THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

NAR
NORTH ASIA RESOURCES
北亞資源

NORTH ASIA RESOURCES HOLDINGS LIMITED
北亞資源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 61)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF LEXING HOLDINGS LIMITED; (2) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF SHARES OF AND SHAREHOLDER'S LOAN DUE BY NORTH ASIA RESOURCES GROUP LIMITED AND GOOD LOYAL GROUP LIMITED; (3) SUBSCRIPTION OF ORDINARY SHARES AND CONVERTIBLE PREFERENCE SHARES BY BUSINESS ALLY INVESTMENTS LIMITED; (4) ALTERATION OF TERMS OF THE EXISTING CONVERTIBLE BONDS; (5) PROPOSED PLACING OF NEW CBs AND PNs; AND (6) NOTICE OF SGM

Financial adviser to City Bloom Limited

SUNWAH KINGSWAY
新華滙富
Kingsway Capital Limited

Financial adviser to North Asia Resources Holdings Limited

OPTIMA CAPITAL
Optima Capital Limited

Independent financial adviser to North Asia Resources Holdings Limited

東英 ORIENTAL PATRON

Placing Agent of the New CBs and the PNs

寶通證券亞洲有限公司
KCG Securities Asia Limited

Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise. A letter from the Board is set out on pages 15 to 108 of this circular.

A notice convening the SGM to be held at Units 2001-2, 20th Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong at 11:00 a.m. on Friday, 12 April 2013 or any adjournment thereof is set out on pages SGM – 1 to SGM – 7 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return 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.

25 March 2013

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DEFINITIONS

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

"Acquisition"	the acquisition of the Lexing Sale Share by Guang Cheng from City Bloom pursuant to the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 12 June 2012 (as amended and supplemented by the supplemental letters dated 12 July 2012 and 27 July 2012, a supplemental agreement dated 26 September 2012, the extension letters dated 14 December 2012 and 18 March 2013 and a supplemental letter dated 19 March 2013) entered into between Guang Cheng and City Bloom in relation to the Acquisition
"Action"	High Court of Justice of the BVI Claim No. BVIHC (COM) 0087 of 2012 on 21 August 2012 in connection with, amongst others, the alteration of certain terms and conditions of the US$30M Convertible Bonds in February 2012
"Announcement"	the announcement of the Company dated 8 October 2012 in relation to, among other things, the Transactions
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors, including all independent non-executive Directors
"Bolong"	山西煤炭運銷集團古交鉑龍煤業有限公司 (Shanxi Coal Transportation and Sales Group Gujiao Bolong Mine Co., Ltd.*), a company established in the PRC and a 100%-owned subsidiary of Shanxi Coal
"Bolong Mine"	the mining area located at Malong County at the south-west of Gujiao City covering an area of approximately 5.986 km^2
"Business Ally"	Business Ally Investments Limited, a company incorporated in the BVI with limited liability and the holder of the US$30M Convertible Bonds

"Business Day"	a day (other than a Saturday, Sunday or public holiday or any day where a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above is in force in Hong Kong) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"BVI"	the British Virgin Islands
"City Bloom"	City Bloom Limited, a company incorporated in the BVI with limited liability
"Claims"	the claims filed by Mountain Sky Resources Holdings Limited, which is currently holding 18.81% interest in Mountain Sky, against Mountain Sky, Ultra Asset, the Company and Guang Cheng in the Action, further details of which are set out in the announcement of the Company dated 27 August 2012
"Coal Mines"	Liaoyuan Mine, Jinxin Mine, Xinfeng Mine, Bolong Mine and Fuchang Mine
"Company"	North Asia Resources Holdings 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 (stock code: 61)
"Completion"	simultaneous completion of the Transactions
"Completion Date"	the date of Completion
"Completion of Placing"	completion of the Placing in accordance with the terms and conditions of the Placing Agreement
"concert parties" or "parties acting in concert"	has the meaning ascribed to these terms under the Takeovers Code
"connected persons"	has the meaning ascribed to it under the Listing Rules

"Consideration Bonds"	the convertible bonds to be issued by the Company to City Bloom in the maximum principal amount of HK$3,662 million for settlement of part of the consideration of the Acquisition
"Consideration Shares"	new Shares to be issued and allotted by the Company at Completion to settle part of the consideration of the Acquisition
"Conversion Shares"	new Share(s) to be issued and allotted to the holders of the Subscription CPS and the Consideration Bonds (as the case may be) by the Company credited as fully paid upon the exercise of the conversion rights attaching to the Subscription CPS and the Consideration Bonds at the conversion price/rate prevailing at the time the conversion notice is given by the relevant holder of the Subscription CPS and the Consideration Bonds, respectively
"Convertible Bonds Subscription Agreement"	the subscription agreement dated 8 September 2010 (as amended and supplemented by a supplemental letter dated 21 September 2010, and further amended by two supplemental agreements dated 29 October 2010 and 6 January 2012, respectively) entered into between the Company and Business Ally, under which, among other things, the Company issued, and Business Ally subscribed for the US$30M Convertible Bonds
"CPS"	the convertible preference shares of the Company
"Director(s)"	director(s) of the Company
"Disposal"	the disposal of the NARG Sale Shares, the GLG Sale Share and the Sale Loan by the Company to Mountain Sky pursuant to the Disposal Agreement
"Disposal Agreement"	the agreement dated 12 June 2012 (as amended and supplemented by the supplemental letters dated 12 July 2012, 27 July 2012, 26 September 2012 and the extension letters dated 14 December 2012 and 18 March 2013) entered into between the Company and Mountain Sky in relation to the Disposal

"Disposal Group"	the GLG Group and the NARG Group collectively
"Enlarged Group"	the Group upon Completion
"Fenwei"	Shanxi Fenwei Energy and Development Consulting Co., Ltd. a consultation services provider in coal and coke industry in the PRC
"First Placing Announcement"	the announcement of the Company dated 18 December 2012 in relation to, among others, the proposed placing of the New CBs under the Specific Mandate for Placing and the placing of the PNs
"Fuchang"	山西煤炭運銷集團古交福昌煤業有限公司 (Shanxi Coal Transportation and Sales Group Gujiao Fuchang Mine Co., Ltd.*), a company established in the PRC and a 69.4%-owned subsidiary of Shanxi Coal
"Fuchang Mine"	the mining area located at Gujiao City covering an area of approximately 1.8006 km^2
"GLG"	Good Loyal Group Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company before Completion
"GLG Group"	GLG and its subsidiaries
"GLG Sale Share"	one (1) share of US$1.00 in the issued share capital of GLG, representing the entire issued share capital of GLG as at the date of the Disposal Agreement
"Greater China"	Greater China Appraisal Limited, an independent firm of professional valuer
"Group"	the Company and its subsidiaries
"Guang Cheng"	Guang Cheng Group Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
"Guarantor"	Mr. Zhang or such person/company nominated by him

"HK OEPC"	Hong Kong OEPC Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Lexing
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Lim Yew Kong, John, Mr. Mak Ping Leung and Mr. Leung Po Wing, Bowen Joseph *(GBS, JP)*, formed to give recommendations to the Independent Shareholders regarding the Transactions
"Independent Financial Adviser" or "Oriental Patron"	Oriental Patron Asia Limited, a licensed corporation to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transaction contemplated thereunder
"Independent Shareholders"	Shareholders other than City Bloom, Mountain Sky, Ultra Asset, Business Ally and their respective associates (to the extent where they are Shareholders)
"Iron Mine"	a 12.01 km^2 mine located in Dundgobi aimag, Mongolia for the mining of iron ore and/or other related mineral ores
"IRR"	a compounded, cumulative internal rate of return, calculated at the designated annual discount rate, which, when applied to any amount, and discounted annually, produces a net present value of such amount equal to zero
"Issue Price"	the issue price of the Consideration Shares and the initial conversion price of the Consideration Bonds of HK$0.17 per Share
"Jiangxi Hengchuang"	江西恒創能源投資有限公司 (Jiangxi Hengchuang Energy Investments Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of Jiangxi Wantai

"Jiangxi Hengpuwei"	江西恒普威能源投資有限公司 (Jiangxi Hengpuwei Energy Investments Co., Ltd.), a company established in the PRC and a wholly-owned subsidiary of Jiangxi Wantai
"Jiangxi Wantai"	江西萬泰實業有限公司 (Jiangxi Wantai Enterprise Co., Ltd.), a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of HK OEPC
"Jinxin"	山西煤炭運銷集團古交世紀金鑫煤業有限公司 (Shanxi Coal Transportation and Sales Group Gujiao Century Jinxin Coal Mine Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of Shanxi Coal
"Jinxin Mine"	the mining area located at the south of Changgang Village of Gujiao City covering an area of approximately 0.9524 km^2
"Last Trading Date"	12 June 2012, being the last trading day of the Shares on the Stock Exchange before publication of the Announcement
"Last Trading Date before Placing Announcement"	18 December 2012 (being the date of the Placing Agreement and the last trading day immediately prior to the publication of the First Placing Announcement)
"Latest Practicable Date"	20 March 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Lexing"	Lexing Holdings Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of City Bloom before Completion
"Lexing Group"	Lexing and its subsidiaries
"Lexing Sale Share"	one (1) share of US$1.00 in the issued share capital of Lexing, representing the entire issued share capital of Lexing as at the date of the Acquisition Agreement

"Liaoyuan"	山西煤炭運銷集團古交遼源煤業有限公司 (Shanxi Coal Transportation and Sales Group Gujiao Liaoyuan Coal Mine Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of Shanxi Coal
"Liaoyuan Mine"	the coal mining area located at Nanjiashan Village, Malong County of Gujiao City covering an area of approximately 1.9844 km^2
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mortgage(s) on Shares and New CBs"	the mortgage(s) to be executed by the Guarantor (as the mortgagor) in favour of the Placees (as the mortgagee) over certain number of the Shares and/or convertible bonds issued by the Company and held by the Guarantor. The Shares and/or the convertible bonds subject to the Mortgage on Shares and New CBs shall in aggregate have a market value which shall be equivalent to three times of the Placing Amount (based on the volume average price of the Shares quoted on the Stock Exchange for the last 5 trading days prior to the date of the Placing Agreement)
"Mountain Sky"	Mountain Sky Resources (Mongolia) Limited, a company incorporated in the BVI with limited liability and a substantial Shareholder
"Mountain Sky Agreement"	the conditional agreement dated 12 June 2012 (as amended and supplemented by the supplemental letters dated 12 July 2012, 27 July 2012, 26 September 2012 and the extension letters dated 14 December 2012 and 18 March 2013) entered into between City Bloom as purchaser and Mountain Sky as vendor, pursuant to which City Bloom has conditionally agreed to acquire and Mountain Sky has conditionally agreed to sell (i) 155,350,000 Shares; and (ii) 1,500,987,376 CPS
"Mr. Zhang"	Mr. Zhang San Huo, the beneficial owner of 70% equity interest in City Bloom and a proposed Director

"NARG"	North Asia Resources Group Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company before Completion
"NARG Group"	NARG and its subsidiaries
"NARG Sale Shares"	50,000 shares of US$1.00 each in the issued share capital of NARG, representing the entire issued share capital of NARG as at the date of the Disposal Agreement
"New CBs"	the series of secured redeemable convertible bond(s) of up to an aggregated principal amount of US$30,000,000 (equivalent to approximately HK$234,000,000) to be issued by the Company to the Placees pursuant to the Placing Agreement
"New CBs Instrument"	the instrument under and pursuant to which the New CBs shall be created and issued by the Company, which sets out the rights and obligations of the Company and the holders of the New CBs and shall be executed by the Company by way of a deed poll
"Placee(s)"	placee(s), who are independent of and not connected with the Company and its connected persons (as defined in the Listing Rules) and not deemed to be parties acting in concert with each other, procured or to be procured by the Placing Agent to subscribe for or purchase the New CBs and the PNs pursuant to the provisions of the Placing Agreement
"Placing"	the placing of the New CBs and the PNs by the Placing Agent to the Placees pursuant to the Placing Agreement
"Placing Agent"	KCG Securities Asia Limited, a company incorporated in Hong Kong and a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (Asset Management) regulated activities under the SFO

"Placing Agreement"	the placing agreement dated 18 December 2012 (as amended and supplemented by the extension letters dated 31 December 2012 and 18 March 2013) entered into between the Placing Agent and the Company in relation to private placing of the New CBs and the PNs each in the aggregate principal amount of up to US$30,000,000
"Placing Amount"	the aggregate amount of the New CBs and the PNs payable by the Placees to the Company
"Placing Announcements"	the First Placing Announcement and the Second Placing Announcement
"Placing Conversion Share(s)"	a maximum of 754,838,709 new Shares to be issued by the Company upon the exercise of the conversion rights attaching to the New CBs, based on the conversion price of the New CBs
"Placing Period"	the period commencing upon the date of the Placing Agreement and up to 31 January 2013
"Placing Personal Guarantee"	the personal guarantee(s) to be executed by the Guarantor (as the guarantor) in favour of the Placees to guarantee the obligations of the Company under the New CBs Instrument and the PN Instrument
"PN Instrument"	the instrument under and pursuant to which the PNs shall be created and issued by the Company, which sets out the rights and obligations of the Company and the holders of the PNs
"PN Issue Date"	the date on which the PNs are issued by the Company to the Placees under the Placing Agreement
"PN Maturity Date"	the date falling upon the expiry of three (3) years from the date on which the PNs is first issued or if such date is not a Business Day, the immediate preceding Business Day

"PNs"	the promissory notes up to an aggregated principal amount of US$30,000,000 (equivalent to approximately HK$234,000,000) to be issued by the Company to the Placees pursuant to the Placing Agreement
"PRC"	the People's Republic of China which, for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC Companies"	collectively Shanxi Coal, Jiangxi Wantai, Jiangxi Hengchuang, Jiangxi Hengpuwei, Shanxi Ruiying, Taiyuan Zhituo, Shanxi Changtong and the PRC Mine Companies
"PRC Mine Companies"	collectively Bolong, Liaoyuan, Xinfeng, Fuchang and Jinxin which are subsidiaries of Shanxi Coal and holders of the mining permits and licenses of the Coal Mines
"PRC Owners"	Shanxi Energy Industries Group Limited and Shanxi Coal Transportation and Sales Group Co., Ltd. which own 10% and 41% of the equity interest in Shanxi Coal, respectively
"Promissory Notes"	the promissory notes in the principal amount of up to HK$400 million to be issued by the Company to City Bloom to settle part of the consideration of the Acquisition under the Acquisition Agreement, which shall be due on the third anniversary from the date of issue
"Proposed Alteration"	the proposed alteration of certain terms and conditions of the Remaining US$15M Convertible Bonds upon completion of the Subscription
"Remaining Group"	the Company and its subsidiaries immediately after completion of the Disposal (not taking into account the Lexing Group)
"Remaining US$15M Convertible Bonds"	the non-capitalised portion of the US$30M Convertible Bonds with outstanding principal amount of US$15 million immediately after Completion

"Sale Loan"	all obligations, liabilities and debts owing or incurred by NARG and GLG to the Group on or at any time prior to completion of the Disposal Agreement, whether actual, contingent or deferred and irrespective of whether the same is due and payable upon completion of the Disposal Agreement
"Second Placing Announcement"	the announcement of the Company dated 31 December 2012 in relation to the extension of the Placing Period
"Set-Off Convertible Bonds"	a portion of the outstanding principal amount of the US$30M Convertible Bonds amounting to a principal sum of US$15,000,000 with corresponding accrued unpaid interest which is to be set off as settlement of part of the consideration for the Subscription under the Subscription Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held for (i) the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder; and (ii) the Shareholders to consider and if thought fit, approve the Placing Agreement and the transactions contemplated thereunder
"Shanxi Changtong"	山西昌通能源股份有限公司 (Shanxi Changtong Energy Share Co., Ltd.*), a company established in the PRC and owned as to 55% by Jiangxi Hengchuang and as to 45% by Jiangxi Hengpuwei
"Shanxi Coal"	山西煤炭運銷集團能源投資開發有限公司 (Shanxi Coal Transportation and Sales Group Energy Investment and Development Co., Ltd.*), a company established in the PRC and indirectly owned as to 49% by HK OEPC

"Shanxi Coal Transportation"	山西煤炭運銷集團有限公司 (Shanxi Coal Transportation and Sales Group Co., Ltd.*), a state-owned enterprise in the PRC
"Shanxi Land and Resources Office"	山西省國土資源廳 (Land and Resources Office of Shanxi Province*)
"Shanxi Ruiying"	山西瑞盈投資管理有限公司 (Shanxi Ruiying Investment and Management Co,. Ltd.*), a company established in the PRC and owned as to 55% by Jiangxi Hengpuwei and as to 45% by Jiangxi Hengchuang
"Share(s)"	ordinary share(s) of nominal value of HK$0.01 each in the share capital of the Company
"Share Sale"	the sale of 155,350,000 Shares, representing 12.13% of the issued share capital of the Company as at the Latest Practicable Date, and 1,500,987,376 CPS by Mountain Sky to City Bloom pursuant to the Mountain Sky Agreement
"Shareholder(s)"	holder(s) of the issued Share(s)
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders at the SGM to authorise the Directors to create the Subscription CPS and issue the Subscription Ordinary Shares and the Conversion Shares (as converted from the Subscription CPS) under the Subscription Agreement, and the Consideration Shares and the Conversion Shares (as converted from the Consideration Bonds) under the Acquisition Agreement
"Specific Mandate for Placing"	the specific mandate to be sought from Shareholders at the SGM to authorise the Directors to allot and issue up to 754,838,709 Placing Conversion Shares under the Placing
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subscription"	the proposed subscription of Shares in the Company by Business Ally in accordance with the terms and conditions of the Subscription Agreement, further details of which are set out in the section headed "The Subscription Agreement" in the letter from the Board of this circular
"Subscription Agreement"	the conditional subscription agreement dated 6 September 2012 (as amended and supplemented by the extension letters dated 14 December 2012 and 18 March 2013) entered into between Business Ally and the Company in relation to the Subscription
"Subscription CPS"	new convertible preference shares to be issued and allotted by the Company under the Subscription Agreement
"Subscription Ordinary Share(s)"	new ordinary Share(s) to be issued and allotted by the Company under the Subscription Agreement
"Taiyuan Zhituo"	太原市智拓投資顧問有限公司 (Taiyuan Zhituo Investment Consultant Co. Ltd.,*), a company established in the PRC and owned as to 55% by Jiangxi Hengpuwei and as to 45% by Jiangxi Hengchuang
"Takeovers Code"	The Code on Takeovers and Mergers and Share Repurchases published by the SFC.
"Third Supplemental Agreement"	the third supplemental agreement to the Convertible Bonds Subscription Agreement dated 6 September 2012 (as amended and supplemented by the extension letters dated 14 December 2012 and 18 March 2013) entered into among the Company, City Bloom and Business Ally in relation to the Proposed Alteration
"Transactions"	the transactions contemplated under the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement
"Ultra Asset"	Ultra Asset International Limited, a company incorporated in the BVI with limited liability and a substantial Shareholder as at the Latest Practicable Date

"US$30M Convertible Bonds"	the convertible bonds issued by the Company to Business Ally with aggregate outstanding principal amount of US$30,000,000 pursuant to the Convertible Bonds Subscription Agreement
"Xinfeng"	山西煤炭運銷集團古交鑫峰煤業有限公司 (Shanxi Coal Transportation and Sales Group Gujiao Xinfeng Coal Mine Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of Shanxi Coal
"Xinfeng Mine"	the mining area located at Jijiazhuangxiang, Wujiabo Village at the south-west of Gujiao City covering an area of approximately 2.1966 km^2
"HK$"	Hong Kong dollars, the lawfully currency of Hong Kong
"RMB"	Renminbi, the lawfully currency of the PRC
"US$"	United States dollars, the lawfully currency of the United States of America
"km"	kilometers
"km^2"	square kilometers
"%"	per cent.

In this circular, save as otherwise provided, amounts in RMB and US$ are converted into HK$ on the basis of HK$1 = RMB0.81 and US$1.00 = HK$7.80 respectively. The conversion rates are for illustration purpose only and should not be taken as a representation that RMB and US$ could actually be converted into HK$ at those rates or at all.

* *For identification purpose only*

NORTH ASIA RESOURCES HOLDINGS LIMITED
北亞資源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 61)

Executive Directors:
Mr. Tse Michael Nam
(Chairman and acting Chief Executive Officer)
Mr. Yang Xiaoqi

Non-executive Director:
Mr. Wu Chi Chiu *(Deputy Chairman)*

Independent non-executive Directors:
Mr. Lim Yew Kong, John
Mr. Mak Ping Leung
Mr. Leung Po Wing, Bowen Joseph *GBS, JP*

Registered office:
Clarendon House
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Bermuda

Head office and principal place of business in Hong Kong:
Units 2001-2, 20th Floor
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

25 March 2013

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF LEXING HOLDINGS LIMITED;
(2) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF SHARES OF AND SHAREHOLDER'S LOAN DUE BY NORTH ASIA RESOURCES GROUP LIMITED AND GOOD LOYAL GROUP LIMITED;
(3) SUBSCRIPTION OF ORDINARY SHARES AND CONVERTIBLE PREFERENCE SHARES BY BUSINESS ALLY INVESTMENTS LIMITED;
(4) ALTERATION OF TERMS OF THE EXISTING CONVERTIBLE BONDS;
(5) PROPOSED PLACING OF NEW CBs AND PNs; AND
(6) NOTICE OF SGM**

I. INTRODUCTION

On 12 June 2012, Guang Cheng, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement in relation to the acquisition of the Lexing Sale Share from City Bloom. Contemporaneously with the signing of the Acquisition Agreement, the Company entered into the Disposal Agreement in relation to the sale of the NARG Sale Shares, the GLG Sale Share and the Sale Loan to Mountain Sky. To facilitate the payment of the consideration for the Disposal, Mountain Sky and City Bloom also entered into the Mountain Sky Agreement in relation to the Share Sale contemporaneously with the entering into of the Acquisition Agreement and the Disposal Agreement.

