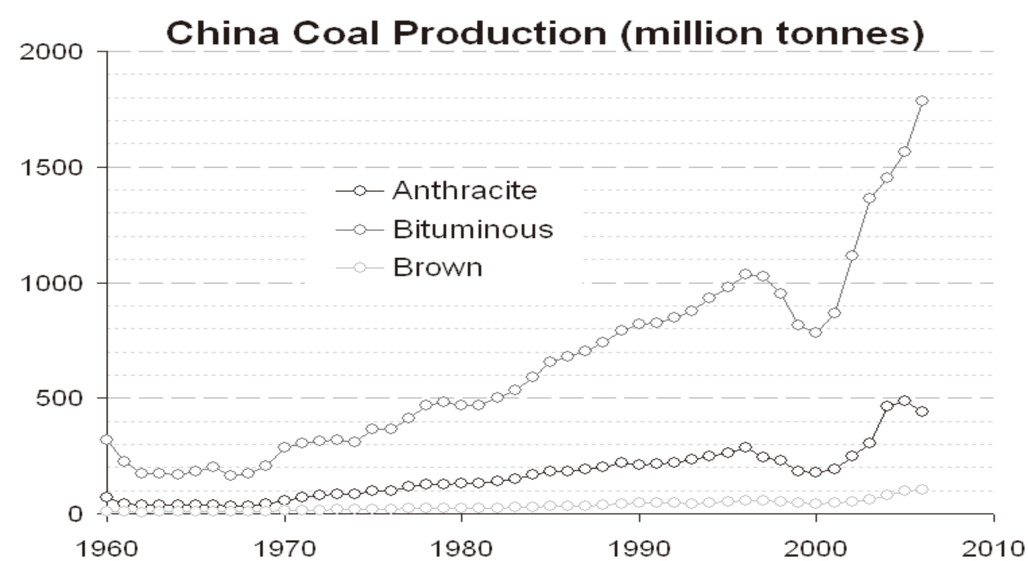
While China boasts the greatest consumption of coal power, it ranks third in the world in terms of total coal reserves behind the United States and Russia. Most reserves are located in the north and north-west of the country, which poses a large logistical problem for supplying electricity to the more heavily populated coastal areas.

China coal resources are abundant and distributed in every provinces and regions except Shanghai, but the distribution is very unbalanced. Regions between the Greater

Xing'an Mountain in the north of China and Taihang, Helan Mountain, including the whole or most areas of Inner Mongolia, Shanxi, Shaanxi, Ningxia, Gansu, Henan total six provinces with over 100 billion tons of coal resources in the range of geography, are the concentrated coal resources regions of China, and of which the resources quantity occupies 50% around of national coal resources quantity, and over 55% of the coal resources in the north of China. In the south of China, coal resources quantity concentrates in Guizhou, Yunnan and Sichuan provinces, total coal resources quantity of the three provinces is 352.574 billion tons, occupying 91.47% of resources quantity in the south of China; proved hold resources quantity also occupies over 90% of the one in the south of China.[5]

Coal Production

The Chinese coal industry is the world's largest in terms of production. Its annual production totaled 2.96 billion tons in 2009. The majority of this was for domestic consumption, with the power sector accounting for 76% of the total domestic consumption.[6] Since China is scarce in oil and natural gas, coal continues to be a major source for the country's energy requirements. Despite the large domestic demand, coal does contribute to country's export revenues. Apart from energy, coal is used in the metallurgical, chemical and pharmaceutical industries.



Source: International Energy Agency

Demand for coal in China continues to increase, and it is estimated that it will be around 3.06 billion tons in 2010. Furthermore, it is expected that demand will soon exceed production due to factors such as a government crackdown on mines that are unsafe, polluting, or inefficient.

5 Analysis and Investment Consulting Report on China Coal Industry, 2010-2015

6 Country analysis briefs: China. Energy Information Administration. August, 2006. http://www.eia.doe.gov/emeu/cabs/China/Coal.html. Retrieved on 26 June 2010.

Major Players

In 2007, the labor intensive Chinese coal industry operated through a network of 6,645 enterprises. Coal is extensively produced at around 23,000 mines spread across 1,300 counties and cities.[7] Domestic production is dominated by:

- Shenhua Group: With annual production at more than 185 million tons, Shenhua Group ranks first in the country in terms of production.

- China National Coal Group Corp: This is the second largest coal producer, with an annual coal output of more than 87 million tons.