On 6 September 2012, the Company and Business Ally entered into the Subscription Agreement in relation to the Subscription. The Company, Business Ally and City Bloom also entered into the Third Supplemental Agreement in relation to the Proposed Alteration on the even date. Business Ally conditionally gave its consent to the entering into of the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties and has further confirmed that the entering into of the aforesaid agreements and the transactions contemplated thereunder would not constitute any breach to the existing terms of the US$30M Convertible Bonds.

After the Stock Exchange trading hours on 18 December 2012, the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to procure, on a best-effort basis, the Placees to subscribe for the New CBs and the PNs for an aggregate principal amount of up to US$30 million (equivalent to approximately HK$234 million) each.

The Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement are inter-conditional on each other, whereas the Placing Agreement is conditional upon, among others, the completion of the Acquisition Agreement, the Disposal Agreement and the Subscription Agreement. The aggregate consideration of the Acquisition of HK$4,662 million will be settled as to (i) HK$600 million (equivalent to the consideration of the Disposal) by transfer of the Shares and CPS held by Mountain Sky to City Bloom (i.e. the Share Sale) under the Disposal Agreement and the Mountain Sky Agreement; (ii) HK$400 million by cash and/or issue of Promissory Notes; and (iii) the remaining balance by issue of Consideration Shares and Consideration Bonds. The consideration of the Disposal will be applied to settle part of the consideration of the Acquisition as mentioned in (i) above.

Principal terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement, the Mountain Sky Agreement and the Placing Agreement are set out below in this circular.

With respect to the Acquisition, as the relevant percentage ratios (as defined under the Listing Rules) exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. Since Mr. Zhang is a proposed Director (as mentioned in the paragraph headed "Completion of the Acquisition" under the section headed "The Acquisition Agreement" below) and owns 70% of the equity interest in City Bloom, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules and is therefore subject to the Independent Shareholders' approval by way of poll at the SGM.

As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company under the Listing Rules. As Mountain Sky is a substantial Shareholder, Mountain Sky is a connected person of the Company under the Listing Rules and thus the Disposal constitutes a connected transaction for the Company which is subject to the Independent Shareholders' approval by way of poll at the SGM.

The issue of the Subscription CPS, the Subscription Ordinary Shares and the Conversion Shares (as converted from the Subscription CPS) under the Subscription Agreement, and the Consideration Shares and Conversion Shares (as converted from the Consideration Bonds) under the Acquisition Agreement are subject to the Specific Mandate to be sought from the Independent Shareholders at the SGM. The issue of the Placing Conversion Shares (as converted from the New CBs) under the Placing Agreement are subject to the Specific Mandate for Placing which approval is to be sought from the Shareholders at the SGM.

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As such, the Proposed Alteration is subject to the approval of the Stock Exchange. The Stock Exchange has granted conditional approval for the Proposed Alteration subject to the Independent Shareholders' approval and fulfillment of all other conditions of the Proposed Alteration. Since the Proposed Alteration will constitute a material change to the terms and conditions of the US$30M Convertible Bonds, besides approval from the Stock Exchange, the Independent Shareholders' approval will also be required.

As the Latest Practicable Date, (i) City Bloom and its associates did not hold any securities of the Company; (ii) Mountain Sky and its associates (including Get Best Management Ltd.) held 297,395,453 Shares which represents 23.23% of the issued share capital of the Company and 1,575,987,376 CPS which are convertible into 1,790,894,744 new Shares (of which, the portion directly held by Mountain Sky has been pledged to Business Ally); (iii) Ultra Asset and its associates held 180,547,273 Shares, which represent 14.10% of the issued share capital of the Company, and 385,500,400 CPS which are convertible into 438,068,636 new Shares; and (iv) Business Ally and its associates held the US$30M Convertible Bonds which are convertible into 861,111,111 new Shares. Since Mr. Lau Siu Hung, Ricky, who is the sole beneficial owner of Get Best Management Ltd., is also a director of Mountain Sky, Get Best Management Ltd. is an associate of Mountain Sky under the Listing Rules. As the respective completion of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement are conditional upon each other, if City Bloom, Mountain Sky, Ultra Asset, Business Ally and their respective associates (to the extent where they are Shareholders) hold any Shares as at the date of the SGM, they are required to abstain from voting in respect of the resolutions to approve the Transactions to be proposed at the SGM.

No Shareholder has a material interest in the transactions contemplated under the Placing Agreement, including the issue of the New CBs and the PNs and the issue and allotment of the Placing Conversion Shares. Accordingly, no Shareholder is required to abstain from voting on the resolutions relating to the Placing Agreement, including the issue of the New CBs and the PNs and the Specific Mandate for Placing at the SGM.

The SGM will be convened on 12 April 2013 for (i) the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement, and the transactions contemplated thereunder; and (ii) the Shareholders to consider and, if thought fit, to approve the Placing Agreement and the transactions contemplated thereunder, including the Placing, the issue of the New CBs and the PNs and the issue and allotment of the Placing Conversion Shares.

The Independent Board Committee has been established to give recommendation to the Independent Shareholders on the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder. Oriental Patron has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement, the Transactions and the Share Sale; (ii) the competent person's report on the Coal Mines; (iii) the competent evaluators' reports of the Lexing Group and the NARG Group; (iv) the financial information of the Lexing Group and the Disposal Group; (v) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (vi) the letter of advice from Oriental Patron to the Independent Board Committee and the Independent Shareholders; (vii) further information regarding the Placing; (viii) the notice to convene the SGM; and (ix) other information as required under the Listing Rules.

II. THE ACQUISITION

The Acquisition Agreement

Date : 12 June 2012

Parties : City Bloom as the vendor and Guang Cheng, a wholly-owned subsidiary of the Company as the purchaser

City Bloom is principally engaged in investment holding. 70% of the issued share capital of City Bloom is indirectly owned by Mr. Zhang. The remaining 30% of the issued share capital of City Bloom is owned as to 5% by Xing Fa Investments Limited, as to 5% by Baofa Industrial Limited, as to 2.5% by New HongFa Industries Limited, as to 1.5% by Heng Fu Investments Limited, as to 5% by Hwa Foo Holdings Limited, as to 3% by QIN-HENG International Investment Limited, as to 4% by Elite Classic Investments Limited and as to 4% by Golden Year Holdings Limited. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, City Bloom, its shareholders and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject matters

Pursuant to the Acquisition Agreement, Guang Cheng conditionally agreed to acquire and City Bloom conditionally agreed to sell the Lexing Sale Share which represents the entire issued share capital of Lexing. As at the Latest Practicable Date, Lexing is the indirect beneficial owner of a 49% equity interest in Shanxi Coal which is principally engaged in the operation of the Coal Mines through the PRC Mine Companies as follows:

(i) Bolong, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Bolong Mine (Bolong was owned as to 95% by Shanxi Coal as at the date of the Announcement. Pursuant to the Bolong Supplemental Agreement (as defined below) dated 1 July 2012, Shanxi Coal shall hold the entire equity interest in Bolong as part of the Shanxi Mergers and Reorganisations (as defined below), details of which are set out in the section headed "History and development of the Lexing Group" in this circular. The registration for the increase in Shanxi Coal's equity interest in Bolong to 100% was completed on 22 October 2012.);

(ii) Liaoyuan, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Liaoyuan Mine;

(iii) Xinfeng, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Xinfeng Mine;

(iv) Fuchang, a 69.4%-owned subsidiary of Shanxi Coal and holder of the mining license of the Fuchang Mine (As at the Latest Practicable Date, the remaining 30.6% equity interest in Fuchang is owned by Mr. Wu Fuhai, a third party independent of the Company and its connected persons.); and

(v) Jinxin, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Jinxin Mine.

Upon completion of the Acquisition, Lexing will become a subsidiary of the Company and the financial results of the PRC Mine Companies will be consolidated into the Group's financial results. Please refer to the paragraph headed "Key financial information of the Lexing Group" in the section headed "Business Model of the Lexing Group" in this circular for the summary of key financial figures of the Lexing Group.

Consideration

The aggregate consideration for the Lexing Sale Share shall be HK$4,662 million, which shall be payable by the Company to City Bloom in the following manner:

(i) HK$600 million will be deemed to have been authorised by City Bloom to be applied towards the payment of an equivalent amount payable by City Bloom to Mountain Sky pursuant to the Mountain Sky Agreement to satisfy the consideration payable by City Bloom in relation to the Share Sale; and which sum, in turn, will be authorised by Mountain Sky to be applied towards the payment of an equivalent amount payable by Mountain Sky to the Company pursuant to the Disposal Agreement to satisfy the consideration payable by Mountain Sky to the Company for the acquisition of the Disposal Group;

(ii) HK$400 million by way of (a) a cashier order drawn by a licensed bank in Hong Kong or by wire transfer of such sum to the bank account designated by City Bloom; and/or (b) issue of the Promissory Notes to City Bloom (or such person(s) as nominated by City Bloom). Further details of the Promissory Notes are set out in the section headed "Promissory Notes" below; and

(iii) as to the remaining balance of HK$3,662 million:

(a) by way of allotment and issue to City Bloom (or such person(s) as nominated by City Bloom) of the Consideration Shares, credited as fully paid, at an issue price of HK$0.17 per Consideration Share. The number of Consideration Shares issued, together with the Shares held by City Bloom and parties acting in concert with it at Completion, shall represent 29.9% of the enlarged issued share capital of the Company upon Completion; and

(b) (if after the payment of cash and issue and allotment of the Consideration Shares in (i), (ii) and (iii)(a) above, there shall remain any consideration of the Acquisition payable) as to the remaining balance of the consideration of the Acquisition, by way of issue to City Bloom (or such person(s) as nominated by City Bloom) of the Consideration Bonds. Details of the Consideration Bonds are set out in the section headed "Consideration Bonds" below.

The consideration for the Acquisition was determined after arm's length negotiations between Guang Cheng and City Bloom taking into account of, among other things, (i) the aggregate estimated in-place resource and the aggregate estimated marketable reserve of the Coal Mines of 87.87 million tonnes and 43.37 million tonnes respectively as contained in the draft competent person's report on the Coal Mines dated 16 March 2012 prepared by Mr. Ronald L. Lewis of John T. Boyd Company, a competent person under Chapter 18 of the Listing Rules, together with his team; (ii) the draft valuation of effective interest of the Coal Mines held by Lexing of approximately RMB5,278 million (equivalent to approximately HK$6,516.0 million) as at 29 February 2012 prepared by Greater China using the income approach; (iii) a discount of approximately 28.5% to the valuation of the PRC Mine Companies over the consideration for the Lexing Sale Share; and (iv) the development prospects of the Coal Mines. The competent person's report on the Coal Mines prepared by Mr. Ronald L. Lewis, the competent person under chapter 18 of the Listing Rules, and his team is set out in Appendix VI to this circular. According to the competent evaluator's report of the Lexing Group prepared by Mr. George E. Edwards, the competent evaluator under chapter 18 of the Listing Rules, and his team as set out in Appendix VII, the fair value of the mineral assets of the Coal Mines indirectly held by the Lexing Group is RMB5,541.0 million (equivalent to approximately HK$6,835.4 million) while the appraised value of the 100% equity interest in Lexing is RMB4,259.0 million (equivalent to approximately HK$5,253.9 million). The consideration of HK$4,662 million for the Acquisition represents a discount of approximately 11.3% to the abovementioned appraised value of the 100% equity interest in Lexing. The difference in the appraised value of the draft competent evaluator's report and the competent evaluator's report as contained in Appendix VII to this circular is mainly due to the update of certain market data (including but not limited to the risk free rate, risk premium and the measure of systematic risk) which were used to derive the discount rate and the update of financial information of the Lexing Group.

The Company believes that the Acquisition will diversify its mineral resources holdings and contribute a steady revenue stream. The improvement works of the Coal Mines are expected to be completed by the end of May 2013 followed by a trial production period of around three months. Commercial production of the Coal Mines are expected to begin thereafter.

Having considered the above and the factors described under the section headed "Reasons for the Transactions and the Placing" below, the Directors are of the view that the consideration of the Acquisition is fair and reasonable.

Promissory Notes

Pursuant to the Acquisition Agreement, the Company may choose to issue the Promissory Notes (as the case may be) in a maximum principal amount of HK$400 million to City Bloom (or its nominee(s)) as part payment of the consideration of the Acquisition.

The Promissory Notes shall bear interest from the date of issue at a fixed rate of 5% per annum which will accrue on the principal amount of the Promissory Notes and be paid on the maturity date of the Promissory Notes. The Promissory Notes will mature on the date of the third anniversary from the date of the issue of the Promissory Notes. At any time prior to the maturity date of the Promissory Notes, Guang Cheng may, by giving not less than 14 days' written notice to City Bloom, redeem and prepay the Promissory Notes outstanding or any part thereof, provided that each such prepayment must be in the sum of not less than HK$1 million and in integral multiples of HK$1 million. No interest shall be accrued and payable in respect of the principal amount of the Promissory Notes which has been prepaid by Guang Cheng. Such term provides flexibility to the Company in repayment of the principal amount of the Promissory Notes or part thereof before maturity as and when the Company sees fit.

Consideration Shares

Pursuant to the Acquisition Agreement, the number of Consideration Shares to be issued to City Bloom (or its nominee(s)), which together with the Shares held by City Bloom and parties acting in concert with it, will be 29.9% of the enlarged issued share capital of the Company at Completion. The Consideration Shares shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue including voting right, and the right to all dividends, distributions and other payments made or to be made for which the record date falls on or after the date of such allotment and issue. For illustration purpose, the maximum number of Consideration Shares to be issued is 21,541,176,470 which is calculated by dividing the remaining balance of the consideration of the Acquisition after deducting (i) the settlement of HK$600 million under the Mountain Sky Agreement; and (ii) the cash payment and/or issue of the Promissory Notes of HK$400 million, by the issue price of HK$0.17 per Consideration Share, and assuming no Consideration Bonds is issued. The maximum number of Consideration Shares to be issued represents approximately 1,682.8% of the issued share capital of the Company as at the Latest Practicable Date and approximately 79.4% of the enlarged share capital of the Company on Completion and full conversion of the convertible securities (including the New CBs) of the Company.

The Consideration Shares will be issued and allotted under the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Consideration Bonds

Pursuant to the Acquisition Agreement, the Company will issue the Consideration Bonds to City Bloom (or its nominee(s)) for settlement of part of the consideration of the Acquisition upon Completion.

The terms of the Consideration Bonds have been negotiated on an arm's length basis and are summarised as follows:

Issuer:	The Company
Principal amount:	HK$3,662 million at maximum, which is equivalent to the remaining balance of the consideration of the Acquisition after deducting (i) the settlement of HK$600 million under the Mountain Sky Agreement; and (ii) the cash payment or issue of the Promissory Notes of HK$400 million.
Interest:	The holder(s) of the Consideration Bonds shall be entitled to interest at the rate equal to the rate of dividend per Share from time to time declared and paid by the Company to the Shareholders as if the Consideration Bonds have been converted in full into Conversion Shares. The interest (if any) shall be payable to the holder(s) of the Consideration Bonds at the same time when the relevant dividend is payable to the Shareholders. For the avoidance of doubt, (i) if no dividend is payable to the Shareholders for a particular year or period, or (ii) prior to the date of closure of the register of members of the Company for the purpose of determining the identity of the holder of its ordinary Shares who are entitled to the dividend (if any), the relevant Consideration Bond has been converted in full into Conversion Shares or redeemed after the relevant conversion notice or notice of redemption (as the case may be) has been duly given in accordance with the conditions of the Consideration Bonds, no interest will be payable to the holder(s) of the Consideration Bonds.

Maturity:	The date falling five years after the date of issue of the Consideration Bonds.
Conversion price:	The initial conversion price is HK$0.17 per Share (subject to adjustment) and is determined after arm's length negotiations between the Company and City Bloom with reference to the net assets value per Share on a fully diluted basis upon Completion.
Conversion rights:	The holder(s) of the Consideration Bonds has/have the right to convert the Consideration Bonds into Conversion Shares in amounts not less than a whole multiple of HK$500,000 during the period from the day immediately following the issue date up to 4:00 p.m. on the maturity date of the Consideration Bonds, provided that as a result of such conversion, (i) City Bloom and parties acting in concert with it shall not in aggregate own more than 29.9% in all the issued Shares (or any other voting right percentage which triggers a mandatory general offer under the Takeovers Code); and (ii) public float of the Shares shall not be less than 25% of all the issued Shares.
Ranking of the Conversion Shares:	The Conversion Shares, when issued and allotted, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Conversion Shares.
Ranking of the Consideration Bonds:	The Consideration Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu and ratably without preference among themselves, and rank at least equally with all other present and future unsubordinated and unsecured obligations of the Company.
Transferability:	The Consideration Bonds will be transferable to any person in whole multiples of HK$500,000 provided that if the transfer is made to a connected person (as defined under the Listing Rules) of the Company, such transfer shall not be made without the prior written consent of the Company and shall comply with the requirements under the Listing Rules.

Voting rights:	The Consideration Bonds do not confer any voting rights on the holder(s) of the Consideration Bonds (prior to the conversion of the Consideration Bonds into the Conversion Shares) at any meeting of the Company.
Early redemption:	The Company shall have the right by serving a prior written notice not less than seven Business Days on holder(s) of the Consideration Bonds with the total amount proposed to be redeemed from the holder(s) of the Consideration Bonds (in amounts of not less than a whole multiple of HK$500,000) at 100% of the principal amount of the Consideration Bonds during the period commencing from six months following the issue date to the maturity date of the Consideration Bonds.
Adjustments to the conversion price:	The conversion price of the Consideration Bonds will be adjusted in accordance with the relevant provisions under the terms and conditions of the Consideration Bonds upon occurrence of, including but not limited to, the following events: (i) there shall be an alteration to the nominal value of the Shares by reason of any consolidation or subdivision; (ii) the Company shall issue any Shares credited as fully paid by way of capitalisation of profits or reserves including Shares paid up out of distributable profits or reserves and/or share premium account and which would not have constituted a capital distribution; (iii) the Company shall make any capital distribution to Shareholders or shall grant to such Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) the Company shall offer or grant to all or substantially all Shareholders new Shares for subscription by way of rights, or any options or warrants or other rights to subscribe for new Shares at a price per Share which is less than 95% of the market price on the last dealing day preceding the date of the announcement of the terms of the offer or grant;

(v) the Company shall issue any securities or grant any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights;

(vi) the Company shall issue (other than as mentioned in paragraph (iv) above) any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion ratio, or exchange or subscription for Shares) or issue or grant (other than as mentioned in paragraph (iv) above) any options or warrants or other rights to subscribe for or purchase Shares at a price per Share which is less than 95% of the market price at the date of the announcement of the terms of such issue;

(vii) save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms therein, the Company or any of its subsidiary shall issue (otherwise than as mentioned in paragraphs (iv), (v) or (vi) above), or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiary) any other company, person or entity, shall issue wholly for cash any securities (other than the Consideration Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription, at a price per Share which is less than 95% of the market price at the date of the announcement of the terms of such issue;

(viii) there shall be any modification of the right of conversion, exchange or subscription of Shares attaching to the securities of the Company (other than in accordance with the terms applicable to such securities of the Company) so that the consideration per Share receivable by the Company is less than 95% of the market price at the date of the announcement of the terms of such issue; or

(ix) shall there be any arrangement in respect of issue, transfer or distribution of any securities of the Company in connection with an offer pursuant to which Shareholders generally (i.e. the holders of at least 60% of the Shares outstanding) are entitled to participate in such arrangements whereby such securities of the Company may be acquired by them.

If either the Company or the holder(s) of the Consideration Bonds holding not less than 75% in value of the outstanding principal amount of the Consideration Bonds determine that an adjustment should be made to the conversion price of the Consideration Bonds as a result of one or more events or circumstances not referred to in the abovementioned events, the Company shall request an approved merchant bank, at the expense of the Company, to determine (acting as experts) as soon as practicable what adjustment (if any) to the conversion price of the Consideration Bonds is fair and reasonable and the date on which such adjustment should take effect.

Application for listing: No application will be made for the listing of the Consideration Bonds.

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares to be issued and allotted upon exercise of the conversion rights attaching to the Consideration Bonds.

Upon the exercise in full of the conversion rights attaching to the Consideration Bonds at the initial conversion price of HK$0.17 per Share, the Company will issue up to a maximum of 21,541,176,470 Shares pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM, which represents approximately 1,682.8% of the issued share capital of the Company as at the Latest Practicable Date and approximately 79.4% of the enlarged share capital of the Company on Completion and full conversion of the convertible securities (including the New CBs) of the Company.

Comparisons

The Issue Price of HK$0.17 per Share represents:

(i) a discount of approximately 50.0% to the closing price of HK$0.340 per Share as quoted in the daily quotation sheets of the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 50.3% to the average of the closing prices of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 5 consecutive trading days up to and including the Latest Practicable Date of HK$0.342 per Share;

(iii) a discount of approximately 50.4% to the average of the closing prices of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 10 consecutive trading days up to and including the Latest Practicable Date of approximately HK$0.343 per Share;

(iv) a discount of approximately 48.6% to the average closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 30 consecutive trading days up to and including the Latest Practicable Date of approximately HK$0.331 per Share;

(v) a discount of approximately 39.3% to the closing price of HK$0.280 per Share as quoted in the daily quotation sheets of the Stock Exchange on the Last Trading Date;

(vi) a discount of approximately 37.0% to the average of the closing prices of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Date of HK$0.270 per Share;

(vii) a discount of approximately 35.1% to the average of the closing prices of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date of approximately HK$0.262 per Share;

(viii) a discount of approximately 35.8% to the average closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date of approximately HK$0.265 per Share;

(ix) a discount of approximately 46.7% to the net assets value attributable to equity holders of the Company of approximately HK$0.319 per Share as at 31 December 2011 based on the audited financial statements of the Group for the year ended 31 December 2011; and

(x) a discount of approximately 36.3% to the net assets value attributable to equity holders of the Company of approximately HK$0.267 per Share as at 30 June 2012 based on the unaudited financial statements of the Group for the six months ended 30 June 2012.

The Issue Price was determined after arm's length negotiations between the parties to the Acquisition Agreement with reference to (i) the average closing prices of the Shares since 6 March 2012 (being the date of signing of a non-legally binding memorandum of understanding between the Company and the Vendor in relation to the possible Acquisition) and up to the Last Trading Date; (ii) the substantial size of the Consideration Shares to be issued as part of the Consideration; and (iii) the net assets value of the Group as at 31 December 2011. Based on the above and after taking into account of the net assets value attributable to equity holders of the Company assuming full conversion of the existing convertible securities of the Company, the Directors consider the Issue Price to be fair and reasonable.

Conditions precedent to the Acquisition Agreement

Completion of the Acquisition is conditional upon fulfillment or waiver of the following conditions:

(a) receipt by Guang Cheng from its PRC legal adviser a copy of a legal opinion on specific areas of the PRC laws covering the following major issues:

(i) each of the PRC Companies has been duly organised and validly exists under the laws of the PRC (except for each of Bolong, Xinfeng and Fuchang which has not obtained their respective business license as at the date of the Acquisition Agreement);

(ii) the PRC Mine Companies have received the mining licenses in respect of the Coal Mines and such mining licenses have not been revoked; and

(iii) such other matters as reasonably required by Guang Cheng;

(b) the Share Sale becoming unconditional (other than the condition that the Acquisition Agreement becoming unconditional) and having been completed in accordance with its terms;

(c) the Disposal becoming unconditional (other than the condition that the Acquisition Agreement becoming unconditional) and having been completed in accordance with its terms;

(d) (i) the entering into each of the Subscription Agreement and the Third Supplemental Agreement; and (ii) the Subscription Agreement and the Third Supplemental Agreement becoming unconditional (other than the condition that the Acquisition Agreement becoming unconditional) and having been completed immediately before or contemporaneously with the completion of the Acquisition in accordance with their terms;

(e) the passing of ordinary resolution(s) at the SGM in accordance with the requirements of the Listing Rules and all other applicable laws and regulations to approve the Acquisition Agreement and the transactions contemplated thereunder;

(f) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other creditors or relevant third parties and all registration and filing procedures in connection with the Acquisition having been obtained;

(g) Guang Cheng being reasonably satisfied, from the date of the Acquisition Agreement and at any time before completion of the Acquisition, that the representations and warranties given by City Bloom under the Acquisition Agreement remain true and accurate in all material respects and is not misleading and that there is no breach in any material respect of the representations and warranties given by City Bloom under the Acquisition Agreement or other provisions of the Acquisition Agreement by City Bloom;

(h) Guang Cheng being reasonably satisfied that, from the date of the Acquisition Agreement to completion of the Acquisition, there has not been any material adverse change on the financial position, business or property, results of operations or prospects of the Lexing Group;

(i) (if required) the Bermuda Monetary Authority granting its permission to the allotment and the issue of the Consideration Shares, the Consideration Bonds (if required) and the Conversion Shares, which may be issued upon the exercise of the conversion rights attaching to such Consideration Bonds;

(j) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares, which may be issued upon the exercise of the conversion rights attaching to the Consideration Bonds;

(k) the Acquisition Agreement and the transactions contemplated thereunder not being considered by the Stock Exchange or the SFC (where appropriate) as a "reverse takeover" or "new listing" as defined in the Listing Rules or triggering the requirement for the making of a general offer under rule 26 of the Takeovers Code;

(l) (i) trading in the Shares on the Stock Exchange not having been suspended for a period of more than 15 consecutive trading days disregarding any suspension for the purposes of clearing any announcement and circular in relation to the Acquisition by the regulatory authorities; (ii) trading in the Shares on the Stock Exchange not being revoked or withdrawn at any time prior to Completion; and (iii) there being no indication from the Stock Exchange or the SFC that listing of the Shares will be suspended, revoked or withdrawn at any time after Completion, whether in connection with any of the transactions contemplated by the Acquisition Agreement or otherwise;

(m) City Bloom being reasonably satisfied, from the date of the Acquisition Agreement and at any time before Completion, that the representations and warranties given by Guang Cheng under the Acquisition Agreement remain true and accurate in all material respects and is not misleading and that there is no breach in any material respect of the representations and warranties given by Guang Cheng under the Acquisition Agreement or other provisions of the Acquisition Agreement by Guang Cheng;

(n) City Bloom being reasonably satisfied that, from the date of the Acquisition Agreement and at any time before Completion, there has not been any material adverse change on the financial position, business or property, results of operations or prospects of the Remaining Group;

(o) the issue of a competent person's report to the reasonable satisfaction of the parties to the Acquisition Agreement prepared in accordance with the Listing Rules showing that the Coal Mines will have reserves of not less than 40 million tonnes and Guang Cheng having obtained a valuation report issued by a qualified valuer acceptable to Guang Cheng showing that the value of the PRC Mine Companies is not less than RMB4,500 million;

(p) City Bloom being reasonably satisfied with, having received from Guang Cheng not less than five Business Days prior to Completion, (i) the unaudited consolidated management accounts of the Remaining Group for the six months ended 30 June 2012 reviewed by the auditors of the Company; and (ii) the unaudited consolidated management accounts of the Remaining Group for the period commencing from 1 January 2012 to the last date of the second last calendar month prior to Completion together with confirmations issued by the relevant banks stating as at the last date of the last calendar month prior to Completion the balance of all bank accounts maintained by the Remaining Group companies and (if any) the outstanding loans and any other payments due to the banks;

(q) City Bloom being reasonably satisfied with the results of the due diligence exercise (whether legal, accounting, financial, operational or other aspects that City Bloom considers relevant) on the Remaining Group and their related businesses, assets, liabilities, activities, operations, prospects and other status which City Bloom, its agents or professional advisers may reasonably require;

(r) Guang Cheng being reasonably satisfied with the results of the due diligence exercise (whether legal, accounting, financial, valuation, operational or other aspects that Guang Cheng considers relevant) on the Lexing Group and their related businesses, assets, liabilities, activities, operations, prospects and other status which Guang Cheng, its agents or professional advisers may reasonably require; and

(s) (i) the Claims and/or in (if any) any other claims, actions or proceedings which are against the defendants named in the Action and/or any of City Bloom or Business Ally or their respective affiliates and arising from the circumstances set out in the Action which, in the reasonable opinion of City Bloom, have adversely affected or will adversely affect the Acquisition and the transactions contemplated under the Acquisition Agreement (collectively the "**Indemnified Claims**") having been dealt with by the relevant parties, in such a manner as agreed by the parties to the Acquisition Agreement; and (ii) the entering into of a deed of indemnification by (A) Ultra Asset and Mountain Sky in favour of City Bloom, the Company and Guang Cheng in the form and substance to the satisfaction of City Bloom; and (B) Ultra Asset in favour of Business Ally in the form and substance to the satisfaction of Business Ally, pursuant to which Ultra Asset and/or Mountain Sky (as the case may be) shall undertake to indemnify City Bloom, Business Ally and the Company and their subsidiaries (including Guang Cheng) against any and all losses, costs, damages, liens, claims, liabilities or expenses in connection with the Indemnified Claims.

Guang Cheng may at its absolute discretion at any time waive in writing any of the above conditions in (a), (g), (h), (o) and (r) above and such waiver may be made subject to such reasonable terms and conditions as are determined by Guang Cheng.

City Bloom may at its absolute discretion at any time waive in writing any of the conditions in (m), (n), (p), (q) and (s) above and such waiver may be made subject to such reasonable terms and conditions as are determined by City Bloom.

Up to the Latest Practicable Date, neither Guang Cheng nor City Bloom intends to waive any of the conditions precedents to the Acquisition Agreement.

If any of the above conditions (other than condition (d)(i)) has not been fulfilled (or waived where appropriate) by the parties on or before 5:00 p.m. on 30 June 2013 (or such later date as the parties to the Acquisition Agreement may agree in writing) or condition (d)(i) has not been fulfilled by the parties on or before 5:00 p.m. on 7 September 2012, the Acquisition Agreement shall lapse and thereafter neither party to the Acquisition Agreement shall have any rights or obligations towards each other except in respect of any antecedent breach.

As confirmed by City Bloom, in respect of the satisfaction of condition precedent (p), as a shareholder of the Company upon Completion, City Bloom will consider (i) whether there are material liabilities, which have not been disclosed before, shown on the unaudited consolidated management accounts of the Remaining Group as required under condition precedent (p); and (ii) the risks associated with such liabilities (if any) to the business of the Enlarged Group upon Completion.

In respect of the fulfillment of condition precedent (s)(i), the parties to the Acquisition Agreement will consider all possible arrangements to deal with the Claims in a manner which aims to balance the interests of all parties. This may include, but not necessarily be, a full and final settlement of or a successful strike-off of the Claims. In any event, the final arrangement of dealing with the Claims has to be mutually agreed by City Bloom and Guang Cheng in order to fulfill this condition. The Company believes that this arrangement is fair and reasonable and in the interests of the Shareholders as a whole given that (i) the reliefs in the Claims are mainly sought from Ultra Asset and/or Mountain Sky; and (ii) the Company has been given an expressed undertaking by Ultra Asset and Mountain Sky, pursuant to which the Company and its subsidiaries will be indemnified against, among others, all losses in connection with the Indemnified Claims. In addition, as stated in the announcement of the Company dated 27 August 2012, after consultations with the Company's BVI legal advisers, the Company considers that the Claims against the Company are unmeritorious and without any justifiable basis. As such, the Company believes that City Bloom and Guang Cheng would be able to agree on an acceptable arrangement to fulfill this condition.

The steps that have been taken by the Company with regards to the Claims since the date of the Announcement are set out below:

(i) The Company filed its defence on 30 November 2012;

(ii) Pursuant to a request for certain documents that were referred to in the defence by the solicitors of Mountain Sky Resources Holdings Limited (the "**Claimant**") (under the Eastern Caribbean Supreme Court Civil Procedure Rule 28.16), the Company provided the requested documents, on 17 December 2012; and

(iii) The Claimant filed its reply to the defence on 14 January 2013.

As the length of trial for the Claims is expected to be more than one full day, the BVI Commercial Court Registry has convened a case management conference on 12 March 2013 in the BVI. At the case management conference, the judge adjourned the hearing to a later date to be fixed by the Claimant so that the Claimant may address the judge on the basis upon which they are alleging that there was unfair prejudice caused by the parties. While the Company is of the view that it has valid defence against the Claims, the Company is not able to quantify the consequential impact of the outcome of the Claims on the Company at this stage. As advised by Walkers, the legal adviser of the Company as to BVI law, in the unlikely event that the Claims made by the Claimant against the Company under the Action could be proved, an injunction may be granted by the BVI Court to restrain the Company, Guang Cheng and Mountain Sky to proceed further with the Transactions. If such injunction is granted before Completion, the timing for Completion may be adversely affected. In such case, each of the parties to the Transactions will have to assess the impact of the injunction and consider any revision of the terms of the Transactions as appropriate.

As at the Latest Practicable Date, (i) the PRC Mine Companies have received the mining licenses in respect of the Coal Mines and such mining licenses have not been revoked as required under condition (a)(ii) above; (ii) each of the Subscription Agreement and the Third Supplemental Agreement was entered into on 6 September 2012 as required under condition (d)(i) above; and (iii) the deeds of indemnification were entered into by respective parties which have been duly executed and delivered under condition (s)(ii) above. Save as disclosed, no other condition precedent under the Acquisition Agreement has been fulfilled as at the Latest Practicable Date.

Completion of the Acquisition

Completion of the Acquisition shall take place on the third Business Day after the fulfillment or waiver (as the case may be) of the last of the conditions precedent to the Acquisition Agreement (or such other date as the parties to the Acquisition Agreement may agree in writing). Upon completion of the Acquisition, Lexing will become a subsidiary of the Company.

The respective completions of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement shall take place simultaneously.

Proposed Directors

Pursuant to the terms of the Acquisition Agreement, Guang Cheng shall procure the Company to convene a meeting of the Board for the passing of all necessary resolutions to approve, among other things, the appointment of two executive Directors and one non-executive Directors nominated by the holders of the Consideration Shares and the Conversion Shares.

The biographical details of the Directors to be nominated by City Bloom effective upon completion of the Acquisition are set out below:

Mr. Zhang Sanhuo（**張三貨**）, aged 47, is proposed to be nominated as an executive Director. Mr. Zhang has extensive experience in the mining industry, and has been engaged in such business for over 20 years.

Mr. Zhang graduated from 山西財經大學 (Shanxi University of Finance & Economics*) (formerly known as 山西財經學院 (Shanxi Institute of Finance & Economics*)) ("**Shanxi Finance University**") with a bachelor's degree in accounting and obtained a master's degree in business administration from 長江商學院 (Cheung Kong Graduate School of Business). Mr. Zhang was involved in mining, technology and management of 山西省煤炭廳古交一礦 (Department of Coal of Shanxi Province Gujiao Mine No. 1*) as its mine manager from 1991 to 1994, and was the general manager of 山西昌通選煤廠 (Shanxi Changtong Coal Preparation Plant*) from 1994 to 1998 responsible for the production management and overseas trading of coal products. Mr. Zhang has extensive experience in coal and natural resources management and investment, as well as property investments.

The remuneration package of Mr. Zhang including bonus and other benefits, will be determined by the Remuneration Committee of the Board at his appointment with reference to among others, his duties and responsibilities, salaries paid by comparable companies, time commitment, employment conditions elsewhere in the Group, etc.. Mr. Zhang will be appointed for an initial term of 2 years.

Mr. Zhang Xu (張旭), aged 50, is proposed to be nominated as an executive Director. Mr. Zhang Xu graduated from 山西大學 (Shanxi University*) with a bachelor's degree in arts specialising in journalism and obtained a master's degree in economics from 北京大學 (Peking University). He was the general manager of 福龍集團北京公司 (Fulong Group Beijing Company*) ("**Fulong Group**") from 2004 to 2008 responsible for the management of coal projects and the general manager of a 1.2 million ton coal project of Fulong Group. He was the general manager of Shanxi Coal from 2009 to 2010, responsible for the merger and reorganisation of 15 coal mines in Shanxi with aggregate coal reserve of over 200 million tons and annual production capacity of five million tons. He joined Shanxi Changtong as its director in 2011.

The remuneration package of Mr. Zhang Xu including bonus and other benefits, will be determined by the Remuneration Committee of the Board at his appointment with reference to, among others, his duties and responsibilities, salaries paid by comparable companies, time commitment, employment conditions elsewhere in the Group, etc.. Mr. Zhang Xu will be appointed for an initial term of 2 years.

Mr. Zhou Chengjian (鄒承健), aged 69, is proposed to be nominated as a non-executive Director. Mr. Zhou graduated from 山東礦業學院 (Shandong Institute of Mining and Technology*) with a bachelor's degree in mining in September 1965. From September 1965 to January 1970, he worked as a mining technician at 西山礦務局西銘礦 (Xishan Mining Administration Ximing Mine*). He was promoted to the position of executive mining technician in January 1970 and acted as the mining engineer, the deputy technical manager and the acting manager of the mining area successively from January 1970 to April 1980. He served at the development headquarters of 西山礦務局古交礦區 (Xishan Mining Administration Gujiao Mine District*) from April 1980 to April 1985, during which period he worked as the deputy group leader of the development group of 西山礦務局西曲礦 (Xishan Mining Administration Ximing Mine*) ("**Xiqu Mine**"*), the chief engineer and the mine manager of such mine. He then served as the leader of such development headquarters and its deputy general and production director from April 1985 to April 1995. From December 1995 to December 1997, he acted as the director of 淮南礦務局

(Huainan Mining Administration*). He subsequently worked as the deputy general manager and general manager of 華晉焦煤公司 (Huajin Coking Coal Company*) successively from December 1997 to June 2003. Since 2004, he has acted as the technical consultant of Shanxi Changtong and the dean of 煤炭工業合肥設計研究院山西分院 (Shanxi Branch of Hefei Design Research Institute for Coal Industry*).

The remuneration package of Mr. Zhou will be determined the Remuneration Committee of the Board at his appointment. Mr. Zhou will be appointed for an initial term of 2 years.

Save as disclosed above, each of the proposed Directors did not hold other positions in the Company or other members of the Group as at the Latest Practicable Date. Each of the proposed Directors, (i) had no other relationship with any Directors, senior management or substantial or controlling shareholders of the Company as at the Latest Practicable Date; and (ii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as disclosed in this circular, each of the proposed Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of the proposed Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the proposed Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

III. THE DISPOSAL

The Disposal Agreement

Date	:	12 June 2012
Parties	:	the Company as the vendor and Mountain Sky as the purchaser

Mountain Sky is a company incorporated in the BVI and its principal activity is investment holding. As at the date of the Disposal Agreement, Mountain Sky beneficially owned 155,350,000 Shares, representing approximately 13.65% of the issued Shares, and thus a substantial Shareholder and a connected person of the Company under Chapter 14A of the Listing Rules.

Assets to be disposed of

(i) the NARG Sale Shares, representing the entire issued share capital of NARG;

(ii) the GLG Sale Share, representing the entire issued share capital of GLG; and

(iii) the Sale Loan.

Consideration

The aggregate consideration for the NARG Sale Shares, the GLG Sale Share and the Sale Loan is HK$600 million. The consideration shall be settled by the application of the payment of an equivalent amount payable by Guang Cheng to City Bloom pursuant to the Acquisition Agreement to satisfy part of the consideration for the Acquisition, which will be authorised by City Bloom to be applied towards the payment of an equivalent amount payable by City Bloom to Mountain Sky pursuant to the Mountain Sky Agreement to satisfy the consideration of the Share Sale; and which sum, in turn, will be authorised by Mountain Sky to be applied towards the payment of the equivalent amount payable by Mountain Sky to the Company as the consideration of the Disposal.

The consideration was determined after arm's length negotiations between the Company and Mountain Sky and with reference to, among other things, (i) the aggregate net asset value of the NARG Group and the GLG Group of HK$239.3 million and the amount of the Sale Loan of HK$328.1 million as at 31 December 2011; (ii) the draft valuation of the NARG Group of approximately HK$540 million as at 31 March 2012 prepared by Greater China using the income approach; (iii) the unsatisfactory financial performance of the NARG Group and the delayed production schedule due to various issues relating to, among other things, the insufficient amount of water usage approved by the local government authority for the required scale of operation, the resolution of the technical and logistics issues, and the delay in the completion of the docking facility near the Choir City railway station in Mongolia. Currently, the mine production of the Iron Mine is on hold and waiting on further instruction from the Company; and (iv) the additional resources and capital that are required for the future operation and business development of the GLG Group. According to the competent evaluator's report of the NARG Group as set out in Appendix VIII, the fair value of the mineral assets of the Iron Mine is HK$560 million while appraised value of the equity interest in NARG is HK$566 million. The difference in the appraised value of the draft competent evaluator's report and the final report is mainly due to the revision of the business plan of the Iron Mine which was prepared by SRK Consulting China Limited ("**SRK**"), including but not limited to, the unit cost of production, the production schedule and standard used to derive reserve volume (i.e. change from Chinese standard to JORC standard). According to the reviewed account of the Disposal Group, the GLG Group recorded net liabilities of HK$1.13 million as at 30 September 2012.

Having considered the above, the Directors are of the opinion that the consideration for the Disposal is fair and reasonable.

Conditions precedent to the Disposal Agreement

Completion of the Disposal Agreement is conditional upon fulfillment or waiver of the following conditions:

(a) the passing of ordinary resolution(s) at the SGM in accordance with the requirements of the Listing Rules and all other applicable laws and regulations to approve the Disposal Agreement and the transactions contemplated thereunder;

(b) all necessary consents, approvals, licenses and authorisation required to be obtained on the part of Mountain Sky in respect of the Disposal Agreement and the transactions contemplated thereby having been obtained;

(c) all necessary consents, approvals, licenses and authorisation required to be obtained on the part of the Company in respect of the Disposal Agreement and the transactions contemplated thereby having been obtained;

(d) the representations and warranties given by Mountain Sky under the Disposal Agreement remaining true and accurate and not misleading in all material respects;

(e) the representations and warranties given by the Company under the Disposal Agreement remaining true and accurate and not misleading in all material respects;

(f) the Acquisition Agreement having become unconditional (other than the condition for the Disposal Agreement to become unconditional);

(g) (i) the entering into the Subscription Agreement and the Third Supplemental Agreement; and (ii) the Subscription Agreement and the Third Supplemental Agreement having become unconditional (other than the condition for the Disposal Agreement to become unconditional); and

(h) the Mountain Sky Agreement having become unconditional (other than the condition for the Disposal Agreement to become unconditional).

Mountain Sky may waive condition (e) while the Company may waive in whole or in part of condition (d). All the other conditions set out above are incapable of being waived by any party to the Disposal Agreement. If any of the above conditions (other than condition (g)(i)) have not been fulfilled by the parties to the Disposal Agreement on or before 5:00 p.m. on 30 June 2013 (or such later date as the parties to the Disposal Agreement may agree in writing) or condition (g)(i) has not been fulfilled by the parties to the Disposal Agreement on or before 5:00 p.m. on 7 September 2012, the Disposal Agreement shall lapse and thereafter neither party to the Disposal Agreement shall have any rights or obligations towards the other except in respect of any antecedent breach.

Each of the Subscription Agreement and the Third Supplemental Agreement was entered into on 6 September 2012 as required under condition (g)(i). Save as disclosed, no other condition precedent under the Disposal Agreement has been fulfilled as at the Latest Practicable Date. As advised by Mountain Sky, Mountain Sky has obtained all necessary consents, approvals and authorisation to enter into the Disposal Agreement. The Company has obtained a legal opinion based on the laws of the BVI regarding the execution of the Disposal Agreement and is of the view that the Disposal Agreement was duly executed by Mountain Sky with proper authorisation.

Completion of the Disposal

Completion of the Disposal shall take place on the third Business Day after the fulfillment or waiver (as the case may be) of the conditions precedent to the Disposal Agreement (or such other date as the parties to the Disposal Agreement may agree). Upon completion of the Disposal, NARG and GLG will cease to be subsidiaries of the Company and the results of the Disposal Group will not be consolidated into the consolidated financial statements of the Group.

The respective completions of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement shall take place simultaneously.