- Datong Coal Mine (Shanxi Province): China's third-largest coal producer is government owned. The annual coal output is about 61 million tons.

- Yanzhou Coal and China Coal: This commands the fourth position in the Chinese coal industry, with an annual output of more than 35 million tons.

Critical Issues

The most critical issues faced by the Chinese coal industry include the following:

- Mine accidents: With rising coal production, the frequency of fires in coal mines has surged. In 2009, mining accidents resulted in 2,631 casualties. Inadequate safety measures in small mines were the main cause of these accidents.[8]

- Environmental issues: The Chinese coal industry needs to address the high emission of pollutants from coal plants. Air pollution causes chronic obstructive pulmonary diseases (COPD), resulting from exposure to SO2 particulates.[9]

- Technological issues: Coal mining units depend heavily on domestically produced equipments. In terms of efficiency, these equipments lag far behind the advanced technology used in Western nations. To enhance the efficiency levels, the Chinese government needs to emphasize on the incorporation of imported high-tech mining technology.

7 Xinhua. China to ban small coal mines for improving pit safety record. August 15, 2008.

8 Mines and Communities Website. China and US coal disasters. Retrieved on 26 June 2010.

9 Workers die of asphyxiation in Chinese coal mine" (Al Nisr Publishing LLC). Associated Press. May 16, 2009. www.gulfnews.com/world/China/10314082.html. Retrieved on 26 June 2010.

Looking Forward

The "11th Five Years" is the best period for structure adjustment and industrial transformation of coal industry. Coal is the basic energy in China, and occupies 70% around of primary energies. The "base on coal, develop diversification" basic strategy further established in the "11th Five Years" plan lays a foundation for the flourishing development of China coal industry.[10] Given China's robust economic growth rates, demand of coal is expected to continue its stable growth. However, with overall reserves of approximately 1.3 trillion tons, the Chinese coal industry is in a position to meet the rising demand, provided it implements efficient technology at the earliest.

VALUATION METHODOLOGIES

The valuation of the Mineral Assets can be broadly classified into one of three approaches, namely the asset approach, market approach and income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair market value analysis of the Mineral Assets.

The Asset Approach

This is a general way of determining the fair market value indication of a business, business ownership interest, security, intangible assets, or mineral asset by using one or more methods based on the value of the assets net of liabilities.

Based on the theory that the value of a business is equal to the sum of its parts, value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

We have considered but decided against the asset approach to arrive at a fair market value of the Mineral Assets of Subsidiary A and Subsidiary B as of the Valuation Date because:

- The values of the Mineral Assets are determined by the amount of reserves/ resources in the mine deposits from which economic benefits can be derived, rather than the cost of replacement of the estimated mineral reserves/ resources.

The Market Approach

This is a general way of determining a fair market value indication of a business, business ownership interest, security, intangible asset or mineral asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

10 Analysis and Investment Consulting Report on China Coal Industry, 2010-2015

Value is established based on the principle of substitution. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should approximate one another.

We have considered but rejected the market approach to arrive at the fair market value of the Mineral Assets of Subsidiary A and Subsidiary B as of the Valuation Date because:

- The market approach is the approximate transaction price of a company/ business in the market place. There is no comparable transaction in the public market.

- Available public information in relation to acquisitions frequently involves specific buyers who pay a premium/ discount under their unique circumstances. This makes it difficult to know if the price paid truly represents the approximate price of the transaction.

The Income Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, intangible asset, or mineral asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the Valuation Date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

We have applied the income approach to arrive at the fair market value of the Mineral Assets of Subsidiary A and Subsidiary B as of the Valuation Date because:

- Economic benefit streams generated by the Mineral Assets can be identified and ascertained based on historical financial information provided by the management of the Company, as well as the coal reserves and resources; production schedule and cost estimates provided by the management of the Company, as well as detailed in the Competent Person's Report.

MAJOR ASSUMPTIONS OF MINERAL ASSETS VALUATION

The valuation of the Mineral Assets comprises of an economic measure reflecting the market value of the entire business operation of Subsidiary A and Subsidiary B as of the Valuation Date. Our development of the fair market value will be performed by using a discounted cash flow ("DCF") methodology, which requires a number of assumptions, including revenue and expense forecasts and capital expenditure requirement. The nature and underlying rationale for these assumptions will be discussed below.

Provided below is a brief description of all major assumptions, with the majority of which were extracted from the Competent Person's Report.