Information on the Disposal Group

NARG is a company incorporated in the BVI and its principal activity is investment holding. The NARG Group is engaged in iron mining business in Mongolia. NARG owns a 99.99% indirect interest in Golden Pogada LLC, which is the registered holder of the mining right license for the Iron Mine located in south-central Mongolia. As at the Latest Practicable Date, production at the Iron Mine, which has been temporarily halted due to technical issues and has not re-commenced. The company has not sold the inventory of iron ore produced during the trial production in 2011 pending the resolution of the logistics and transportation issues.

GLG is a company incorporated in the BVI and its principal activity is investment holding. The GLG Group is engaged in coal trading and logistic operations at both the Ceke and Gants Mod border crossings, the two major border crossings for coal transportation at the Sino-Mongolian border. The logistics operations at the Gants Mod border crossing is operated through Global Link Logistic LLC, a joint venture company in which GLG owns 80% equity interest and the remaining 20% is owned by a Mongolian partner. This business is still in early stages of operation and may require more capital investment for the expansion of its fleet strength in order to become profitable. The Company's coal trading business at the Ceke border crossing is operated through its wholly-owned subsidiary, NAR Gold Fox Group Limited. Around the end of 2011, NAR Gold Fox Group Limited, a member of the Disposal Group, started a trial running of its business model, which was subsequently aborted as the business involved a relatively long funding cycle and substantial outlay of capital, from the point of initial investment of capital for the purchase of the raw coal, transportation cost and coal washing cost to the final receipt of payment from the washed coal buyers. As such, the Company decided to put this operation on hold and to further review and strategise the operational and funding requirements for this business.

Set out below is the summary of the key unaudited combined financial information of the Disposal Group for the two years ended 31 December 2010 and 31 December 2011 and the nine months ended 30 September 2012:

	For the year ended		For the nine months ended
	31 December 2010	**31 December 2011**	**30 September 2012**
	HK$' million	*HK$' million*	*HK$' million*
	Unaudited	Unaudited	
Turnover	–	4.43	19.26
(Loss)/Profit before taxation	(22.45)	(25.51)	(13.98)
(Loss)/Profit after taxation and minority interest	(22.27)	(25.41)	(13.71)

As at 30 September 2012, the Disposal Group recorded unaudited net liabilities of approximately HK$145.22 million. The above financial information was prepared using the Hong Kong Financial Reporting Standards.

Gain on the Disposal

As stated in the circular of the Company dated 23 October 2009, the appraised value of the mining right of the Iron Mine held by Golden Pogada LLC, which is a 90%-owned subsidiary of NARG, is approximately HK$2,272 million. As the feasibility study had yet to be conducted at the time of preparation of the said circular, the valuation of the mining right of the Iron Mine as contained in the said circular was arrived at by using the market approach with reference to the market value of the price per tonne of iron resource for transactions of a similar type, details of which are set out in the said circular of the Company.

On 16 December 2009, the acquisition of the entire equity interest in NARG was completed. Pursuant to applicable accounting standards, the fair value of the consideration for the acquisition of the entire equity interest in NARG was approximately HK$3,885.6 million. At around the end of October 2009, the management prepared a preliminary business plan for the future operation of the Iron Mine and then engaged SRK to carry out a technical review to assess and refine the preliminary business plan. On 23 November 2009, SRK produced a technical plan (the "**Technical Plan**"), the details of which formed the basis of the Company's complete business plan which was completed at around the end of November 2009. As at the aforesaid date of completion, the fair value of the mining business of the Iron Mine was considered to be approximately HK$5,253.2 million, as valued by Greater China by adopting the income approach with reference to a 15-year production plan of the Iron Mine starting from 2010 assuming sufficient supply of water with a view to achieving a maximum production capacity of 5.7 million tonnes of iron ore per annum (the "**Completion Valuation**"). Greater China adopted the income approach in arriving at the Completion Valuation as it was able to place sufficient reliance on the Company's business plan for the future operation of the Iron Mine, the viability of which was substantiated by following factors:

(i) on 13 November 2009, Golden Pogada LLC entered into agreements with China Railway Mongolia Limited, which, at that time, was an independent third party, in relation to, among other things, (i) the sale of not less than 1.5 million tonnes per annum of output of the Iron Mine by the Group to China Railway Mongolia Limited; and (ii) the provision of transportation services for the Group's iron output by China Railway Mongolia Limited. These agreements secured sales orders and provided transportation solutions for the products of the Iron Mines;

(ii) the availability of the Technical Plan on 23 November 2009 which contained information necessary for using the income approach as the valuation methodology. These information included the mining design, production schedules, estimated sales volume, capital expenditures, assessment on the feasibility of the future business operation of the Iron Mines, estimated cost of production and transportation, etc.; and

(iii) the granting of the mining license for the Iron Mine on 4 December 2009.

Greater China was satisfied with the competency of SRK and considered that the information contained in the Technical Plan reliable. Taking into account of the Company's business plan, the contractual arrangements, the granting of the mining license and the information contained in the Technical Plan, Greater China considered that the development status of the Iron Mine had changed from an exploration stage to a pre-development stage. Greater China therefore considered that income approach was an appropriate valuation methodology as it better reflected the entire business value of the operation of the Iron Mine according to the Company's business plan.

The excess of the fair value of the consideration for the entire equity interest in NARG over the fair value of the net identifiable assets (including the fair value of the mining right of the Iron Mine based on the valuation prepared by Greater China) of approximately HK$2,653.8 million was recognised as goodwill of the Group on the date of completion of such acquisition.

In the course of preparing of the audited financial statements of the Group for the year ended 31 December 2009, the goodwill and fair value of the mining right of the Iron Mine were assessed for impairment and no impairment was considered necessary as the recoverable amount of the Iron Mine business was greater than its carrying value.

Trial production began in May 2010, with positive results in the recovery of some iron sand. During 2010, the Company completed the design on the construction of the Iron Mine, installed dry processing equipment according to the design, and performed blasting and trial production on site.

Iron ore can be processed by using dry processing or wet processing. Dry processing uses very little water, but produces a low-iron content product, usually less than 55% iron content. Wet processing uses more water to process low grade iron ore into a higher iron content product with around 65% of iron content or above. In early 2011, the Company received water usage approval from the local authority for an amount of water usage less than the originally required amount. The amount of water usage approval obtained by the Company was insufficient for the wet processing methodology. Further work for proving the adequacy of water resources is required to apply for the necessary water usage amount for wet processing for the Iron Mine. In view of these circumstances, the Company engaged Greater China to provide an assessment of the potential decrease in the recoverable amount of the iron mining business of the Group as a result of the extended production schedule and the relatively lower iron-content of the products caused by the limited supply of water to the Iron Mine. As disclosed in the annual report of the Company for the financial year ended 31 December 2010, the recoverable amount of the Iron Mine business as valued by Greater China was approximately HK$1,300.2 million which was lower than the carrying value of the Iron Mine business. The full amount of the goodwill of approximately HK$2,653.8 million was therefore impaired and an impairment of approximately HK$287.5 million was made on the carrying value of the mining right of the Iron Mine in accordance with the relevant accounting standards.

Due to the potential increase in the transportation costs for transporting iron ore products from the Iron Mine to a border town as a result of not establishing the required scale of production and the inability of the Company to attract other large-scale buyers to absorb the transportation cost, the cost structure and overall profitability of the Iron Mine business was adversely affected during the year ended 31 December 2011. The recoverable amount of the Iron Mine business as assessed by Greater China was approximately HK$532 million as at 31 December 2011 and was therefore lower than its carrying amount in the financial statements of the Group. Taking into account the above factors, and the relevant accounting standards, the Board decided to further impair the mining right of the Iron Mine of approximately HK$819 million in the preparation of the audited financial statements for the year ended 31 December 2011.

Based on the revised valuation report by Greater China and the prolonged production schedule following the unforeseen lower approval level of water usage by the local government of Mongolia, the Directors considered the impairment justifiable and that they had performed their due diligence work on the Iron Mine with due care, diligence and skills.

Based on the unaudited accounts of the Disposal Group as at 30 September 2012, an unaudited gain of approximately HK$83.5 million is expected to arise from the Disposal, which is calculated with reference to the proceeds from the consideration of the Disposal of approximately HK$600 million and the adjusted carrying value attributable to the Disposal Group of approximately HK$225 million and the Sale Loan as at 30 September 2012 of approximately HK$291.5 million. Shareholders and investors should note that the exact amount of the actual gain on the Disposal is to be determined with reference to the fair value attributable to the NARG Sale Shares, the GLG Sale Share and the Sale Loan as at the date of completion of the Disposal Agreement and may be different from the above figure. The excess of the consideration of the Disposal over the carrying value of the Disposal Group and the Sale Loan as at 30 September 2012 is HK$454 million (without taking into account, among other things, fair value of mining rights and deferred tax liabilities). For details of the gain on disposal of the Disposal Group, please refer to Appendix IV to this circular.

Based on the appraised value of the equity interest in NARG by applying both income approach and market approach of approximately HK$566 million as at 30 September 2012 prepared by Greater China as set out in Appendix VIII to this circular, the consideration for the Disposal represents a premium of approximately 6.01% over the aforesaid valuation. The Directors considered that the aforesaid valuation reflected the economic substance of the underlying assets with reference to, among other things, the future production schedule, production capacity, the amount of reserve and resources, the capital expenditure to be incurred and the recent market price of iron and cost of production.

As of the completion of acquisition of the Iron Mine in 2009, the Company focused on realising the value of Iron Mine through developing the mine into production. Therefore, the Company engaged SRK and Greater China to prepare the business plan and valuation of Iron Mine respectively.

Greater China relied on various information, including but not limited to projected capital expenditure, operating costs, production schedule, etc., stated in the business plan prepared by SRK to conduct the valuation. Since the Company was planning to realise the value of Iron Mine through execution according to the business plan, and that the development status of the Iron Mine was pre-production stage and feasibility of operation can be referenced to the business plan, Greater China adopted income approach which is considered as an appropriate methodology for such development stage to perform the valuation. The same methodology had been adopted for the valuations in interim and annual reports for financial year 2010 and 2011 as Company's strategy remained unchanged during this period.

However, as at 30 September 2012, the Company received an offer to sell the Iron Mine and was in serious contemplation with regards to the two the options i.e. whether to sell the Iron Mine or continue to develop the Iron Mine. The Company then engaged Greater China to perform another valuation of the Iron Mine as at 30 September 2012. Greater China believes that both income approach and market approach needed to be considered in this instance as the value derived from income approach implies a value that will only be realised from the continual development of the mine, while the value derived from market approach provides additional reference for the Company to consider whether the selling offer is attractive if compared with similar transactions (if any) in current market environment. Thus, based on the results of the valuation which considered both income approach and market approach, the Company was in a better position to decide whether selling or developing the Iron Mine will be better for the interest of the Company and the Shareholders.

Having considered (i) the impairments made on the carrying amounts of the goodwill and the mining right of the Iron Mine business as detailed above as well as the book value of the Disposal Group of approximately HK$567.4 million as at the date of the Disposal Agreement; (ii) the expected gain of approximately HK$83.5 million on the Disposal; (iii) the additional capital resources that are required to be invested in the Iron Mine to achieve full commercial production; and (iv) the issues surrounding the dry processing plant, the completion of the docking facility near the Choir City railway station in Mongolia, the inadequate water approval and the transportation issues which are still to be resolved, the Directors consider the consideration of the Disposal to be fair and reasonable and the Disposal is in the interest of the Company and the Shareholders as a whole.

IV. THE SUBSCRIPTION

The Subscription Agreement

Date : 6 September 2012

Parties : the Company as the issuer and Business Ally as the subscriber

Business Ally is a company incorporated in the BVI and a wholly-owned subsidiary of CCB International Asset Management Limited. The principal activity of Business Ally is investment holding. It is the sole holder of the US$30M Convertible Bonds. As a security to the US$30M Convertible Bonds, (i) Mountain Sky has charged 155,350,000 Shares and 1,500,987,376 CPS (i.e. the shares to be transferred by Mountain Sky to City Bloom under the Mountain Sky Agreement) held by Mountain Sky in favour of Business Ally; and (ii) NARG has charged the entire issued share capital of Green Paradise Enterprises Ltd. (being an indirect wholly-owned subsidiary of the Company and also a member of the NARG Group) in favour of Business Ally.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the holding of the US$30M Convertible Bonds, Business Ally and its ultimate beneficial owners are otherwise third parties independent of the Company and its connected persons. As at the Latest Practicable Date, Business Ally has not requested for early redemption of the US$30M Convertible Bonds. Please refer to the announcements of the Company respectively dated 8 September 2010, 29 October 2010, 3 January 2011, 6 January 2011, 10 February 2011, 6 January 2012 and 23 February 2012, and the circulars of the Company respectively dated 2 February 2011 and 8 February 2012 for further details of the US$30M Convertible Bonds.

The Subscription

The number of Subscription Ordinary Shares and Subscription CPS shall be subject to adjustment such that upon Completion, Business Ally shall be issued and allotted such number of Shares that would give Business Ally and any parties acting in concert with it an aggregate interest of less than 20% shareholding in the total issued ordinary share capital of the Company upon Completion at the issue price of HK$0.17 each.

The consideration for the Subscription that is payable by Business Ally to the Company shall be satisfied by setting off against the aggregate of (a) the principal amount of the Set-Off Convertible Bonds of US$15,000,000; and (b) the difference between (i) an amount that would yield the IRR at the rate of 18% calculated on the Set-Off Convertible Bonds from the issue date of the US$30M Convertible Bonds up to and including the date of completion of the Subscription (such amount shall take into account of any interest (other than default interest) previously paid with respect to the Set-Off Convertible Bonds), and (ii) interest on the Set-Off Convertible Bonds accrued from the date of the last interest payment (i.e. 14 March 2012) up to and including the date of completion of the Subscription at the rate of 8% per annum (the "**Additional Interest**").

Subscription Ordinary Shares

The Subscription Ordinary Shares shall rank pari passu with all ordinary Shares in issue in all respects upon completion of the Subscription. An application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Subscription Ordinary Shares. For illustration purpose only, the maximum number of Subscription Ordinary Shares to be issued is 683,823,529 which is calculated by dividing US$15 million (equivalent to approximately HK$116.3 million) by the issue price of HK$0.17 per Subscription Ordinary Share. The maximum number of Subscription Ordinary Shares to be issued represents approximately 53.4% of the issued share capital of the Company as at the Latest Practicable Date and approximately 2.5% of the enlarged share capital of the Company on Completion and full conversion of the convertible securities (including of New CBs) of the Company.

Subscription CPS

The principal terms of the Subscription CPS are as follows:

Par value:	HK$0.01 per Subscription CPS
Issue price:	HK$0.17 per Subscription CPS
Dividend:	it shall have priority to any rights of the holders of any other class of shares of the Company (including the Shares) to receive dividends. Any dividend declared shall not be less than that declared in respect of any other class of shares of the Company (including the Shares) on a per share basis
Conversion ratio:	subject to the restrictions on the exercise of the conversion rights attaching to the Subscription CPS, each Subscription CPS shall be convertible into one ordinary Share

Conversion rights:	each Subscription CPS shall be convertible into one ordinary Share subject to that the conversion of the Subscription CPS will not cause (i) to the extent that following such conversion, the relevant holder of the Subscription CPS and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 20% or more of the entire issued Shares; or (ii) if immediately after such conversion, the public float of the Shares shall be less than 25% (or any given percentage as required by the Listing Rules)
Redemption:	neither the Company nor any holder of the Subscription CPS shall have any right to redeem the Subscription CPS
Ranking:	with respect to (a) dividends, and (b) distributions of surplus assets upon the occurrence of liquidation, it shall rank prior to all Shares the Conversion Shares shall rank pari passu with the issued ordinary Shares on the date of conversion
Rights in liquidation:	in the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, each holder shall be entitled to receive, prior to and in preference to any distribution of any of the surplus assets or funds of the Company to the holders of any other class of shares of the Company ranked second to the Subscription CPS (including but not limited to the ordinary Shares), an amount per Subscription CPS equal to the portion of the subscription price paid on each such Subscription CPS, in addition to any unpaid dividends already declared by the Board in respect of the Subscription CPS ("**Liquidation Preference**"). After the payment of the Liquidation Preference to the holders of the Subscription CPS, the remaining surplus assets of the Company that are legally available for distribution shall be distributed to the holders of the Shares (including the Subscription Ordinary Shares) and Subscription CPS pro rata on an as-converted basis
Voting rights:	except as required by law, it shall have no voting rights

Transferability:	the Subscription CPS are freely transferable other than to the connected persons (as defined under the Listing Rules) of the Company
Application for listing:	no application will be made for the listing of or permission to deal in the Subscription CPS on the Stock Exchange or any other stock exchange. The Company will make an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Conversion Shares to be issued and allotted upon the exercise of the conversion rights attaching to the Subscription CPS

The Subscription Ordinary Shares and the Conversion Shares shall be issued pursuant to the Specific Mandate to be sought at the SGM.

Subscription price

The amount of Subscription Ordinary Shares and Subscription CPS to be issued and allotted and the respective issue prices were determined after arm's length negotiations between the Company and Business Ally and with reference to, among other things, the average closing prices of the Shares and the net assets value of the Company.

The issue price of HK$0.17 for each Subscription Ordinary Shares and Subscription CPS was determined after arm's length negotiations between the Company and Business Ally which represents:

(i) a discount of approximately 39.3% to the closing price of HK$0.28 per Share as quoted in the daily quotation sheets of the Stock Exchange on the Last Trading Date;

(ii) a discount of approximately 37.0% to the average of the closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Date of HK$0.27 per Share;

(iii) a discount of approximately 35.1% to the average of the closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date of approximately HK$0.262 per Share;

(iv) a discount of approximately 35.8% to the average of the closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date of approximately HK$0.265 per Share;

(v) a discount of approximately 46.7% to the net assets value attributable to equity holders of the Company of approximately HK$0.319 per Share as at 31 December 2011 based on the audited financial statement of the Group for the year ended 31 December 2011; and

(vi) a discount of approximately 36.3% to the net assets value attributable to equity holders of the Company of approximately HK$0.267 per Share as at 30 June 2012 based on the unaudited financial statements of the Group for the six months ended 30 June 2012.

For illustration purpose only, the maximum number of Subscription Ordinary Shares and Subscription CPS to be issued is 907,485,687 which is calculated by dividing the sum of US$15 million (equivalent to approximately HK$116.3 million) and US$4,906,138 (equivalent to approximately HK$38,022,567) being the Additional Interest assuming the Completion Date is on 30 June 2013, by the issue price of HK$0.17 per Subscription Ordinary Share and Subscription CPS. The maximum number of Subscription Ordinary Shares and Subscription CPS to be issued represents approximately 70.9% of the issued share capital of the Company as at the Latest Practicable Date and approximately 3.3% of the enlarged share capital of the Company on Completion and full conversion of the convertible securities of the Company.

Conditions precedent to the Subscription Agreement

Completion of the Subscription Agreement is conditional upon fulfillment of the following conditions:

(a) all necessary consents and approvals required to be obtained in respect of the Subscription Agreement and the transactions contemplated thereby, including but not limited to the Subscription, having been obtained;

(b) the Listing Committee of the Stock Exchange granting, and not having withdrawn or revoked as at completion of the Subscription, the listing of and permission to deal in the Subscription Ordinary Shares and the Conversion Shares;

(c) the passing of ordinary resolution(s) by the Independent Shareholders at the SGM in accordance with the requirements of the Listing Rules, the Takeovers Code and all other applicable laws and regulations to approve the Subscription Agreement and the transactions contemplated thereunder and including but not limited to, if necessary, such amendments that are required to be made by the Company to its bye-laws for the purpose of authorising the creation of the Subscription CPS, the issue of the Subscription CPS, the Subscription Ordinary Shares and the Convertible Shares, and the incorporation of the terms of the Subscription CPS;

(d) the Acquisition Agreement having become unconditional (other than the condition that the Subscription Agreement shall become unconditional);

(e) the Disposal Agreement having become unconditional (other than the condition that the Subscription Agreement shall become unconditional);

(f) the Mountain Sky Agreement having become unconditional (other than the condition that the Subscription Agreement shall become unconditional);

(g) the Third Supplemental Agreement having become unconditional (other than the condition that the Subscription Agreement shall become unconditional); and

(h) a deed of indemnification in connection with the Indemnified Claims entered into between Ultra Asset as the indemnifying party and Business Ally is being duly executed and delivered by Ultra Asset to Business Ally.

All the above conditions are incapable of being waived by any party to the Subscription Agreement. If the above conditions have not been fulfilled on or before 5:00 p.m. on 30 June 2013, the Subscription Agreement shall lapse and thereafter neither party to the Subscription Agreement shall have any rights or obligations towards the other except in respect of any antecedent breach.

As at the Latest Practicable Date, save for condition (h), no other condition precedent under the Subscription Agreement has been fulfilled.

Completion of the Subscription

Completion of the Subscription shall take place on the third Business Day after the fulfillment of the conditions precedent to the Subscription Agreement (or such other date as the parties to the Subscription Agreement may agree).

The respective completions of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement shall take place simultaneously.

Others

By entering into the Subscription Agreement together with the Third Supplemental Agreement, Business Ally has given its consent to the entering into of the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties and has further confirmed that the entering into of the aforesaid agreements and the transactions contemplated thereunder will not constitute any breach of the terms of the US$30M Convertible Bonds.

In order to facilitate the payment for the consideration of the Disposal, upon completion of the Subscription Agreement, Business Ally shall also release in full the charges on the entire issued share capital of Green Paradise Enterprises Ltd. (being a member of the Disposal Group), the 155,350,000 Shares and 1,500,987,376 CPS held by Mountain Sky.

The Subscription is conditional upon completion of the Acquistion, the Disposal, the Share Sale and the Proposed Alteration and if the Subscription does not proceed, the Company and Business Ally have agreed to enter into further negotiations with regards to the restructuring of the Company's financial obligations in relation to the US$30M Convertible Bonds.

Having considered the above and the factors described under the section headed "Reasons for the Transactions and the Placing" below, the Directors are of the opinion that the terms of the Subscription are fair and reasonable and that the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

V. THE PROPOSED ALTERATION

The Third Supplemental Agreement

Date	:	6 September 2012
Parties	:	the Company, Business Ally and City Bloom as the issuer, the holder and the warrantor of the Remaining US$15M Convertible Bonds, respectively.

Subject to the terms and conditions of the Third Supplemental Agreement, the Company and Business Ally agreed to alter the terms of the Remaining US$15M Convertible Bonds upon Completion. City Bloom also conditionally agreed to provide certain undertakings in relation to the fulfillment of the relevant amended conditions of the Remaining US$15M Convertible Bonds in favour of the holder(s) of the Remaining US$15M Convertible Bonds upon Completion. To the best of the Director's knowledge, information and belief having made all reasonable enquiries and as confirmed by City Bloom, City Bloom and its ultimate beneficial owners are third parties independent of Business Ally, CCB International Securities Limited and their respective connected persons.

Principal terms of the Remaining US$15M Convertible Bonds as altered

Issuer:	The Company
Principal Amount:	US$15 million
Interest:	The Remaining US$15M Convertible Bonds bear interest from and including the issue date and up to (i) the maturity date; (ii) the date on which redemption is completed pursuant to the conditions of the Remaining US$15M Convertible Bonds; or (iii) the date of actual receipt by the holder(s) of the Remaining US$15M Convertible Bonds of the share certificate(s) of the Shares to be issued and allotted upon exercise of the conversion rights attaching to the Remaining US$15M Convertible Bonds, whichever is the earliest, at the interest rate of 8.0% per annum. Interest of the Remaining US$15M Convertible Bonds shall be payable semi-annually.
Maturity:	The date falling on the third anniversary of the completion date of the Third Supplemental Agreement.

Conversion Price:	The conversion price is HK$0.27 per Share (subject to adjustment) which is determined after arm's length negotiations between the Company, City Bloom and Business Ally and is equivalent to the existing conversion price of the US$30M Convertible Bonds.
Conversion rights:	The holder(s) of the Remaining US$15M Convertible Bonds has/have the right to convert in part or in whole the Remaining US$15M Convertible Bonds into Shares during the period from three months after the issue date up to ten Business Days prior to the maturity date of the Remaining US$15M Convertible Bonds, provided that, amongst others, in any event, the conversion of any part of the Remaining US$15M Convertible Bonds shall not cause (i) to the extent that following such conversion, the relevant holder of the Remaining US$15M Convertible Bonds and parties acting in concert with it (as defined in the Takeovers Code), taken together, will directly or indirectly, control or be regarded as interested in 20% or more of the entire issued Shares; or (ii) if immediately after such conversion, the public float of the ordinary shares in the share capital of the Company falls below the minimum public float requirements stipulated under the Listing Rules or as required by the Stock Exchange.
Ranking of the Conversion Shares:	The Shares to be issued and allotted upon exercise of the conversion rights attaching to the Remaining US$15M Convertible Bonds, when issued and allotted, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue.
Ranking of the Remaining US$15M Convertible Bonds:	The Remaining US$15M Convertible Bonds rank (i) pari passu and ratably without preference among themselves; and (ii) rank in priority to other unsecured obligations of the Company.

Transferability:	The Remaining US$15M Convertible Bonds may only be assigned or transferred by the holder(s) of the Remaining US$15M Convertible Bonds by giving to the Company at least ten Business Days' written notice of the proposed transfer of the Remaining US$15M Convertible Bonds and subject to compliance of the conditions under the Remaining US$15M Convertible Bonds and further subject to the conditions, approvals, requirements and any other provisions of or under: (i) the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or their rules and regulations, but only to the extent applicable; (ii) the approval for listing in respect of the Shares to be issued and allotted upon exercise of the conversion rights attaching to the Remaining US$15M Convertible Bonds, if so imposed by the Stock Exchange; and (iii) all applicable laws and regulations, if any.
Voting rights:	The Remaining US$15M Convertible Bonds do not confer any voting rights on the holder(s) thereof (prior to the conversion of the Remaining US$15M Convertible Bonds into the Shares) at any meeting of the Company.
Redemption at maturity:	Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company shall redeem each of the Remaining US$15M Convertible Bonds on the maturity date of the Remaining US$15M Convertible Bonds at an amount that equals to 100% of the principal amount of the Remaining US$15M Convertible Bonds so redeemed, plus an amount that would yield an IRR of 15% thereon calculated from the issue date up to (and including) the actual date of payment (for the avoidance of doubt, such IRR of 15% shall include all interests (other than default interest) previously paid to the holder(s) of the Remaining US$15M Convertible Bonds).

Redemption right of the Company:

The Company shall have the right at any time during the period commencing from the issue date and expiring on the maturity date of the Remaining US$15M Convertible Bonds to redeem the whole or part of the outstanding amount of the Remaining US$15M Convertible Bonds plus an amount that would yield an IRR of 15% on the outstanding principal amount of the Remaining US$15M Convertible Bonds from the issue date up to (and including) the date of actual redemption (for the avoidance of doubt, such IRR of 15% per annum shall include all interests (other than default interest) previously paid to the holder(s) of the Remaining US$15M Convertible Bonds provided that:

(i) the Company shall have given to the holder(s) of the Remaining US$15M Convertible Bonds not less than seven Business Days' prior notice of its intention to make such redemption, specifying the amount to be redeemed and the date of such redemption; and

(ii) any redemption shall be made in amounts of not less than a whole multiple of US$5,000,000.

Redemption for change of control:

Following the occurrence of a change of control of the Company, each holder of the Remaining US$15M Convertible Bonds will have the right, at its option, to require the Company to redeem all the Remaining US$15M Convertible Bonds held by it at the redemption price, which is calculated as an amount that equals to 100% of the principal amount of the Remaining US$15M Convertible Bonds so redeemed, together with an amount that would yield an IRR of 15% thereon calculated from the issue date up to (and including) the actual date of payment (for the avoidance of doubt, such IRR of 15% shall include all interests (other than default interest) previously paid to the holder(s) of the Remaining US$15M Convertible Bonds) and any accrued but unpaid interest thereon.

For the purpose of the terms and conditions of the Remaining US$15M Convertible Bonds, change of control of the Company means:

(i) any person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, acquire the beneficial ownership or power to direct the vote of 30% of the votes entitled to be cast at a meeting of the members or shareholders of the Company; or

(ii) there is any change in the ultimate beneficial ownership (up to individual level) of any corporate shareholder of the Company which holds 30% or above of the voting rights of the Company, unless the change in the ultimate beneficial ownership to individual level of any corporate shareholder is as a result of any acquisition by the Company of any asset, the value of which exceeds HK$100,000,000.

Adjustments to the conversion price: The conversion price of the Remaining US$15M Convertible Bonds will be adjusted in accordance with the relevant provisions under the terms and conditions of the Remaining US$15M Convertible Bonds upon occurrence of, including but not limited to, the following events:

(i) there shall be an alteration to the nominal value of the Shares by reason of any consolidation or subdivision or re-classification or whatever reasons;

(ii) the Company shall issue any Shares credited as fully paid by way of capitalisation of profits or reserves including Shares paid up out of distributable profits or reserves and/or share premium account and which would not have constituted a distribution;

(iii) the Company shall make any capital distribution to Shareholders or shall grant to such Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) the Company shall offer or grant to all or substantially all Shareholders new Shares for subscription by way of rights, or any options or warrants or other rights to subscribe for new Shares (other than options granted or Shares issued to employees or directors of the Company or any of its subsidiaries or their respective personal representatives pursuant to any employee or executive share scheme) at a price which is less than 95% of the market price at the date of the announcement of the terms of the offer or grant;

(v) the Company shall issue wholly for cash any securities convertible into or exchangeable for or carry rights of subscription for new Shares (other than options granted or Shares issued to employees or directors of the Company or any of its subsidiaries or their respective personal representatives pursuant to any employee or executive share scheme), and the total effective consideration per Share initially receivable for such securities is less than 95% of the market price at the date of the announcement of the terms of issue of such securities;

(vi) the Company shall issue wholly for cash any Shares (other than Shares issued to employees or directors of the Company or any of its subsidiaries or their respective personal representatives pursuant to any employee or executive share scheme) or grant any options or warrants or other rights to subscribe for new Shares at a price per Share which is less than 95% of the market price at the date of the announcement of the terms of such issue;

(vii) upon the average closing price of one Share on the Stock Exchange as quoted in the official daily quotation sheet of the Stock Exchange (or the equivalent) for all the Stock Exchange dealing days on which dealings in the Shares on the Stock Exchange took place during the month in which the financial year-end day of the Company falls in any calendar year plus a premium of 15% thereof is lower than the respective applicable conversion price of the Remaining US$15M Convertible Bonds in force; or

(viii) as long as there are any outstanding Remaining US$15M Convertible Bonds, in the event that the Company issues and/or allots Shares and any other convertible or exchangeable securities at an issue or conversion price below the conversion price of the Remaining US$15M Convertible Bonds or otherwise grants any right or option to any person entitling him/her/it to subscribe for any Shares in the capital of the Company at a price below the conversion price of the Remaining US$15M Convertible Bonds, the holder(s) of the Remaining US$15M Convertible Bonds shall have the right to adjust the conversion price of the Remaining US$15M Convertible Bonds to be equivalent to the issue/conversion/subscription price (as the case may be) of such subsequent arrangements.

The Directors consider that the terms relating to the conversion price adjustments are fair and reasonable as these conversion price adjustment events cover various dilutive events and were agreed after arm's length negotiations between the Company and Business Ally. For the terms under paragraph (vii), the yearly reset of the conversion price was provided under the existing terms of the US$30M Convertible Bonds and had been approved by the Shareholders during the earlier special general meetings of the Company. For the terms under paragraph (viii), the terms were agreed after arm's length negotiations with Business Ally as Business Ally had concerns that the Company would issue new securities with a conversion or exchange price lower than the conversion price of the Remaining US$15M Convertible Bonds. All such terms are part of the Proposed Alteration in consideration for the entering into of the Third Supplemental Agreement and the Subscription Agreement by Business Ally as part of the debt restructuring and release of the pledges over the entire issued shares of Green Paradise Enterprises Ltd. and CPS. In this regard, the Directors consider that the terms relating to the conversion price adjustments are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Negative pledge and security:	The Remaining US$15M Convertible Bonds will be secured by (i) the share charge to be executed by City Bloom or such person(s) as nominated by it as the warrantor(s) of the Remaining US$15M Convertible Bonds (as the chargor) in favor of Business Ally (as the chargee) over certain number of the Shares; (ii) the charge on certain number of the Consideration Bonds (the "**New Charge on Shares**" and "**New Charge on CB**" respectively), which shall be held by the warrantor(s) of the Remaining US$15M Convertible Bonds upon Completion; and (iii) the personal guarantee to be provided by Mr. Zhang (the "**Personal Guarantee**"), on first priority basis, provided that the total market value of the charged assets under the New Charge on Shares and the New Charge on CB and any Shares and/or any other securities deposited by the warrantor(s) of the Remaining US$15M Convertible Bonds or such person(s) as nominated by it (as the case may be) in a securities account designated by the holder(s) of the

Remaining US$15M Convertible Bonds (or in the case of convertible securities, the certificates of which have been delivered to the holder(s) of the Remaining US$15M Convertible Bonds) based on the volume weighted average price of the Shares quoted on the Stock Exchange for the five consecutive trading days (the "**Total Market Value**") shall not be less than three times of the outstanding principal amount of the Remaining US$15M Convertible Bonds from time to time and in the event that the Total Market Value is below two times of the outstanding principal amount of the Remaining US$15M Convertible Bonds from time to time, without prejudice to other rights and remedies available to Business Ally, upon the receipt of a notice from Business Ally to the satisfaction of Business Ally and/or comply with the arrangements as requested by the holder(s) of the Remaining US$15M Convertible Bonds in order to secure the due performance of the obligations of all parties (other than Business Ally) under the New Charge on Shares and the New Charge on CB, such that the total market value of the charged and/or deposited securities shall not be less than three times of the outstanding principal amount of the Remaining US$15M Convertible Bonds at the time.

In the event that the Total Market Value exceeds four times of the outstanding principal amount of the Remaining US$15M Convertible Bonds, the Company and the warrantor(s) of the Remaining US$15M Convertible Bonds shall be entitled to withdraw such an amount of the Shares and the securities deposited and/or charged under the New Charge on Shares and the New Charge on CB and/or as part of the additional security to Business Ally as mentioned above ("**Additional Securities**") by the warrantor(s) of the Remaining US$15M Convertible Bonds or such person(s) as nominated by it (as the case may be) in a securities account designated by the holder(s) of the Remaining US$15M Convertible Bonds (or in the case of convertible securities, a return from the holder(s) of the Remaining US$15M Convertible Bonds of the certificates representing the relevant convertible securities) (if any), respectively (the "**Withdrawal**"), so that the total market value of the charged/deposited securities shall be reinstated to four times of the outstanding principal amount of the Remaining US$15M Convertible Bonds, provided that (i) a Withdrawal shall be conducted in the following order: first, the securities deposited by the warrantor(s) of the Remaining US$15M Convertible Bonds and after the withdrawal of all such deposited securities, the charged securities under the New Charge on Shares and New Charge on CB and the Additional Securities; (ii) within six months after the date of completion of the Third Supplemental Agreement ("**Prescribed Period**") any such Shares and/or any other securities so withdrawn from the account designated by the holder(s) of the Remaining US$15M Convertible Bonds shall (a) be used solely as security to any debt financing of the Company or warrantor(s) of the Remaining US$15M Convertible Bonds; (b) if in form of Shares, not be transferable to any third party during the Prescribed Period; and (c) if in form of convertible securities of the Company, not be transferable to any third party unless such proposed transferee provides an undertaking to the holder(s) of the Remaining US$15M Convertible Bonds (in form and substance to the satisfaction of the holder(s) of the

Remaining US$15M Convertible Bonds) not to exercise the conversion right attached to the securities that are proposed to be transferred during the Prescribed Period, and a further undertaking to deposit the certificates of such securities to be transferred with the holder(s) of the Remaining US$15M Convertible Bonds to retain until the expiry of the Prescribed Period; and (iii) if the Withdrawal is after the Prescribed Period, any such Shares and/or any other securities so withdrawn from the securities account designated by the holder(s) of the Remaining US$15M Convertible Bonds may be used for any purpose. For this purpose, the holder(s) of the Remaining US$15M Convertible Bonds shall provide necessary assistance to the Company with respect to the Withdrawal.

Without prejudice to abovementioned conditions, the warrantor(s) of the Remaining US$15M Convertible Bonds or such person(s) as nominated by it (as the case may be) shall not, whilst any of the Remaining US$15M Convertible Bonds is outstanding, (i) in the case that the securities deposited by the warrantor(s) of the Remaining US$15M Convertible Bonds securities are in the form of Shares, or in respect of the securities charged under the New Charge on Shares, withdraw the same from the securities account designated by the holder(s) of the Remaining US$15M Convertible Bonds, (ii) in the case that the securities deposited by the warrantor(s) of the Remaining US$15M Convertible Bonds are in the form of convertible securities, or in respect of securities charged under the New Charge on CB be entitled to the return of the relevant certificates; and (iii) transfer or cause to be transferred to any other person the securities deposited by the warrantor(s) of the Remaining US$15M Convertible Bonds and securities charged under the New Charge on Shares and New Charge on CB, unless prior written consent of the holder(s) of the Remaining US$15M Convertible Bonds is obtained.

Guaranteed return: If any of the following events occurs on or after the completion date of the Third Supplemental Agreement, holder(s) of the Remaining US$15M Convertible Bonds shall have the right to issue a written notice to the Company to request for repayment of all outstanding principal amount under the Remaining US$15M Convertible Bonds together with the guaranteed return of the Remaining US$15M Convertible Bonds:

(i) the Company fails to pay any interest accrued on each interest payment date; or

(ii) the Company fails to redeem any of the Remaining US$15M Convertible Bonds pursuant to the terms of the Remaining US$15M Convertible Bonds; or

(iii) any event of default as specified in the instrument; or

(iv) any direct or indirect disposal of any material asset of the Company which its value exceeds 20% of the net asset value of the Group as shown in its latest audited consolidated accounts to any third parties without any prior written consent by the holder(s) of the Remaining US$15M Convertible Bonds.

The guaranteed return of the Remaining US$15M Convertible Bonds is a gross return of its outstanding principal amount plus an amount that would yield an IRR of 25% thereon calculated from the issue date up to (and including) the actual date of payment and shall include all interest (including default interest if any) previously paid to the holder(s) of the Remaining US$15M Convertible Bonds.

Events of default: If any of the following events occurs, the holder(s) of the Remaining US$15M Convertible Bonds may give notice to the Company that the Remaining US$15M Convertible Bonds is, and it shall on the giving of such notice immediately become, due and payable at the principal amount of the Remaining US$15M Convertible Bonds:

(a) the Company fails to pay the principal amount and/or interest under the Remaining US$15M Convertible Bonds or any indebtedness of HK$10,000,000 or above when due unless such non-payment is due solely to administrative or technical error and payment is made within seven days of the due date thereof; or

(b) the Company fails to deliver the Shares as and when the Shares are required to be delivered following conversion of the Remaining US$15M Convertible Bonds and such failure continues for 14 days; or

(c) the Company or such person(s) as nominated by it (as the case may be) defaults in its performance of or observance of or compliance with any of its material obligations set out therein and in the New Charge on Shares which default is incapable of remedy or, if in the reasonable opinion of holder(s) of the Remaining US$15M Convertible Bonds and the chargee (for the New Charge on Shares) capable of remedy, is not remedied within 14 Business Days after notice of such default shall have been given to the Company by such holder(s) of the Remaining US$15M Convertible Bonds or the chargee for the New Charge on Shares; or

(d) the warrantor(s) of the Remaining US$15M Convertible Bonds defaults in its performance of or observance of or compliance with any of its material obligations set out in the New Charge on CB which default is incapable of remedy or, if in the opinion of the holder(s) of the Remaining US$15M Convertible Bonds and the chargee for the New Charge on CB capable of remedy, is not remedied within 14 Business Days after notice of such default shall have been given to the Company by such holder(s) of the Remaining US$15M Convertible Bonds or the chargee for the New Charge on CB; or

(e) any breaches of the covenants, obligations and responsibilities by the parties (other than the holder(s) of the Remaining US$15M Convertible Bonds) to the New Charge on CB, the New Charge on Shares, or any other security documents which the Company and/or the warrantor(s) of the Remaining US$15M Convertible Bonds may enter into with the holder(s) of the Remaining US$15M Convertible Bonds to provide additional security as required under the terms and conditions of the Remaining US$15M Convertible Bonds has occurred; or

(f) an encumbrancer takes possession of or an administrative or a receiver, manager or other similar officer is appointed in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its material subsidiaries; or

(g) the Company or any of its material subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a substantial part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any substantial part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or any of its material subsidiaries or suffers the appointment of any administrator, liquidator or receiver of the Company or the whole or any substantial part of the undertaking, property, assets or revenues of the Company or takes any proceeding under any law for a re-adjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its creditors; or

(h) a compulsory winding up order is made or an effective resolution passed for the winding up or dissolution or administration of the Company or any of its material subsidiaries or the Company or any of its material subsidiaries ceases or threatens (through an official act of the board of directors or any other similar governing body) to cease to carry on all or part of its business or operations of the material subsidiaries (as defined hereinafter), save and except pursuant to any corporate re-organization or restructuring of the Company and its material subsidiaries; or

(i) any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Company or any of its material subsidiaries; or

(j) substantial sale of assets which is (a) not in ordinary course of business; and (b) the value of which exceeds 20% of the net asset value of the Company as shown in its latest consolidated audited accounts unless prior consent was obtained from the holder(s) of the Remaining US$15M Convertible Bonds, of which the holder(s) of the Remaining US$15M Convertible Bonds cannot unreasonably withheld such consent; or

(k) (a) any other present or future indebtedness (whether actual or contingent) of the Company or any of the its material subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual default or event of default (howsoever called) which is not remedied within any applicable grace period or (b) any such indebtedness is not paid when due or within any applicable grace period or (c) the Company or any of its material subsidiaries fails to pay when due or within any applicable grace period any amount payable by it under any present or future guarantee for, or indemnity in respect of any moneys borrowed or raised provided that the aggregate principal amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph have occurred equals or exceeds HK$l0,000,000 (or its equivalent in any other currency or currencies); or

(l) a distress, attachment, execution, seizure before judgment or other legal process is levied or enforced upon or sued out against any material part of the undertaking, property, assets or revenues of the Company or any of its material subsidiaries, which is material to the Company and its material subsidiaries as a whole, and is not discharged or stayed within 60 days thereof; or

(m) one or more final judgments or orders for the payment of money exceeding HK$10 million (or its equivalent in any other currency or currencies) are rendered against the Company or any of its material subsidiaries with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or thereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar officers of the Company or any of its material subsidiaries or for any substantial part of the property and assets of the Company or any of its material subsidiaries and such involuntary case or other proceeding remains un-dismissed and un-stayed for a period of 60 consecutive days; or

(n) an order for relief is entered against the Company or any of its material subsidiaries under any applicable bankruptcy, insolvency or other similar law as now or thereafter in effect; or

(o) (a) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its material subsidiaries; or (b) the Company or any of its material subsidiaries is prevented from exercising normal control over all or any substantial part of its property, assets and turnover; or

(p) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the warrantor(s) of the Remaining US$15M Convertible Bonds or such person(s) as nominated by it (as the case may be) lawfully to enter into, exercise its rights and perform and comply with its obligations under the Remaining US$15M Convertible Bonds, the New Charge on CB and the New Charge on Shares, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Remaining US$15M Convertible Bonds, the New Charge on CB and the New Charge on Shares admissible in evidence in the courts of Bermuda, BVI or Hong Kong is not taken, fulfilled or done; or

(q) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the warrantor(s) of the Remaining US$15M Convertible Bonds or such person(s) as nominated by it (as the case may be) lawfully to enter into, exercise its rights and perform and comply with its obligations under the Remaining US$15M Convertible Bonds and the New Charge on CB, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Remaining US$15M Convertible Bonds and the New Charge on CB admissible in evidence in the courts of Bermuda, BVI or Hong Kong is not taken, fulfilled or done; or

(r) it is or will become unlawful for the warrantor(s) of the Remaining US$15M Convertible Bonds or such person(s) as nominated by it (as the case may be) to perform or comply with any one or more of its material obligations under any of the Remaining US$15M Convertible Bonds, the New Charge on CB and the New Charge on Shares; or

(s) it is or will become unlawful for Mr. Zhang to perform or comply with any one or more of its material obligations under any of the Remaining US$15M Convertible Bonds and the Personal Guarantee; or

(t) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or

(u) the occurrence of any event, development or change which in the reasonable opinion of the holder(s) of the Remaining US$15M Convertible Bonds would materially adversely affect the business or financial prospects of the Company or any of its material subsidiaries; or

(v) any event of default as set out in other convertible securities agreements with security interests exceeding HK$l0,000,000 having occurred; or

(w) any breach of the terms and conditions of the Remaining US$15M Convertible Bonds and the Convertible Bond Subscription Agreement (as amended and supplemented by a supplemental letter dated 21 September 2010 and further amended by two supplemental agreements dated 29 October 2011 and 6 January 2012 respectively and by the Third Supplemental Agreement) and any transaction documents in relation to the Remaining US$15M Convertible Bonds by the Company; or

(x) the Company fails to provide the required level of security as requested by the holder(s) of the Remaining US$15M Convertible Bonds pursuant to the conditions and the terms of the Remaining US$15M Convertible Bonds; or

(y) so long as any amount under the Remaining US$15M Convertible Bonds remains outstanding, the Company fails to maintain the net asset value of the Group (as shown in the audited consolidated financial statements of the Group) at HK$300,000,000 or above; or

(z) the Company issues any convertible securities subsequent to the date of Completion and the maturity date of such securities is earlier than 31 December 2015.