Coal Reserves/Resources

Mine	Reserve/Resources	Mt
Kaiyuan	Proven and probable marketable reserves	19.01
Zexu	Measured and indicated marketable resources	119.38

* as of 31 March 2010 per the Competent Person's Report

Production Capacities

	Coal Output	
Mine	2009	2010 and beyond
Kaiyuan	3.06Mt	1.5Mt
Zexu	–	1.8Mt*

* mining operation scheduled to commence in year 2015

Basis of Revenue Growth

Revenue growth will be based on the recovery of prices of the coal products offered by Subsidiary A in the projection period, which is 10% for year 2011 and 2012 as the Company expects the coal prices to fully recover from recent drop during the start of 2010.

Price of Coal Products

Coal prices applied in the valuation of the Mineral Assets are derived based on the historical selling price data of the Subsidiary A:

Type of Product	Selling Price (RMB/t)			
	Q4 2007	2008	2009	Q1 2010
Large Size	54	88	89	73
Medium Size	45	82	87	72
Small Size	42	73	89	68
Fines	40	38	28	18
Raw Coal	31	21	62	–

In determining the coal prices to be applied in the valuation of the Mineral Assets, we have also examined the following sources:

– 中國煤炭市場網 (China Coal Market Network, "CCTD");

– the TEX Report;

– globalCOAL;

– CLSA Asia-Pacific Markets; and

– 中國能源信息網 (www.nengyuan.net);

Basis of Cost of Sales

The cost of sales mainly includes stripping, extraction, loading, separation, normal spoilage delivery, safety, government fee, mining right fee, miscellaneous, resource compensation fee, and resource tax. The cost of sales, on a per-ton basis, for both the Kaiyuan Open Pit Coal Mine and Zexu Open Pit Coal Mine, is RMB58.50/ton.

Basis of Operating Expenses

Operating expenses mainly include audit fee, bad debt expense, bank charges, communication, depreciation, donation, electricity and utilities, entertainment, government fee, legal fee, taxes, motor vehicle expenses, office expenses, travelling, property tax, stamp duties, transport tax, research & development, rental fee, salaries, social welfare, and other expenses. On a per-ton basis, the operating expenses for both the Kaiyuan Open Pit Coal Mine and Zexu Open Pit Coal Mine are RMB5.20/ton and RMB8.0/ton, respectively.

Income Tax Rate

Subsidiary A is enjoying a preferential tax treatment until year 2011, in which only half the corporate income tax (12.5%) needs to be paid. Tax rate is expected to revert to the normal statutory rate of 25% starting in year 2012. No such preferential tax treatment is available for Subsidiary B.

Capital Expenditure

- Kaiyuan: no major expansion is planned at the moment as the Kaiyuan Open Pit Coal Mine in operation; therefore, annual capital expenditures are of sustaining nature to maintain its current operation and is assumed to be at RMB1.5 million per annum throughout the projection period.

- Zexu: significant capital expenditures incurred is scheduled for years 2015 and 2016, where the capital spending assume outright purchase of production, support, and infrastructure equipment with no provisions for leasing:

Category	**Capital Expenditures** *(RMB' million)*
Mine construction	20.36
Civil engineering	15.88
Equipment	47.56
Installation	6.84
Other	8.58
Contingency	7.94
Mining rights	6.00
Working capital	8.43
Total	**121.59**

Other Assumptions

- there will be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in China;
- there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
- there will be no material changes to the estimated reserves and resources reported in the Competent Person's Report prepared by BOYD;
- all relevant legal approvals, mining rights, exploration permit and business certificates or licenses for exploration activities are formally obtained and that no additional costs or fees are needed to procure such during the application;
- the Mining Rights and Exploration Permit are free from any encumbrance and liability including but not limited to mortgage, charge, land premium, relocation compensation and development costs;
- Subsidiary A shall have uninterrupted rights to operate the Kaiyuan Open Pit Coal Mine throughout the valuation period until all coal reserves are completely exhausted;
- Subsidiary B will be able to obtain the necessary mining rights to begin their mining operation as according to their business plan, and that uninterrupted rights to operate the Zexu Open Pit Coal Mine throughout the valuation period until all coal resources are completely exhausted; and

- Subsidiary A and Subsidiary B will retain competent management, key personnel, and technical staff to support the ongoing mining and exploration activities.

DETERMINATION OF DISCOUNT RATE

We developed the cost of equity (the "Re") and the cost of debt (the "Rd") for the valuation of the Mineral Assets of Subsidiary A and Subsidiary B based on data and factors relevant to the economy and industry as at the Valuation Date. These costs were then weighted in terms of a typical or market participant industry capital structure to arrive at the estimated weighted average cost of capital (the "WACC").

Development of Weighted Average Cost of Capital (the "WACC")

We considered market and industry data to develop the WACC.

The traditional formula for calculating the WACC is:

$$\text{WACC} = [(\%D) * (Rd) * (1 - \text{tax rate})] + [(\%E) * (Re)]$$

Development of Cost of Equity (the "Re")

We considered the Capital Asset Pricing Model (the "CAPM") to calculate the cost of equity. Such method is considered a common method.

Capital Asset Pricing Model

CAPM, as applied in this valuation, can be summarized as follows:

$$Re = Rf + Beta * (Rm - Rf) + RPs + RPu$$

Risk Free Rate ("Rf")

Rf was found by looking at the yields of the Chinese government bonds. Ideally, the duration of the security used as an indication of Rf should match the horizon of the projected cash flows that were being discounted, which was into perpetuity in the present case. We relied on the 30-Year Chinese Government Bond yield of 4.020% as at the Valuation Date.

Expected Market Return ("Rm")

Expected market return represents the risk premium for a particular equity market. The expected equity risk premium in China applied is 14.20%, as quoted from Bloomberg.

Beta

In the CAPM formula, beta is a measure of the systematic risk of a particular investment relative to the market for all investment assets. We obtained betas for eight identified publicly traded guideline companies ("Guideline Public Companies"), details of which are listed in the table below. The identified betas were unlevered to remove the effects of financial leverage on the indication of relative risk provided by the beta, and re-levered at the optimal industry capital structure.

Selection of Guideline Public Companies

Due care was exercised in the selection of Guideline Public Companies by using reasonable criteria in deciding whether or not a particular company is relevant to compute beta in our determination of Re.

In selecting the Guideline Public Companies, we started with a description of the company being valued, in terms of lines of business, location of the mine and other criteria. For this particular engagement, we have selected the Guideline Public Companies based on the following criteria:

(1) Status of operation

The Guideline Public Companies are engaged in the exploring and mining of coal. Since there is no identical company in the market, regardless of which industry it is, it is always not the case that the Guideline Public Companies are engaged in the identical line of business, but rather we have looked into companies with similar or complementary businesses.

(2) Regional status geographically

The mineral properties of the Guideline Public Companies are located in China.

(3) Market risk and investment status

The Guideline Public Companies are listed on the stock exchanges of Hong Kong, China and United States.

(4) Sufficient market knowledge and reflection in enterprise value

The amounts of mineral reserves/resources for the projects undertaken by the Guideline Public Companies are publicly disclosed.

The following is the list of Guideline Public Companies that we have reviewed in connection with the valuation:

Company	Ticker	Mine Location	Description
Gansu Jingyuan Coal Industry and Electricity Power Co. Limited	000552 CH	China	Explores, process and markets coal
Songzai International Holding Group Inc.	SGZH US	China	Explores and develops coal properties
Anhui Hengyuan Coal Industry and Electricity Power Co. Limited	600971 CH	China	Operates in the coal mining and processing business
Shanghai Ace Co. Limited	600652 CH	China	Operates in the coal mining and processing business
Guizhou Panjiang Coal Co. Limited	600395 CH	China	Operates in the coal mining and processing business

Average Un-Levered Beta	Re-levered Beta
1.098	1.170

Small company premium ("RPs")

RPs, over the risk premium for the market, can be calculated by subtracting the estimated return in excess of the riskless rate from the realized return in excess of the riskless rate of companies. We have applied the small company premium of 5.81% in excess of CAPM for companies in the 10th-decile category of NYSE/AMEX/NASDAQ in the United States. We relied on the studies performed by Ibbotson Associates as reflected in their Stocks, Bonds, Bills, and Inflation: 2009 Yearbook.

Specific company adjustment ("RPu")

RPu for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to the subject.

Firm specific risk factors may include the following:

- Competition
- Customer Concentration

- Size
- Poor Access to Capital
- Thin Management
- Lack of Diversification
- Environmental
- Litigation
- Distribution Channels
- Old Technology
- Company Outlook

We believe all of the above risk factors have been properly accounted for in the cost of equity and therefore it is not necessary to apply an additional RPu.