In the events of default, the Company will utilise its internal resources and will seek external financing to satisfy the repayment obligations although the Company does not contemplate if there will be any events of defaults to be occurred in the foreseeable future.

Application for listing:	No application will be made for the listing of the Remaining US$15M Convertible Bonds.

Pursuant to the second supplemental agreement to the Convertible Bonds Subscription Agreement dated 6 January 2012, Mountain Sky has charged, in favour of Business Ally, (i) 986,054,490 CPS registered under its name; and (ii) all Shares registered under its name (i.e. the 155,350,000 Shares) (collectively referred to as the "**Additional Charges**"), in addition to the 514,932,886 CPS, which were charged by Mountain Sky in favour of Business Ally, and the entire issued share capital of Green Paradise Enterprises Ltd., which were charged by NARG in favour of Business Ally, under the original terms of the US$30M Convertible Bonds. The details of the Additional Charges have been disclosed in the Company's circular dated 8 February 2012 and the Company has carried out all reasonable work including obtaining relevant copies of minutes and resolutions from Mountain Sky, and a copy of the legal opinion based on the laws of the BVI addressed to Business Ally, in relation to the execution of the Additional Charges. Based on the above, the Board considers that the Additional Charges were duly executed by Mountain Sky and proper authorisation has been obtained by the relevant parties for the execution of the same.

By entering into the Third Supplemental Agreement together with the Subscription Agreement, Business Ally also conditionally agreed to give its consent to the entering into of the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties and further confirmed that the entering into the aforesaid agreements and the transactions contemplated thereunder will not constitute breach of the terms of the US$30M Convertible Bonds. Business Ally further undertook that it would release and discharge (i) the share charge over the entire issued share capital of Green Paradise Enterprises Ltd.; and (ii) the share charges over the 155,350,000 Shares and 1,500,987,376 CPS held by Mountain Sky upon the simultaneous completion of the Acquisition Agreement, the Disposal Agreement, the Mountain Sky Agreement and the Subscription Agreement.

By entering into the Third Supplemental Agreement, City Bloom undertook (or procure its nominee(s) to undertake (as the case may be)) to the holder(s) of the Remaining US$15M Convertible Bonds that upon Completion, City Bloom or its nominee(s) (as the case may be) will deposit such amount of Shares and/or convertible securities of the Company as agreed between City Bloom and the holder(s) of the Remaining US$15M Convertible Bonds that shall be issued, allotted or transferred (as the case may be) to it by (i) the Company under the Acquisition Agreement as Consideration Shares; and (ii) Mountain Sky under the Mountain Sky Agreement with the securities account designated by the holder(s) of the Remaining US$15M Convertible Bonds.

Conditions precedent to the Third Supplemental Agreement

Completion of the Third Supplemental Agreement and the Proposed Alteration to the terms of the Remaining US$15M Convertible Bonds shall be conditional upon fulfillment of the following conditions:

(a) the passing by the Independent Shareholders at the SGM of the ordinary resolutions to approve, among others, the Third Supplemental Agreement and the transactions contemplated thereunder;

(b) the obtaining of the approval from the Stock Exchange (if required and necessary) in relation to the Proposed Alteration;

(c) the obtaining of all necessary consents and approvals required to be obtained by all parties to the Third Supplemental Agreement, the Subscription Agreement, the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement in respect of the transactions contemplated therein;

(d) the Acquisition Agreement having become unconditional (other than the condition that the Third Supplemental Agreement shall become unconditional) and the transactions contemplated thereby shall be completed simultaneously with the transactions contemplated under the Third Supplemental Agreement and the Subscription Agreement;

(e) the Disposal Agreement having become unconditional (other than the condition that the Third Supplemental Agreement shall become unconditional) and the transactions contemplated thereby shall be completed simultaneously with the transactions contemplated under the Third Supplemental Agreement and the Subscription Agreement;

(f) the Mountain Sky Agreement having become unconditional (other than the condition that the Third Supplemental Agreement shall become unconditional) and the transactions contemplated thereby shall be completed simultaneously with the transactions contemplated under the Third Supplemental Agreement and the Subscription Agreement;

(g) the Subscription Agreement having become unconditional (other than the condition that the Third Supplemental Agreement shall become unconditional) and the transactions contemplated thereby shall be completed simultaneously with the transactions contemplated under the Third Supplemental Agreement; and

(h) a deed of indemnification in connection with the Indemnified Claims entered into between Ultra Asset as indemnifying party and Business Ally is being duly executed and delivered by Ultra Asset to Business Ally.

If the above conditions have not been fulfilled on or before 30 June 2013, the Third Supplemental Agreement shall lapse and thereafter neither party to the Third Supplemental Agreement shall have any rights or obligations towards the other except in respect of any antecedent breach.

As at the Latest Practicable Date, save for condition (h), no other condition precedent under the Third Supplemental Agreement has been fulfilled.

Completion of the Proposed Alteration

Completion of the Proposed Alteration shall take place on the third Business Day after the fulfillment or waiver (as the case may be) of the conditions precedent to the Third Supplemental Agreement (or such other date as the parties to the Third Supplemental Agreement may agree). Ultra Asset held 81.19% interest in Mountain Sky as at the Latest Practicable Date. With the aim to facilitating the completion of the Subscription Agreement and the Third Supplemental Agreement so that (i) the share charge over the entire issued share capital of Green Paradise Enterprises Ltd.; the share charges over the 155,350,000 Shares and 1,500,987,376 CPS held by Mountain Sky will be released by Business Ally; and (ii) the Disposal will be completed simultaneously, Ultra Asset, being the controlling shareholder of Mountain Sky, is willing to convert a portion of the CPS for 19,452,727 Shares and to transfer in total 200,000,000 Shares to CCB International Securities Limited, an affiliate of Business Ally, (or its nominee(s)) at a consideration of HK$1. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Ultra Asset has no direct commercial or banking or any other past or current relationship with Business Ally and its ultimate beneficial owner(s) except through Mountain Sky for the abovementioned pledging of the 155,350,000 Shares and 1,500,987,376 CPS held by Mountain Sky to Business Ally pertaining to the US$30M Convertible Bonds.

The respective completion of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement shall take place simultaneously.

VI. THE SHARE SALE

To facilitate the payment of the consideration for the Disposal, on 12 June 2012, Mountain Sky and City Bloom entered into the Mountain Sky Agreement, pursuant to which Mountain Sky has conditionally agreed to sell and City Bloom has conditionally agreed to purchase an aggregate of 155,350,000 Shares and 1,500,987,376 CPS at a consideration of HK$600 million.

The consideration under the Mountain Sky Agreement shall be settled by the application of the payment of an equivalent amount payable by Guang Cheng to City Bloom pursuant to the Acquisition Agreement to satisfy part of the consideration for the Acquisition. In turn, Mountain Sky shall authorise the payment of the consideration under the Mountain Sky Agreement to be applied towards the payment of an equivalent amount payable by Mountain Sky to the Company as the consideration under the Disposal Agreement and in turn as part of the consideration of the Acquisition payable by Guang Cheng to City Bloom, upon completion of the Acquisition.

Pursuant to the Mountain Sky Agreement, its completion is conditional upon, among other things, the entering into of the Subscription Agreement and the Third Supplemental Agreement by 5:00 p.m. on 7 September 2012 and each of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement having become unconditional (other than the condition that the Mountain Sky Agreement shall become unconditional) by 5:00 p.m. on 30 June 2013.

The respective completion of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement shall take place simultaneously.

The Company has obtained a legal opinion based on the laws of the BVI regarding the execution of the Mountain Sky Agreement and is of the view that the Mountain Sky Agreement was duly executed by Mountain Sky with proper authorisation. Relevant legal opinions based on the laws of the BVI regarding the proper authorisation and execution of the Disposal Agreement and the Additional Charges have also been obtained.

VII. THE PLACING

The Placing Agreement

Date	:	18 December 2012 (as supplemented by the extension letters dated 31 December 2012 and 18 March 2013)
Parties	:	the Company as the issuer and KCG Securities Asia Limited as the Placing Agent

The Placing Agent has been appointed by the Company to place the New CBs and the PNs on a best effort basis and will receive a placing commission of 0.4 per cent of the aggregate principal amount of the New CBs and the PNs successfully placed by the Placing Agent to the Placees or its nominees. The placing commission was arrived at after arm's length negotiations between the Company and the Placing Agent.

The Placing Agent is owned as to 30% by a company which holds the entire interest of Kingsway Capital Limited, the financial adviser to City Bloom in relation to the Acquisition and the Disposal. Save as disclosed above, to the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Placees

The New CBs and the PNs will be placed to not less than six Placees (which are professional, institutional and/or individual investors), each of whom and whose beneficial owners (i) will be an independent third party (parties) who is (are) independent of and not connected with the Company and its connected persons (as defined in the Listing Rules) and not deemed to be parties acting in concert with each other; and (ii) will not be a connected person of City Bloom and its connected persons including the Guarantor. It is expected that none of the Placees will become a substantial Shareholder (as defined under the Listing Rules) of the Company as a result of the Placing. The corresponding placing period ended on 31 January 2013 and no further extension has been made.

As at the end of the Placing Period, the Placing Agent has successfully procured 17 Placees to subscribe for the New CBs and PNs both in an aggregate principal amount of US$30 million (equivalent to approximately HK$234 million) respectively, and among which, one of the Placees, a wholly owned subsidiary of a company listed on the Stock Exchange, has conditionally agreed to subscribe for the New CBs and PNs both in an aggregate amount of US$7,000,000 (equivalent to approximately HK$55 million) respectively at their face values. Accordingly, the subscription of the New CBs and PNs by this Placee is, inter alia, subject to approval of the shareholders of its holding company at its special general meeting.

The Placees shall subscribe for the same amount of the New CBs and the PNs at the same time.

Conditions Precedent

The Placing is conditional upon:

(a) if required, the Listing Committee of the Stock Exchange having approved the issue of the New CBs and the PNs either unconditionally or subject to conditions to which neither the Company nor the subscriber of the New CBs or the PNs shall reasonably object and the satisfaction of such conditions;

(b) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Placing Conversion Shares which may fall to be allotted and issued upon the exercise of the conversion rights attached to the New CBs;

(c) the passing by the Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules and other applicable regulations of resolutions to approve the Placing Agreement and the transactions contemplated thereunder, including the Placing, the issue of the New CB(s) and the PNs and the issue and allotment of the Placing Conversion Shares under a specific mandate;

(d) the Acquisition, the Disposal, the Subscription and the associated transactions having been completed;

(e) the warranties of the Company set forth in the Placing Agreement in the opinion of the Placing Agent remaining true and accurate in all material respects, and not misleading in any material respect, as given on the date of the Placing Agreement and at the Completion of the Placing;

(f) the Placing Agent in its opinion being satisfied with its business, technical, legal and financial due diligent investigation with respect to the Group for the purpose of the Completion of the Placing;

(g) the Placing Agent having received a Hong Kong legal opinion on the Company addressing the matters set forth in the Placing Agreement;

(h) if required, the Bermuda Monetary Authority granting its permission for the issue of the New CB(s) and the PNs and the issue and allotment of the Placing Conversion Shares;

(i) the Guarantor having executed and delivered to the Placing Agent or the Placee the Placing Personal Guarantees and the Mortgages on Shares and New CBs under seal, lodged all relevant documents for registration in relation to the Mortgages on Shares and New CBs under the laws of Bermuda and Hong Kong and delivered to the Placing Agent or the Placees a legal opinion confirming the due execution of the Mortgages on Shares and New CBs by the Guarantor issued by lawyers qualified to the practise laws of Bermuda and Hong Kong in relation to the Mortgages on Shares and New CBs; and

(j) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained.

The Placing Agent may at its absolute discretion at any time waive in writing any of the above conditions in (e), (f), (g) and (i) above and such waiver may be made subject to such reasonable terms and conditions as are determined by the Placing Agent. If the conditions are not fulfilled (or waived by the Placing Agent) on or before the 30 June 2013 (or such later date as may be agreed between the Company and the Placing Agent in writing or, if such date is not a Business Day, the immediate preceding Business Day), the Placing Agreement shall terminate and neither the Company nor the Placing Agent shall have any claim against the other for any costs or losses (save for any prior breaches of the Placing Agreement). The Placing Agent shall provide to the Company all information concerning itself and the Placees as the Stock Exchange may reasonably require. As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived.

Termination and force majeure of the Placing Agreement

The Placing Agent shall be entitled by notice to the Company given prior to 10:00 a.m. on the Business Day preceding the relevant date of Completion of Placing to terminate the Placing Agreement if:

(a) there develops, occurs or comes into force:

(i) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date hereof) and including an event or change in relation to or a development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, resulting in a material adverse change in, or which may result in a material adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions and which in the reasonable opinion of the Placing Agent would materially adversely affect the success of the Placing; or

(ii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise and which in the reasonable opinion of the Placing Agent, would materially adversely affect the success of the Placing; or

(iii) any material adverse change in conditions of local, national or international securities markets occurs which in the reasonable opinion of the Placing Agent would materially and adversely affect the success of the Placing; or

(iv) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group and if in the reasonable opinion of the Placing Agent any such new law or change may materially and adversely affect the business or financial prospects of the Group and/or the success of the Placing; or

(v) a change or development occurs involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or elsewhere and if in the reasonable opinion of the Placing Agent, any such change or development would materially adversely affect the success of the Placing; or

(vi) any new litigation or claim being instigated against any member of the Group, which has or may have a material adverse effect on the business or financial position of the Group and which in the reasonable opinion of the Placing Agent would materially and adversely affect the success of the Placing (other than the litigation matter as announced by the Company in its announcement dated 27 August 2012 and other ancillary claim(s) in association therewith); or

(b) any material breach of any of the representations and warranties set out in the Placing Agreement comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date hereof and prior to the Completion of the Placing which if it had occurred or arisen before the date hereof would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing Agreement; or

(c) there is any adverse change in the financial position of the Company which is material in the context of the Placing; or

(d) there is any adverse change in market conditions occurs which makes it inexpedient or inadvisable to proceed with the placing of the New CBs and the PNs or any suspension in the trading of the Company's securities on the Stock Exchange for a period of more than thirty (30) consecutive Business Days, excluding any suspension in connection with the clearance of the Placing Announcements, this circular or other documents in connection with the placing of the New CBs and the PNs.

In the event that the Placing Agreement is terminated pursuant to the paragraph above, all obligations of each of the parties under the Placing Agreement shall cease and determine and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the Placing Agreement except for any antecedent breach of any obligation under the Placing Agreement.

Completion of the Placing

Subject to fulfillment of the conditions precedent as detailed above, Completion of Placing shall take place on the fifth Business Day following the date on which the conditions of the Placing Agreement have been fulfilled or such other date as the Company and the Placing Agent shall agree.

Principal Terms of the New CBs

The following are the principal terms of the New CBs:

Issuer of the New CBs:	The Company
Aggregate principal amount:	Up to US$30,000,000
Maturity:	36 months from the date of issue of the New CBs.
Placing Price:	The New CBs will be issued at 100% of their principal amount.
Redemption:	*Redemption of the New CBs at maturity:* Unless previously redeemed, converted or purchased or cancelled, the Company will redeem all outstanding New CBs on the maturity date of the New CBs plus any accrued but unpaid interest.

Early redemption:

After 12 months from the date of issue of the New CBs, the New CBs may be redeemed in whole or in part, subject to the prior written consent of the holder(s) of the New CBs, at any time and from time to time prior to the maturity date of the New CBs. The Company shall redeem the amount equal to one hundred per cent (100%) of the principal amount of the New CBs as agreed with the holder(s) of the New CBs, plus an amount that would yield a return of eight per cent per annum (8% p.a.) on the redeemed portion thereon calculated from the issue date of the New CBs up to (and including) the date the New CBs are redeemed and which shall include all interests (other than default interest) previously paid to the investors. Each redemption shall be in integral multiples of US$500,000 at the same time.

Conversion price of the New CBs: HK$0.31 per Placing Conversion Share, which is subject to adjustments for change in share capital structure of the Company.

The Placing Conversion Shares shall be issued under a specific mandate to be approved by the Shareholders at the SGM.

The conversion price of the New CBs of HK$0.31 represents:

(i) the closing price of HK$0.31 per Share as quoted on the Stock Exchange on the Last Trading Date before Placing Announcement;

(ii) a discount of approximately 2.82% to the average closing price of HK$0.319 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Placing Agreement;

(iii) a discount of approximately 1.90% to the average of the closing prices of the Shares of HK$0.316 per Share for the ten consecutive trading days up to and including the Last Trading Date before Placing Announcement; and

(iv) a discount of approximately 8.82% to the closing price of HK$0.340 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The conversion price of the New CBs is subject to adjustments upon the occurrence of, among other matters, subdivision or consolidation of Shares, capitalization issues, rights issues and other dilutive events. Such adjustments shall be certified either (at the option of the Company) by the auditors of the Company for the time being or by an approved merchant bank in accordance with the terms and conditions of the New CBs on a fair and equitable basis with reference to the five-day closing price per share immediately before such events and with a view to giving the holders thereof the same proportion of equity capital as that the holder would previously entitled. No adjustment is needed upon the completion of the Acquisition, Disposal and the Subscription.

Where more than one event gives or may give rise to an adjustments to the conversion price occurs within such a short period of time that the approved merchant bank or the auditors of the company considers in good faith that the adjustments would need to be subject to some modification in order to give the intended commercial result, such modification shall be made as may be advised by the approved merchant bank or the auditors, acting as an expert, to be in their opinion appropriate to give such intended result.

If any doubt shall arise as to the appropriate adjustment to the conversion price, a certificate of the approved merchant bank shall be conclusive and binding on all concern save in the case of manifest error.

Save for the case of share consolidation, the conversion price may not be adjusted upward. The conversion price may not be adjusted to be below the nominal value of the Shares.

The conversion price of the New CBs was arrived at after arm's length negotiations between the Company and the Placing Agent with reference to the then prevailing market prices of the Shares as shown above.

The Directors are of the view that the conversion price of the New CBs is fair and reasonable and in the interests of the Company and Shareholders as a whole.

Conversion Price Adjustments: The conversion price of the New CBs is subject to adjustments upon the occurrence of, among other matters, subdivision or consolidation of Shares, capitalization issues, rights issues and other dilutive events which involves any change in the issued share capital of the Company which became effective on or before the date of conversion of the New CBs such as issue of any convertible securities.

Such adjustments shall be certified either by the auditors of the Company for the time being or by an approved merchant bank in accordance with the terms and conditions of the Convertible Bonds. The approved merchant bank shall act in good faith to confirm if adjustments to the New CBs shall be required or not and shall certify in writing of any of such adjustments. Any adjustment to the conversion price of the New CBs shall be conducted in accordance with the opinion of the approved merchant bank. In the absence of manifest mistake, the written certification of the approved merchant bank shall be conclusive and binding on the parties.

For the avoidance of doubt, save for share consolidation, the conversion price of the New CBs shall not be adjusted upward. The adjustment shall not cause the conversion price of the New CBs to be below the nominal price of the Shares. Any issue of share options under the share option scheme adopted by the Company and the issue and allotment of Shares upon exercise of such share options shall not cause any adjustments.

No adjustment is needed upon the completion of the Acquisition, the Disposal and the Subscription.

Interest:	8.0% per annum on the outstanding aggregate principal amount of the New CBs, payable semi-annually commencing from the issue date of the New CBs up to (and including) the maturity date of the New CBs. All accrued interest shall be payable in the event of redemption or conversion.
	Unless previously redeemed, converted or purchased or cancelled, the Company shall redeem the outstanding New CBs on the maturity date of the New CBs at an amount equal to one hundred per cent (100%) of the principal amount of the New CBs so redeemed, plus an amount that would yield a return of twelve per cent per annum (12% p.a.) on the outstanding portion thereon calculated from the issue date of the New CBs up to (and including) the maturity date of the New CBs and which shall include all interests (other than default interest) previously paid to the investors.
Conversion rights:	The New CBs are convertible in whole or in part by the holder of the New CBs into Placing Conversion Shares at the conversion price of the New CBs at any time during the conversion period (as stated below).