Cost of Equity ("Re") Conclusion

CAPM

Risk Free Rate ("Rf")	4.020%
Beta	1.170
Expected Market Return ("Rm")	14.20%
Small Company Premium ("RPs")	5.81%
Specific Company Adjustment ("RPu")	0.00%
Cost of Equity ("Re")	**21.70%**

Weighted Average Cost of Capital ("WACC")

WACC (being the discount rate for this valuation) is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure. We have "levered" the subject companies as if it mirrored the median percentage of debt as the comparable companies which are in the emerging stage of their mining operation, on the assumption that over time, the subject company will approach an optimal capital structure with 8.08% of debt, which is the less expensive form of capital than equity, to remain competitive. Subsequent to the calculations of cost of equity and the cost of debt, the following equation is used to develop the WACC:

$$WACC = [(\%D) \times (Rd) \times (1-T)] + [(\%E) \times (Re)]$$

The calculation of WACC, or the discount rate, therefore becomes:

WACC

Percentage of Interest Bearing Debt (%D)	8.08%
x Market Cost of Debt (China above 5 years lending rate) (Rd)	5.94%
x 1 – Tax	75.00%
Weighted Cost of Debt	**0.36%**
+	
Percentage of Equity (%E)	91.92%
x Cost of Equity ("Re")	21.70%
Weighted Cost of Equity	**19.95%**
Nominal WACC (after-tax)	20.00%
Nominal WACC (before-tax)	26.67%
Real WACC (before-tax)	**22.53%**

VALUATION ANALYSIS

Valuation Methodology

Income Approach – Discounted Cash Flow Method

- DCF requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable, i.e. not varying from period to period and the benefit stream is determined to continue into the future without compromise.

- the essential elements of DCF are: (1) the expected earnings stream to be discounted, and (2) the discount rate (WACC).

- the net cash flows from the Mineral Properties were estimated, and we discounted the sum to a present value at the appropriate discount rate, as illustrated below:

$$PV = \frac{E1}{(1+k)} + \frac{E2}{(1+k)^2} + \frac{E3}{(1+k)^3} + \dots + \frac{En}{(1+k)^n}$$

– E1, 2, 3, etc. = Expected economic income in the 1st, 2nd, 3rd periods, and etc.

– En = Expected economic income in the nth or last period in which an element of income is expected

– k = WACC

Major Assumptions

- We have relied on the mining and production schedule provided by the management of Subsidiary A to determine the actual amount of coal sold.

- We have assumed that the Mineral Assets will be automatically renewed upon expiration until the ore reserves are fully exhausted.

- We have applied a WACC of 22.53% to discount all future economic benefits to be derived from the Mineral Assets to the Valuation Date.

DISCOUNT FOR LACK OF MARKETABILITY

The Discount for Lack of Marketability ("DLOM") can be the valuation adjustment with the largest monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In selecting the appropriate DLOM, we considered the length of time and effort required by management in order to sell a controlling interest. This typically would take at least three to nine months if a transaction could be consummated at all. A controlling interest does enjoy the benefit of controlling the cash flow stream of the Mineral Assets during this time period. Finally, we considered the expenses that are typically incurred to sell a business which are substantial such as legal fees, accounting fees, and intermediary fees.

The Mineral Assets are not traded nor does an established market exist for it, prudent investors would apply a discount to reflect its lack of liquidity and the current market situation. For this reason, we adopted a 15% DLOM to reflect this fact in our valuation for the fair market value of the Mineral Assets of Subsidiary A and Subsidiary B associated as of the Valuation Date.

Sensitivity Analysis

WACC (Real) & Weighted-Average Long-Term Coal Price

Both the WACC (real) and the weighted-average long-term coal price adopted play a pivotal role in the valuation as they are very sensitive to the fair market value of the Mineral Assets. The fair market value under different combinations of WACC (real) (by 1% increments) and weighted-average long-term coal price (by 5% increments) is presented below:

Mining Rights of Subsidiary A

	Weighted-Average Long-Term Coal Price (RMB/t) *Fair Market Value (HKD' million)*				
WACC	79.62	83.81	88.23	92.64	97.27
24.53%	73.67	89.94	107.06	124.19	142.17
23.53%	76.08	93.01	110.83	128.64	147.35
22.53%	78.63	96.25	114.80	133.35	152.83
21.53%	81.32	99.68	119.01	138.34	158.63
20.53%	84.16	103.30	123.46	143.61	164.77

Exploration Permit of Subsidiary B

	Weighted-Average Long-Term Coal Price (RMB/t) *Fair Market Value (HKD' million)*				
WACC	79.62	83.81	88.23	92.64	97.27
24.53%	12.25	24.16	36.70	49.24	62.41
23.53%	14.27	27.12	40.64	54.16	68.35
22.53%	16.60	30.48	45.09	59.69	75.03
21.53%	19.29	34.31	50.13	65.95	82.56
20.53%	22.39	38.70	55.87	73.04	91.07

CONCLUSION OF VALUES

In conclusion, based on the analysis stated above and on the valuation methods employed, it is our opinion that the fair market value of the Mineral Assets of Subsidiary A and Subsidiary B as of the Valuation Date are as follow:

Mineral Assets	**Fair Market Value** *(HKD)*
Mining Rights of Subsidiary A	114,800,000
Exploration Permit of Subsidiary B	45,090,000

Yours faithfully,
GREATER CHINA APPRAISAL LIMITED

K. K. Ip
Registered Business Valuer of HKBVF
MRICS, MHKIS and RPS (GP)
Managing Director

Samuel Y.C. Chan
MBA, CVA, CM&AA
Associate Member of the AIMA
Director
Head of Business Valuation

Victor Siu
CPA/ABV
Senior Consultant, Business Advisory

APPENDICES – STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

The valuation may not be used in conjunction with any other valuation or study. The value conclusion(s) stated in this valuation are based on the program of utilization described in the report and may not be separated into parts. The valuation was prepared solely for the purpose, function, and party so identified in the report. The valuation report may not be reproduced, in whole or in part, and the findings of the report may not be utilized by a third party for any purpose, without the express written consent of Greater China Appraisal Limited.

No change to any item in any of the valuation report shall be made by anyone other than Greater China Appraisal Limited, and we shall have no responsibility for any such unauthorized change.

Unless otherwise stated in the valuation, the valuation of the business has not considered or incorporated the potential economic gain or loss result from contingent assets, liabilities, or events existing as at the Valuation Date.

The working papers for this engagement are being retained in our files and are available for your references; we would be available to support our valuation conclusion(s) should this be required. Those services would be performed for an additional fee.

Neither all nor any part of the contents of the report shall be disseminated or referred to the public through advertising, public relations, news or sales media, or any other public means of communication, or referenced in any publication, including any private or public offerings, including but not limited to those filed with The Stock Exchange of Hong Kong Limited or other governmental agency, without the prior written consent and approval of Greater China Appraisal Limited.

Management is assumed to be competent, and the ownership to be in responsible hands, unless noted otherwise in this report. The quality of business management can have a direct effect on the viability and value of the business. Any variance from this assumption could have a significant impact on the final value estimate.

Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future legislation, including any environment or ecological matters or interpretations thereof.

Events and circumstances frequently do not occur as expected, and there will usually be differences between prospective financial information and actual results, and those differences may be material. Accordingly, to the extent that any of the information used in this analysis and report requires adjustment, the resulting fair value would be different.

Any decision to purchase, sell, or transfer any interest or asset in the acquirer or acquire company, or any portion thereof, shall be solely your responsibility, as well as the structure to be utilized and the price to be accepted.

The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business or assets might be concluded at a higher value or at a lower value, depending on the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

All facts and data set forth in our letter report are true and accurate to the best of our knowledge and belief.

No investigation of legal fees or title to the property has been made, and the owner's claim to the property has been assumed valid. No consideration has been given to liens or encumbrances that may be against the property except as specifically stated in the valuation executive summary report.

During the course of the valuation, we have considered information provided by the management and other third parties. We believe these sources to be reliable, but no further responsibility is assumed for their accuracy.

We have conducted interviews with the current management of the acquiring company concerning the past, present, and prospective operating result of the acquiring company.

Any projections of future events described in this report represent the general expectancy concerning such events as at the Valuation Date. These future events may or may not occur as anticipated, and actual operating results may vary from those described in our report.

This valuation study is intended solely for use by the management of the acquiring company in connection with financial reporting relating to HKAS and HKFRS and should not be used for any other purpose or distributed to third parties, in whole or in part, without the express written consent of Greater China Appraisal Limited.

We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report.