Conversion period:	Provided that the exercise of the conversion rights attached to the New CBs (i) by the holder thereof and its respective parties acting in concert does not trigger a mandatory offer under Rule 26 of the Takeovers Code on the part of the holder thereof and its parties acting in concert; and (ii) by the holder thereof and its associates will not render Shares held in public hands being less than the minimum public float of the Shares required under the Listing Rules (i.e. 25% of the issued share capital of the Company), holder(s) of the New CBs shall have the right to convert, at any time during the period commencing from the date of issue the New CBs until the fifth Business Day before the maturity date of the New CBs, the whole or part in integral multiples of US$500,000 of the outstanding principal amount of the New CBs.
Placing Conversion Shares:	Based on the initial conversion price of HK$0.31, a maximum number of 754,838,709 Placing Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the New CBs in full, which represent approximately 63.18% of the existing issued share capital of the Company and approximately 38.72% of the issued share capital of the Company as enlarged by the issue of the Placing Conversion Shares. The Placing Conversion Shares will be issued under the Specific Mandate for Placing proposed to be sought from the Shareholders at the SGM. There is no restriction on sales of the Placing Conversion Shares by the holders of the New CBs.

Ranking of the Placing Conversion Shares:	The Placing Conversion Shares, when allotted and issued, will rank pari passu in all respects with all other Shares in issue as at the date of conversion on which a notice is given for the exercise of conversion rights and be entitled to all dividends and other distributions the record date of which falls on a date on or after the notice of the exercise of conversion right is given.
Voting:	The holder(s) of the New CBs will not be entitled to receive notice of, attend or vote at any meeting of the Company by reason only it/they being the holder(s) of the New CBs.
Transferability:	The New CBs may be transferred other than to connected persons of the Company or parties acting in concert with the holder(s) of the New CBs. Any transfer of the New CBs shall be in respect of the whole or part only in integral multiples of US$500,000 of the outstanding principal amount of the New CBs.
Application for listing:	No application will be made for the listing of, or permission to deal in, the New CBs on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Placing Conversion Shares.

Events of default:	The New CBs will contain events of default provisions which provide that on the occurrence of certain events of default specified in the New CBs, each of the holders of the New CBs shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant New CBs, plus an amount that would yield an IRR of 18% on the outstanding portion thereon calculated from the issue date of the New CBs up to (and including) the actual date of payment (for the avoidance of doubt all interest previously paid to the holders of the New CBs shall be included for the calculation of the IRR).
Security:	The New CBs will be secured by the Mortgages on Shares and New CBs and Placing Personal Guarantee.

Principal Terms of the PNs

The following are the principal terms of the PNs:

Issuer of the PNs:	The Company
Aggregate principal amount:	Up to US$30,000,000
Maturity:	36 months from the PN Issue Date.
Placing Price:	The PNs will be issued at 100% of their principal amount.
Redemption:	*Redemption at maturity of the PNs:* Unless previously redeemed or purchased or cancelled, the Company will redeem all outstanding PNs on the PN Maturity Date plus any accrued but unpaid interest.

Early redemption:

after 12 months from the PN Issue Date, subject to the prior written consent of the holder(s) of the PNs, the PNs may be redeemed in whole or in part at any time and from time to time at the option of the Company prior to the PN Maturity Date. The Company shall redeem the amount equal to one hundred per cent (100%) of the principal amount of the PNs as agreed with the holder(s) of the PNs, plus an amount that would yield a return of twelve per cent per annum (12% p.a.) on the redeemed portion thereon calculated from the PN Issue Date up to (and including) the date the PNs is/are redeemed and which shall include all interests (other than default interest) previously paid to the investors. Each redemption shall be in integral multiples of US$500,000 at the same time.

Interest: 12.0% per annum on the outstanding aggregate principal amount of the PNs, payable semi-annually commencing from the PN Issue Date up to (and including) the PN Maturity Date. All accrued interest shall be payable in the event of redemption.

Transferability: The PNs may be transferred other than to connected persons of the Company or parties acting in concert with the holder(s) of the PNs. Any transfer of the PNs shall be in respect of the whole or part only in integral multiples of US$500,000 of the outstanding principal amount of the PNs.

Application for listing: No application will be made for the listing of, or permission to deal in, the PNs on the Stock Exchange or any other stock exchange.

Events of default:	The PNs will contain events of default provisions which provide that on the occurrence of certain events of default specified in the PNs, each of the holders of the PNs shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant PNs, plus an amount that would yield an IRR of 18% on the outstanding portion only thereon calculated from the PN Issue Date up to (and including) the actual date of payment (for the avoidance of doubt all interest previously paid to the holders of the PNs shall be included for the calculation of the IRR).
Security:	The PNs will be secured by the Mortgages on Shares and New CBs and Placing Personal Guarantee.

VIII. EFFECTS OF THE TRANSACTIONS AND SHARE SALE ON THE SHAREHOLDING OF THE COMPANY AND THE GROUP STRUCTURE

The following table sets out, for illustrative purpose only, (i) the effect of the Disposal, the Acquisition, the Subscription and the Share Sale on the shareholding structure of the Company immediately after Completion; and (ii) the effect of the Placing on the shareholding structure of the Company after the Completion of Placing:

Shareholders	As at the Latest Practicable Date		Immediately after Completion of the Transactions, the Share Sale, the Completion of Placing and assuming Ultra Asset converts a portion of the CPS for 19,452,727 Shares and transfers in total 200 million Shares to Business Ally		Upon Completion of the Transactions, Share Sale, Placing, assuming full conversion of New CBs and assuming Ultra Asset converts a portion of the CPS for 19,452,727 Shares and transfers in total 200 million Shares to Business Ally		Immediately after full conversion of the New CBs at the conversion price of HK$0.31 (without taking into consideration the shares to be allotted and issued under the Transactions)		Immediately after the conversion of all convertible preference shares and convertible bonds of the Company (assuming Completion of the Transactions and Completion of Placing)	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*
Mountain Sky	155,350,000	12.13	–	–	–	–	155,350,000	7.64	–	–
Ultra Asset	180,547,273	14.10	–	–	–	–	180,547,273	8.87	418,615,909 *(Note 2)*	1.54
Get Best Management Ltd.	142,045,453	11.10	142,045,453	7.54	142,045,453	4.19	142,045,453	6.98	227,272,725 *(Note 2)*	0.84
Business Ally	–	–	376,645,011 *(Note 3)*	19.99	677,766,518	19.99	–	–	1,538,041,242 *(Note 5)*	5.67
City Bloom	–	–	563,366,372 *(Note 4)*	29.90	1,013,766,846	29.90	–	–	23,402,193,942 *(Note 6)*	86.22
Directors and directors of the subsidiaries of the Group	12,370,820	0.97	12,370,820	0.66	12,370,820	0.37	12,370,820	0.61	12,370,820	0.04
Placees	–	–	–	–	754,838,709	22.26	754,838,709	37.09	754,838,709	2.78
Other public Shareholders	789,739,485	61.70	789,739,485	41.91	789,739,485	23.29	789,739,485	38.81	789,739,485	2.91
Total	1,280,053,031	100.00	1,884,167,141	100.00	3,390,527,831	100.00	2,034,891,740	100.00	27,143,072,832	100.00

Notes:

1. Assuming no conversion of the US$30M Convertible Bonds into Shares by Business Ally before the Completion.

2. As at the Latest Practicable Date, Ultra Asset and Get Best Management Ltd. held 385,500,400 CPS and 75,000,000 CPS, respectively which are respectively convertible into 438,068,636 Shares and 85,227,272 Shares. Upon completion of the Transactions and the Share Sale, Ultra Asset will convert a portion of the CPS held by it to 19,452,727 Shares and transfer in total 200 million Shares to Business Ally.

3. Pursuant to the Subscription Agreement, the Subscription Ordinary Shares and Subscription CPS that shall be issued and allotted by the Company and subscribed by Business Ally upon Completion shall be subject to adjustment such that at Completion, Business Ally shall be issued and allotted such number of ordinary Shares that would give Business Ally and any parties acting in concert with it an aggregate interest just less than 20% shareholding in the total issued ordinary share capital of the Company.

4. Pursuant to the Acquisition Agreement, the number of Consideration Shares to be issued and allotted by the Company together with the Shares then held by City Bloom and any parties acting in concert with it shall be equivalent to 29.9% of the issued ordinary Shares at Completion.

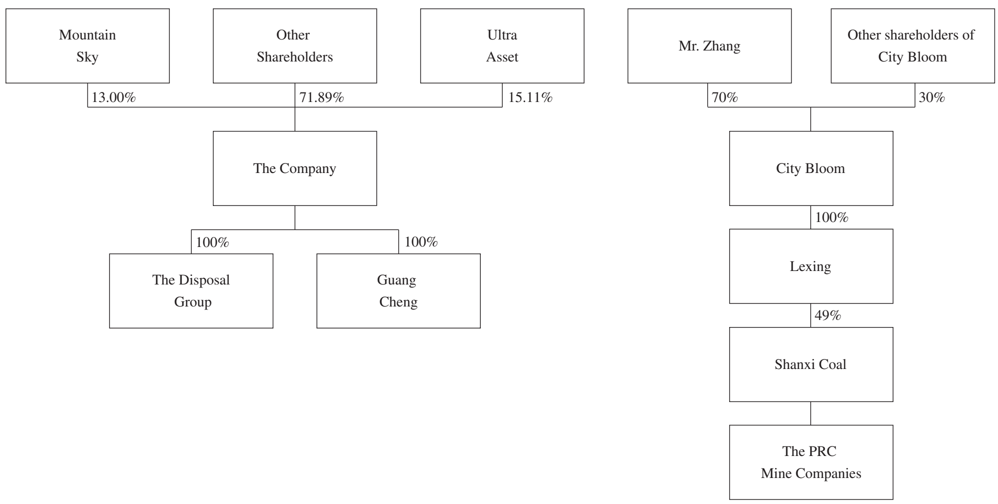
5. For illustration purpose only, the figure represents the sum of (i) 200,000,000 Shares to be transferred to Business Ally by Ultra Asset; (ii) 907,485,687 Shares, being the maximum number of Subscription Ordinary Shares and Subscription CPS to be issued, which is calculated by dividing the sum of US$15 million (equivalent to approximately HK$116.3 million, being part of outstanding principal amount of the US$30M Convertible Bonds to be capitalised under the Subscription Agreement), and US$4,906,138 (equivalent to approximately HK$38,022,567, being the Additional Interest assuming the Completion Date is on 30 June 2013), by the issue price of HK$0.17 per Subscription Ordinary Share and Subscription CPS; and (iii) 430,555,555 Shares to be issued upon conversion of the Remaining US$15M Convertible Bonds at the conversion price of HK$0.27 per Share.

6. For illustration purpose only, the figure represents the sum of (i) 21,541,176,470 Shares, being the maximum Consideration Shares to be issued, which is calculated by dividing the remaining balance of the consideration of the Acquisition after deducting (a) the settlement of HK$600 million under the Mountain Sky Agreement; and (b) the cash payment or issue of the Promissory Note of HK$400 million, i.e. HK$3,662,000,000 by the issue price of HK$0.17 per Consideration Share, and assuming no Consideration Bond is issued; (ii) 155,350,000 Shares to be transferred under the Mountain Sky Agreement; and (iii) 1,705,667,472 Shares to be issued upon the conversion of the 1,500,987,376 CPS to be transferred under the Mountain Sky Agreement.

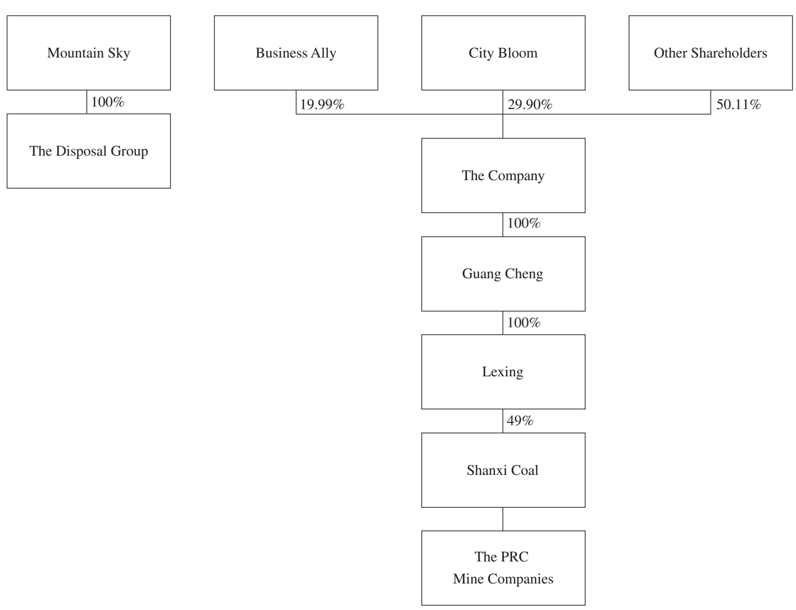
Pursuant to the terms of the Acquisition Agreement, City Bloom and parties acting in concert with it shall not in aggregate own more than 29.9% in all the issued Shares (or any other voting right percentage which triggers a mandatory general offer under the Takeovers Code), therefore the issue of the Consideration Shares and the Consideration Bonds will not result in a change of control of the Company.

The following charts set out the group structure (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Transactions, the Share Sale and the Placing and assuming Ultra Asset converts a portion of the CPS for 19,452,727 Shares and transfers in total 200 million Shares to Business Ally:

(i) As at the Latest Practicable Date:

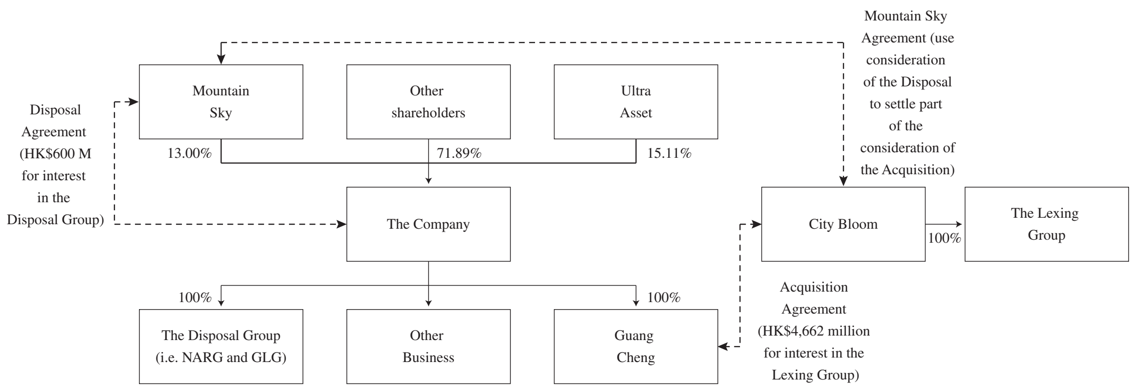


(ii) Immediately after completion of the Transactions, the Share Sale and the Placing and assuming Ultra Asset converts a portion of the CPS for 19,563,838 Shares and transfer in total 200 million Shares to Business Ally:

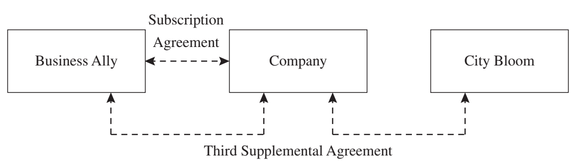


Please also refer to the following charts which illustrate the contractual arrangements among the Company, Guang Cheng, City Bloom, Mountain Sky and Business Ally:

The Acquisition, Disposal and Share Sale



The Subscription and Proposed Alteration



IX. REASONS FOR THE TRANSACTIONS AND THE PLACING

The Group is principally engaged in the distribution of information technology products, mining operation, trading of iron and alluvial gold and coal trading and logistics. The Group has been engaged in the mining business since 2009 through the acquisitions of the Iron Mine.

The Acquisition

The Group is confident of the prospects of the resources and commodity mining business and it is the Group's strategy to continuously look for merger and acquisition opportunities in this industry. The Board believes that the Acquisition represents a valuable investment opportunity for the Group, having considered the substantial amount of measured and indicated resources at the Coal Mines and the future growth opportunity, the improved safety standards required to be implemented at the Coal Mines by the PRC authorities, the expected re-commencement of production of the Coal Mines and therefore the ability of the Coal Mines to generate revenue and cash flow to the Group. The Directors (other than the members of the Independent Board Committee) consider that the terms of the Acquisition are fair and reasonable and on normal commercial terms and that the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

The Disposal

As disclosed in the Company's 2011 annual report, the NARG Group faced some unexpected challenges in the form of adverse weather conditions, nation-wide diesel shortage and technical problems with its production equipment and machinery during the first half of the year. The mining operation at Oyut Ovoo was halted pending resolution of the technical issues. During the second half of 2011, the management of the Company dedicated its attention on fixing the technical issues together with the equipment supplier. Up to the Latest Practicable Date, the technical issues have almost been resolved pending further testing and fine tuning of the equipment. There has also been a similar delay in the overall construction progress of the docking facility near the Choir city railway station by the NARG Group. Moreover, as a result of an increase in the required area of construction of the docking facility and significant escalation in the costs of fuel, materials and labor, the construction of the docking facility has been further delayed.

The Group did not sell any iron ore products as management's efforts were devoted towards resolving the technical issues mentioned. Given that the iron production schedule has been delayed, the production scale of the Iron Mine was relatively small. With the unsatisfactory logistics conditions in Mongolia, the NARG Group has to bear high transportation cost and lacks the bargaining power to attract large-scale customers.

In the second quarter of 2011, the Company began the coal trading business with 10 trucks at Gants Mod. A trial run for the Ceke operation (which involved both road and rail transportation) was carried out towards the end of the year 2011. However, this business is still at an early stage and would also require significant working capital for this trading business to succeed.

In light of the issues surrounding the Iron Mine operation and the start-up status of the coal trading business, the Board believes that the Disposal is in the interest of the Company and the Shareholders as a whole, as it would allow the Group to focus its resources on the Coal Mines which are expected to generate more attractive returns to the Group. In order to facilitate the completion of the Acquisition and having taken into account the uncertainty surrounding the Iron Mine operation as mentioned above and the start-up status of the coal trading business, the Company proposed to dispose of the existing iron mining and coal trading businesses to Mountain Sky under the Disposal Agreement so that the consideration of the Disposal of HK$600 million can be used to settle part of the consideration for the Acquisition. The Directors (other than the members of the Independent Board Committee) consider that the terms of the Disposal are fair and reasonable and on normal commercial terms and that the entering into of the Disposal Agreement is in the interests of the Company and the Shareholders as a whole.

The Subscription and the Proposed Alteration

The outstanding principal amount of the US$30M Convertible Bonds including accrued interest as at the Latest Practicable Date is approximately US$31.55 million (equivalent to approximately HK$244.51 million). Pursuant to the extension letter to the Third Supplemental Agreement dated 18 March 2013, Business Ally as the holder of the US$30M Convertible Bonds further undertakes that it will not request for any redemption of the whole or any part of the US$30M Convertible Bonds on or before 30 June 2013. The Board believes that the Subscription will enable the Group to reduce its liabilities and the potential cash outflow which would otherwise be required for the repayment of the US$30M Convertible Bonds at maturity, as well as strengthen its capital base.

The Proposed Alteration is arrived at after the arm's length negotiations between the Company and Business Ally and the Proposed Alteration becoming unconditional is one of the conditions for the release by Business Ally in full the charges on the entire issued share capital of Green Paradise Enterprises Ltd., the 155,350,000 Shares and 1,500,987,376 CPS held by Mountain Sky. In order to facilitate the consummation of the Acquisition Agreement and Disposal Agreement, Business Ally also conditionally agreed to (i) convert and capitalise half of the outstanding amount of the US$30M Convertible Bonds (i.e. the Set-off Convertible Bonds); (ii) convert and capitalise a portion of the corresponding interest which is calculated as the difference between (a) an amount that would yield the IRR at the rate of 18% calculated on the Set-Off Convertible Bonds from the issue date of the US$30M Convertible Bonds up to and including the date of completion of the Subscription (such amount shall take into account of any interest (other than default interest) previously paid with respect to the Set-Off Convertible Bonds), and (b) interest on the Set-Off Convertible Bonds accrued from the date of the last interest payment (i.e. 14 March 2012) up to and including the date of completion of the Subscription at the rate of 8% per annum; (iii) release the charge on the Shares and CPS currently held by Mountain Sky; and (iv) consent to the Acquisition and the Disposal, pursuant to the Subscription Agreement and the Third Supplemental Agreement.

Taking into account of (i) the recent financial performance and financial position of the Group; (ii) the payment obligation of US$30 million (equivalent to approximately HK$232.5 million); (iii) the Group's unaudited bank balances and cash of approximately HK$33.0 million as at 30 June 2012; (iv) the issue price of the Consideration Shares of HK$0.17 each; (v) the unconditional consent given by Business Ally for the entering into the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties; and (vi) the extension of the maturity date of the Remaining US$15M Convertible Bonds under the Proposed Alteration, the Directors consider that the Subscription and the Proposed Alteration are in the interest of the Company and the Shareholders as a whole.

The Placing

Reference is made to the Placing Announcements, in which the Company announced the entering into of the relevant agreements in relation to, among others, the acquisition of Coal Mines and as such, the Directors consider that the issue of the New CBs and the PNs will provide the Company with additional funding for the operation of the Coal Mines after the completion of the Acquisition and without having an immediate dilution effect on the shareholding of the existing Shareholders. Further, if the conversion rights attaching to the New CBs are exercised, the capital base of the Company shall be broadened.

The net proceeds from the Placing are approximately US$59,680,000 (equivalent to approximately HK$465,527,000) in aggregate, which is intended to be used for the payment of part of the consideration for the Acquisition and future operations of the Coal Mines and as general working capital of the Group upon completion of the Acquisition. The Placing is expected to provide additional funding towards the working capital of the Enlarged Group.

Accordingly, the Directors (including the independent non-executive Directors) consider that (i) the Placing Agreement are entered into upon normal commercial terms following arm's length negotiations between the Company and each of the Placees and the Placing Agent; (ii) the terms and conditions of the Placing Agreement are fair and reasonable; and (iii) the Placing are in the interest of the Company and the Shareholders as a whole.