Our report is based on historical and/or prospective financial information provided to us by management and other third parties. This information has not been audited, reviewed, or compiled by us, nor has it been subjected to any type of audit, review, or compilation procedures by us, nor have we audited, reviewed, or compiled the books and records of the subject company. Had we audited, reviewed, or compiled the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided; accordingly, we take no responsibility for the underlying data presented or relied upon in this report.

We have relied upon the representations of the owners, management, and other third parties concerning the value and useful conditions of all equipment, real estate, investments used in the business and any other assets of the business, and that such assets are free and clear of liens and encumbrances, or that the Company has good title to all assets.

Our valuation judgment, shown herein, pertains only to the subject assets, the stated value standard (fair value), as at the Valuation Date, and only for the stated valuation purpose (financial reporting).

The various estimates of value presented in this report apply to the valuation report only, and may not be used out of the context presented herein.

In all matters that may be potentially challenged by The Stock Exchange of Hong Kong Limited, a Court, the Inland Revenue Department, or other governmental and/or regulatory body, we do not take responsibility for the degree of reasonableness of contrary positions that others may choose to take, nor for the costs or fees that may be incurred in the defence of our recommendations against challenge(s). We will, however, retain our supporting work papers for your matter(s), and will be available to assist in active defence of our professional positions taken, at our then current rates, plus direct expenses at actual, and according to our then current Standard Professional Agreement.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives 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 executives 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:

Long position in the Shares and underlying Shares:

Name of Director	Capacity	Nature of interest	Number of Shares held	Number of underlying Shares held	Total number of Shares and underlying Shares held *(Note 3)*	Approximate percentage of the issued share capital of the Company *(Note 4)*
Ms. Lo Fong Hung *(Note 1)*	Beneficial owner	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Mr. Wang Xiangfei *(Note 2)*	Beneficial owner	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%

Notes:

1. Ms. Lo Fong Hung is deemed to have interests in the Shares and underlying Shares through her 30% interest in New Bright International Development Limited ("New Bright"), which 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.

2. Mr. Wang Xiangfei is deemed to have interests in the Shares and underlying Shares interested by his spouse, Ms. Lo Fong Hung.

3. 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) HK$200,000,000 convertible bond at the conversion price of HK$0.20 ("Convertible Bond") giving rise to an interest in 1,000,000,000 underlying Shares.

4. 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company has an interest or short position in any 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 executives 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.

(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 executives 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:

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%

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)*
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%
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. Ascent Coal was directly interested in 569,616,589 Shares and a further 1,000,000,000 underlying Shares which may be fully allotted and issued if the Convertible Bond are convert at the conversion price of HK$0.20. 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 is 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 130.65% 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 Financial Assets and Strategies Ltd, a company which is wholly owned by Africa Israel Investments Ltd.

6. These 74,000,000 Shares were held by Mr. Lev Leviev. Of these Shares, 45,000,000 Shares were held by Africa Israel Financial Assets and Strategies Ltd, a company which is wholly owned by Africa Israel Investments Ltd; 29,000,000 Shares were held by Memorand Ltd, a company which is owned by Memorand Management (1998) Ltd; and 1,000,000 Shares were held by Mr. Lev Leviev.

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 legal 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 or that may have an influence on its right to explore or mine.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the controlling shareholders of the Company and their respective associates has any interest in a business, apart from the business of the Company, which competes or may compete with the business of the Company or has any other conflict of interest with the Company which would be required to be disclosed under Rule 8.10 of the Listing Rules.

5. 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 2010, the date to which the latest published audited consolidated financial statements of the Group was made up.

6. INTERESTS IN CONTRACT ON 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.

7. 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 terminable by the employer within one year without payment of compensation other than statutory compensation.

8. 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 memorandum of understanding entered into between the Purchaser and the Vendor on 13 March 2009 concerning the Former Aquisition;

(b) the escrow agreement dated 13 March 2009 entered into between the Purchaser and the Purchaser's solicitors (as escrow agent) in respect of the escrow of an earnest money of HK$2 million for the Former Acquisition in the escrow account with the Purchaser's solicitors;

(c) 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;

(d) the Former Sale and Purchase Agreement;

(e) the deed of waiver dated 26 June 2009 entered into between the Target Company and SFID relating to the waiver of an outstanding amount of HK$958,605,853.72 payable by the Target Company to SFID against the impairment loss of intangible assets of Subsidiary A and Subsidiary B;

(f) the deed of indemnity dated 3 July 2009 entered into between the Purchaser, the Vendor, Ming Kei Holdings Limited, the Company, the Target Company, Ming Kei Kai Yuan, Subsidiary A and Subsidiary B in respect of the undertaking of the Vendor and Ming Kei Holdings Limited to indemnify the Purchaser, the Target Company, Ming Kei Kai Yuan, Subsidiary A and Subsidiary B against certain claims and tax liabilities;

(g) the environmental indemnity deed dated 3 July 2009 entered into between the Purchaser, the Vendor, Ming Kei Holdings Limited, the Target Company, Ming Kei Kai Yuan, Subsidiary A and Subsidiary B in respect of the undertaking of the Vendor and Ming Kei Holdings Limited to indemnify the Purchaser, the Target Company, Ming Kei Kai Yuan, Subsidiary A and Subsidiary B against certain environmental liabilities;

(h) the shareholders' agreement dated 3 July 2009 entered into between the Purchaser, the Vendor, the Target Company, the Company and Ming Kei Holdings Limited for regulating certain aspects of the affairs of and dealings with the Target Company;

(i) the escrow agreement dated 3 July 2009 entered into 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 of HK$28 million for the Former Acquisition in the escrow account with the Purchaser's solicitors;

(j) the loan agreement dated 3 July 2009 entered into between the Vendor, the Target Company and Ming Kei Holdings Limited in respect to the provision of loan facilities of HK$28.5 million by the Vendor to the Target Company;

(k) the escrow agreement dated 20 May 2010 entered into between the Purchaser, the Purchaser's solicitors (as escrow agent) and the Vendor in respect of the escrow of the refundable deposit and part payment of the Considerations, being HK$20 million, in the escrow account with the Purchaser's solicitors; and

(l) the Sale and Purchase Agreement.

9. EXPERTS AND CONSENTS

(a) The following is the qualification of the experts whose reports are contained in this circular:

Name	Qualification
BDO Limited ("BDO")	Certified public accountants
Greater China Appraisal Limited ("Greater China")	Professional valuation firm
John T. Boyd Company ("John T. Boyd")	Competent person
Emperor Capital	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

(b) BDO, Greater China, John T. Boyd and Emperor Capital have given and have not withdrawn their written consent dated 27 July 2010 to the issue of this circular with the inclusion of their report and the reference to their names in the form and context in which they respectively appear.

(c) As at the Latest Practicable Date, neither BDO, Greater China, John T. Boyd nor Emperor Capital have any direct or indirect interest in any assets which have been, since 31 March 2010 (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 have 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 BDO, Greater China, John T. Boyd nor Emperor Capital have 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.

10. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Lo Ka Wai, Eddy, who is currently 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 18th Floor, 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.

11. 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 2010;

(c) the accountants' report on the Target Group prepared by BDO Limited, the texts of which are set out in Appendix II to this circular;

(d) the report on unaudited pro forma financial information on the Enlarged Group prepared by BDO Limited, the texts of which are set out in Appendix III to this circular;

(e) the valuation report on the properties 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 competent person's report prepared by John T. Boyd Company in respect of the Coal Mines, the texts of which are set out in Appendix V to this circular;

(g) the valuation report on the Coal Mines prepared by Greater China Appraisal Limited, the texts of which are set out in Appendix VI to this circular;

(h) the letter from Emperor Capital set out on pages 24 to 39 of this circular;

(i) the written consents as referred to in the paragraphs headed "Experts and consents" in this appendix;

(j) the material contracts as referred to in the paragraphs headed "Material contracts" in this appendix;

(k) the Sale and Purchase Agreement; and

(l) this circular.

CHINA SONANGOL RESOURCES ENTERPRISE LIMITED
安中資源實業有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1229)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the special general meeting ("**SGM**") of China Sonangol Resources Enterprise Limited (the "**Company**") will be held at Suites 1003-1006, 10/F., Two Pacific Place, 88 Queensway, Hong Kong on Thursday, 12 August 2010 at 11:30 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 27 July 2010, copy of which has been produced to the SGM marked "A" and signed by the chairman of the SGM for the purpose of identification), and the terms and conditions thereof and the transaction(s) contemplated thereunder and the implementation thereof be and are hereby approved 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
China Sonangol Resources Enterprise Limited
Kwan Man Fai
Executive Director

Hong Kong, 27 July 2010

Notes:

1. A member entitled to attend and vote at the meeting 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 branch share registrar in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the SGM or adjourned meeting thereof (as the case may be).

3. 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.

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.