X. EFFECTS ON EARNINGS, ASSETS AND LIABILITIES

Upon Completion, Lexing will become a wholly-owned subsidiary of the Group and its results will be consolidated into those of the Group, while the Disposal Group will cease to be subsidiaries of the Group and its results will not be consolidated into the Group. The Group will not hold any shareholding interests in the Disposal Group upon completion of the Disposal.

Earnings

The Group recorded an audited loss attributable to owners of the Company of approximately HK$865.4 million for the year ended 31 December 2011. The net loss (both before and after taxation) of the Lexing Group for the year ended 31 December 2011 amounted to approximately HK$263.6 million. Assuming Completion on 1 January 2011, the unaudited pro forma net loss of the Enlarged Group would be approximately HK$1,917.5 million as set out in Appendix IV to this circular.

Total assets

As at 30 June 2012, the unaudited total assets of the Group were approximately HK$682.7 million. Assuming Completion on 30 June 2012, the unaudited pro forma total assets of the Enlarged Group as at 30 June 2012 would be approximately HK$16,393.9 million as set out in Appendix IV to this circular. The increase is attributable to the Acquisition which offset the impact of the Disposal on the total assets value.

Liabilities

As at 30 June 2012, the unaudited total liabilities of the Group were approximately HK$378.6 million. Assuming Completion on 30 June 2012, the unaudited pro forma total liabilities of the Enlarged Group as at 30 June 2012 would be approximately HK$11,439.2 million as set out in Appendix IV to this circular.

Net assets

As at 30 June 2012, the unaudited net assets of the Group were approximately HK$304.1 million. Assuming Completion on 30 June 2012, the unaudited pro forma net assets of the Enlarged Group as at 30 June 2012 would be approximately HK$4,954.7 million as set out in Appendix IV to this circular. The increase is attributable to the Acquisition.

Working capital

The Directors noted that the financial information as disclosed in the accountants' report of the Lexing Group as contained in Appendix II to this circular has been prepared on a going concern basis. The reporting accountants of the Lexing Group have issued an unqualified audit opinion in respect of the financial statements of the Lexing Group as contained in its accountants' report. As disclosed on page II – 5 of the accountants' report of the Lexing Group, attention is drawn to the existence of a material uncertainty in relation to the Group's ability to continue as a going concern. Notwithstanding the net current liabilities position of the Lexing Group and the loss recorded since its incorporation, the directors of Lexing are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future taking into account the advances amounting to approximately RMB1,382.5 million and the unutilized facilities of RMB698 million as at 30 September 2012 provided by Shanxi Coal Transportation, a non-controlling shareholder of Shanxi Coal and the internal funds to be generated from mining operations to meet the Group's future funding needs. If adequate finance is not available or there is any delay in the resumption of mining operations, the Lexing Group would be unable to meet its obligations as and when they fall due in the foreseeable future. Taking into account the capital base of Shanxi Coal Transportation and the expected commencement of full commercial production of the Coal Mines in the second half of 2013, the Directors concur with the view of the directors of Lexing to prepare the financial statements of Lexing on a going concern basis.

Based on the pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming Completion on 30 September 2012, the Enlarged Group would have recorded net current liabilities of HK$4,126.6 million, of which approximately HK$2,911.5 million are non-cash derivative component of the convertible securities of the Enlarged Group. Having considered (i) the aforesaid unutilised facilities of approximately RMB698 million (equivalent to approximately HK$837.6 million) provided by Shanxi Coal Transportation to the Lexing Group; and (ii) the profitability of the Lexing Group upon full commencement of commercial production of the Coal Mines in the second half of 2013, the Directors believe the Enlarged Group has sufficient working capital for the Enlarged Group's present requirements for at least the next twelve months. The gross proceeds in relation to the Placing amounting to US$60 million (equivalent to approximately HK$468 million) will also provide the Enlarged Group with additional funding towards its working capital.

As set out in Appendix IV to this circular, an impairment loss on goodwill of approximately HK$535.5 would be recorded in the unaudited pro forma consolidated income statement of the Enlarged Group assuming completion of the Transactions on 1 January 2012. Such impairment loss was mainly attributable to the fair value adjustment on the consideration for the Acquisition in accordance with applicable accounting standards. Based on the pro forma financial information, the fair value of the Consideration is estimated to be approximately HK$5,689.1 million, which is higher than the recoverable amount of the Lexing Group. However, upon Completion, the fair value of the consideration for the Acquisition would be reassessed depending on the then circumstances (including but not limited to market price of the Share on the date of Completion and the then interest rate) and may be different from the aforesaid estimated amount. Notwithstanding the above, the Directors consider that the impairment loss on goodwill, if any, would be a one-off accounting loss which does not have any material adverse impact on the cashflow and operation of the Group. Taking into account that the consideration of HK$4,662 million represents a discount of approximately 11.3% to the abovementioned equity value in Lexing, the Directors consider that the consideration for the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

XI. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Currently, the Group's main income contributor is Topasia Computer Limited and its subsidiaries (the "**Topasia Group**"), which are involved in the banking and finance systems integration services. The Topasia Group has been a stable income contributor to the Group for recent years. The Group's gold mining operation which commenced in the second half of 2010 has been suspended and as a result of various uncertainties, the Group will have to re-strategize its gold mining operation. Save for the Disposal, the Group was not in negotiation and had no intention to dispose of or downsize the asset and operation of its existing business (including the banking and finance systems integration and gold mining business) as at the Latest Practicable Date.

After the Completion, the Group intends to focus its resources on commencing commercial operation at the Coal Mines. All reconstruction and improvement works at the Coal Mines are expected to be completed by the end of May 2013. The Group expects the Coal Mines will start generating revenue from the sales of coal during the period of trial production in the second quarter of 2013.

The Group intends to take a conservative approach towards its banking and finance systems integration and gold mining businesses and to focus on its new coal mining business and will allocate its resources appropriately to the extent that the overall financial position of the Enlarged Group would not be materially affected. Having considered the future trading prospects of the coal mining industry, the Board believes that the Acquisition will bring a more stable and sizeable income stream to the Group.

XII. USE OF PROCEEDS OF THE PLACING

Assuming that the placing of the New CBs in the aggregate principal amount of US$30,000,000 as well as the PNs in the aggregate principal amount of US$30,000,000 are successfully completed, the proceeds from the Placing will be approximately US$59,680,000 (equivalent to approximately HK$465,527,000) in aggregate, which is intended to be used for the payment of part of the consideration for the Acquisition and future operations of the Coal Mines and as general working capital of the Group upon completion of the Acquisition.

XIII. FUND RAISING ACTIVITIES WHICH HAVE BEEN ANNOUNCED BY THE COMPANY DURING THE PAST 12 MONTHS IMMEDIATELY PRECEDING THE LATEST PRACTICABLE DATE

Save for the Placing, the Group has not conducted any fund raising activity for the twelve months immediately preceding the date of this circular.

XIV. LISTING RULES IMPLICATIONS

With respect to the Acquisition, as the relevant percentage ratios (as defined under the Listing Rules) exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. Since Mr. Zhang is a proposed Director (as mentioned in the paragraph headed "Completion of the Acquisition" under the section headed "The Acquisition Agreement" above) and owns 70% of the equity interest in City Bloom, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules and is thus subject to the Independent Shareholders' approval by way of poll at the SGM.

As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company under the Listing Rules. As Mountain Sky is a substantial Shareholder, Mountain Sky is a connected person of the Company under the Listing Rules and thus the Disposal constitutes a connected transaction for the Company and is subject to the Independent Shareholders' approval by way of poll at the SGM.

The issue of the Subscription CPS, the Subscription Ordinary Shares and the Conversion Shares (as converted from the Subscription CPS) under the Subscription Agreement, and the Consideration Shares and Conversion Shares (as converted from the Consideration Bonds) under the Acquisition Agreement are subject to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

The Placing Conversion Shares will be allotted and issued under the Specific Mandate for Placing to be sought from the Shareholders at the SGM. The New CBs will not be listed on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Placing Conversion Shares.

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As such, the Proposed Alteration shall be subject to the approval of the Stock Exchange. The Stock Exchange has granted conditional approval for the Proposed Alteration subject to the Independent Shareholders' approval and fulfillment of all other conditions of the Proposed Alteration. Since the Proposed Alteration will constitute a material change to the terms and conditions of the US$30M Convertible Bonds, besides approval from the Stock Exchange, the Independent Shareholders' approval will also be required.

As the Latest Practicable Date, (i) the City Bloom and its associates did not hold any securities of the Company; (ii) Mountain Sky and its associates (including Get Best Management Ltd.) held 297,395,453 Shares which represents 23.23% of the issued share capital of the Company and 1,575,987,376 CPS which are convertible into 1,790,894,744 new Shares (of which, the portion directly held by Mountain Sky have been pledged to Business Ally); (iii) Ultra Asset and its associates held 180,547,273 Shares, which represents 14.10% of the issued share capital of the Company, and 385,500,400 CPS which are convertible into 438,068,636 new Shares; and (iv) Business Ally and its associates held the US$30M Convertible Bonds which are convertible into 861,111,111 new Shares. Since Mr. Lau Siu Hung, Ricky, who is the sole beneficial owner of Get Best Management Ltd., is also a director of Mountain Sky, Get Best Management Ltd. is an associate of Mountain Sky under the Listing Rules. As the respective completion of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement are conditional upon each other, if City Bloom, Mountain Sky, Ultra Asset, Business Ally and their respective associates (to the extent where they are Shareholders) hold any shares as at the date of the SGM, they are required to abstain from voting in respect of the resolutions to approve the Transactions to be proposed at the SGM.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Director or Shareholder has a material interest in the Placing and the Placing Agreement. Accordingly, no Shareholder is required to abstain from voting of the ordinary resolution in respect of the Placing Agreement and the transactions contemplated thereunder, including the Placing, the issue of the New CBs and the PNs and the issue and allotment of the Placing Conversion Shares.

John T. Boyd Company and the Directors confirm that no material change on the Coal Mines has occurred since the effective date of the competent person's report on the Coal Mines.

XV. SPECIAL GENERAL MEETING

A notice convening the SGM to be held at Units 2001-2, 20th Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong at 11:00 a.m. on Friday, 12 April 2013 is set out on pages SGM – 1 to SGM – 6 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return 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.

The results of the poll will be published after the conclusion of the SGM on the websites of the Stock Exchange and of the Company.

XVI. RECOMMENDATIONS

The Independent Board Committee comprising all the independent non-executive Directors has been formed to give recommendations to the Independent Shareholders as regards the Transactions. Your attention is drawn to the letter from the Independent Board Committee containing its recommendation set out on pages 109 to 110 of this circular.

Oriental Patron has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Transactions. The text of the letter of advice from Oriental Patron is set out on pages 111 to 202 of this circular.

The Independent Board Committee, having taken into account the principal reasons and factors considered by and the advice of Oriental Patron set out in its letter of advice on pages 111 to 202 of this circular, is of the opinion that the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder.

The Board considers that the terms of each of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Placing Agreement and the transactions contemplated thereunder (including the Placing and the issue and allotment of the Placing Conversion Shares) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Shareholders vote in favor of the ordinary resolutions to be proposed at the SGM to approve the aforesaid agreements and the transactions contemplated thereunder (including the Placing and the issue and allotment of the Placing Conversion Shares).

XVII. ADDITIONAL INFORMATION

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

Yours faithfully
For and on behalf of the Board
North Asia Resources Holdings Limited
Mr. Tse Michael Nam
Chairman

NORTH ASIA RESOURCES HOLDINGS LIMITED
北亞資源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 61)

To the Independent Shareholders

Dear Sir or Madam,

25 March 2013

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF LEXING HOLDINGS LIMITED; (2) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF SHARES OF AND SHAREHOLDER'S LOAN DUE BY NORTH ASIA RESOURCES GROUP LIMITED AND GOOD LOYAL GROUP LIMITED; (3) SUBSCRIPTION OF ORDINARY SHARES AND CONVERTIBLE PREFERENCE SHARES BY BUSINESS ALLY INVESTMENTS LIMITED; AND (4) ALTERATION OF TERMS OF THE EXISTING CONVERTIBLE BONDS

We refer to the circular dated 25 March 2013 issued by the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the same. Oriental Patron has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 15 to 108 of the Circular and the letter from Oriental Patron which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions as set out on pages 111 to 202 of the Circular.

Having considered the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder and the principal reasons and factors considered by and the advice of Oriental Patron in relation thereto as set out on pages 111 to 202 of the Circular, we are of the opinion that the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder.

Yours faithfully,
The Independent Board Committee
North Asia Resources Holdings Limited

Mr. Lim Yew Kong, John **Mr. Mak Ping Leung** **Mr. Leung Po Wing, Bowen Joseph**, *GBS, JP*

Independent non-executive Directors

The following is the full text of a letter of advice from Oriental Patron to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder which has been prepared for the purpose of inclusion in this Circular:

東英 ORIENTAL PATRON

Oriental Patron Asia Limited
27/F, Two Exchange Square,
8 Connaught Place,
Hong Kong

25 March 2013

To the Independent Board Committee and the Independent Shareholders of
North Asia Resources Holdings Limited

Dear Sirs,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF LEXING HOLDINGS LIMITED;
(2) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF SHARES OF AND SHAREHOLDER'S LOAN DUE BY NORTH ASIA RESOURCES GROUP LIMITED AND GOOD LOYAL GROUP LIMITED;
(3) SUBSCRIPTION OF ORDINARY SHARES AND CONVERTIBLE PREFERENCE SHARES BY BUSINESS ALLY INVESTMENTS LIMITED; AND
(4) ALTERATION OF TERMS OF THE EXISTING CONVERTIBLE BONDS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 25 March 2013 (the "**Circular**"), 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 requires otherwise.

On 12 June 2012, Guang Cheng, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement in relation to the acquisition of the Lexing Sale Share from City Bloom. Contemporaneously with the signing of the Acquisition Agreement, the Company entered into the Disposal Agreement in relation to the sale of the NARG Sale Shares, the GLG Sale Share and the Sale Loan to Mountain Sky. To facilitate the payment of the consideration for the Disposal, Mountain Sky and City Bloom also entered into the Mountain Sky Agreement in relation to the Share Sale by Mountain Sky to City Bloom at a consideration of HK$600 million contemporaneously with the entering into of the Acquisition Agreement and the Disposal Agreement.

On 6 September 2012, the Company and Business Ally entered into the Subscription Agreement in relation to the Subscription. The Company, Business Ally and City Bloom also entered into the Third Supplemental Agreement in relation to the Proposed Alteration on the even date. Business Ally conditionally gave its consent to the entering into of the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties and has further confirmed that the entering into of the aforesaid agreements and the transactions contemplated thereunder would not constitute any breach to the existing terms of the US$30M Convertible Bonds.

With respect to the Acquisition, as the relevant percentage ratios (as defined under the Listing Rules) exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. Since Mr. Zhang is a proposed Director and owns 70% of the equity interest in City Bloom, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules which is thus subject to the Independent Shareholders' approval by way of poll at the SGM.

As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company under the Listing Rules. As Mountain Sky is a substantial Shareholder, Mountain Sky is a connected person of the Company under the Listing Rules and thus the Disposal constitutes a connected transaction for the Company and is subject to the Independent Shareholders' approval by way of poll at the SGM.

The issue of the Subscription CPS, the Subscription Ordinary Shares and the Conversion Shares (as converted from the Subscription CPS) under the Subscription Agreement, and the Consideration Shares and Conversion Shares (as converted from the Consideration Bonds) under the Acquisition Agreement are subject to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As such, the Proposed Alteration is subject to the approval of the Stock Exchange. The Stock Exchange has granted conditional approval for the Proposed Alteration subject to the Independent Shareholders' approval and fulfillment of all other conditions of the Proposed Alteration. Since the Proposed Alteration will constitute a material change to the terms and conditions of the US$30M Convertible Bonds, besides approval from the Stock Exchange, the Independent Shareholders' approval will also be required.

As the completion of the Acquisition Agreement is conditional upon, among other things, the completion of the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement taking place simultaneously, we have considered the Transactions as one overall transaction and summarize their overall effects to the Group.

The Independent Board Committee, comprising Mr. Lim Yew Kong, John, Mr. Mak Ping Leung and Mr. Leung Po Wing, Bowen Joseph *(GBS, JP)*, all being the independent non-executive Directors, has been established to give recommendation to the Independent Shareholders on the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder. In our capacity as the independent financial adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and the Independent Shareholders in this regard.

As the Latest Practicable Date, (i) City Bloom and its associates did not hold any securities of the Company; (ii) Mountain Sky and its associates (including Get Best Management Ltd.) held 297,395,453 Shares which represents 23.23% of the issued share capital of the Company and 1,575,987,376 CPS which are convertible into 1,790,894,744 new Shares (among which, the portion directly held by Mountain Sky have been pledged to Business Ally); (iii) Ultra Asset and its associates held 180,547,273 Shares, which represents 14.10% of the issued share capital of the Company, and 385,500,400 CPS which are convertible into 438,068,636 new Shares; and (iv) Business Ally and its associates held the US$30M Convertible Bonds which are convertible into 861,111,111 new Shares. Since Mr. Lau Siu Hung, Ricky, who is the sole beneficial owner of Get Best Management Ltd., is also a director of Mountain Sky, Get Best Management Ltd. is an associate of Mountain Sky under the Listing Rules. As the respective completion of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement are conditional upon each other, if City Bloom, Mountain Sky, Ultra Asset, Business

Ally and their respective associates (to the extent where they are Shareholders) hold any shares as at the date of the SGM, they are required to abstain from voting in respect of the resolutions to approve the Transactions to be proposed at the SGM.

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true up to the date of the SGM.

We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder and such appointment has been approved by the Independent Board Committee.

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

We have reviewed, among others, (i) the accountants' report of the Lexing Group prepared by Deloitte Touche Tohmatsu as contained in Appendix II to the Circular; (ii) the review report of the Disposal Group prepared by SHINEWING (HK) CPA Limited as contained in Appendix III to the Circular; (iii) the report on unaudited pro forma financial information of the Enlarged Group prepared by SHINEWING (HK) CPA Limited as contained in Appendix IV to the Circular; (iv) the competent person's report on the Coal Mines prepared by John T. Boyd Company as contained in Appendix VI to the Circular; and (v) the competent evaluator's report of the Lexing Group and the Disposal Group prepared by Greater China as contained in Appendices VII and VIII to the Circular, respectively; and (vi) the PRC legal opinion issued by the PRC legal advisers of the Company. We have also interviewed and/or consulted (i) the valuation methodologies and bases and assumptions for the valuation of the Lexing Group and the Disposal Group with Greater China; (ii) the methodologies and reporting standards used for the competent person's report in respect of the Coal Mines and the Iron Mine with John T. Boyd Company and SRK Consulting China Limited, respectively; and (iii) the PRC legal opinion with the PRC legal advisers of the Company. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have, however, not conducted any independent investigation into the business and affairs of the Group and parties to the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder, nor have we carried out any independent verification of the information supplied and opinion expressed to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

I. Business and Financial Information of the Group

Business overview of the Group

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in the distribution of information technology products, mining operation, trading of iron and alluvial gold and coal trading and logistics. Since 2009, the Group has been engaged in the mining business through the acquisitions of the Iron Mine.

Financial performance of the Group

Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2011 and the six months ended 30 June 2012 as extracted from the annual reports of the Company for the year ended 31 December 2010 ("**AR2010**") and 2011 ("**AR2011**") and the interim report of the Company for the six months ended 30 June 2012 ("**IR2012**") respectively:

	For the six months ended 30 June	For the year ended 31 December	
	2012	**2011**	**2010**
	(Unaudited)	**(Audited)**	**(Audited)**
	HK$'000	*HK$'000*	*HK$'000*
Turnover from continuing operations (by business segments)			
– Banking and finance systems integration services and software solutions	22,814	53,138	31,922
– Mining operation	–	15,931	–
– Coal operation	16,339	4,428	–
	39,153	73,497	31,922
Segment Results			
– Banking and finance systems integration services and software solutions	(706)	(2,282)	(1,238)
– Mining operation	(10,984)	(857,221)	(2,966,315)
– Coal operation	(1,272)	(2,298)	–
	(12,962)	(861,801)	(2,967,553)
Loss before taxation (from continuing operations)	(58,820)	(946,740)	(3,038,723)
Loss attributable to owners of the Company	(58,505)	(865,316)	(3,009,777)

For the six months ended 30 June 2012, the Group reported a turnover from the continuing operations of approximately HK$39.2 million (six months ended 30 June 2011: approximately HK$27.1 million), which represented an increase of approximately 44.7% when compared to the same period last year. As noted from the IR2012, such increase was mainly contributed by the coal operation segment primarily as resulted from an increase in coal trading and logistics services of approximately HK$16.3 million. The Group recorded a decrease in the loss attributable to the owners of the Company from approximately HK$185.8 million for the six months ended 30 June 2011 to approximately HK$58.5 million for the six months ended 30 June 2012. According to IR2012, such decrease was primarily as a result of a lower impairment loss recognized in respect of the mining rights for the period (approximately HK$1.7 million) as compared to last year (approximately HK$129.3 million).

For the year ended 31 December 2011, the Group recorded a turnover from the continuing operations of approximately HK$73.5 million (2010: approximately HK$31.9 million), which represented an increase of approximately 130.2% as compared to the previous year. As noted from AR2011, such significant increase in turnover was primarily contributed by the increase in revenue of the banking and finance systems integration services and software solutions segment of approximately HK$21.2 million. During the year, the Group recorded a decrease in the loss attributable to the owners of the Company from approximately HK$3,009.8 million to approximately HK$865.3 million. With reference to the AR2011, such decrease in loss recorded was primarily attributable to a lower impairment loss recognized in respect of the iron mining business for the year (approximately HK$819.0 million) as compared to last year (approximately HK$2,941.3 million).

Financial results of the Group's key segments

Banking and finance systems integration services

The Group is engaged in the banking and finance systems integration services businesses through its wholly-owned subsidiary, Topasia Computer Limited and its subsidiaries.

For the six months ended 30 June 2012, the banking and finance systems integration services and software solutions segment reported a revenue of approximately HK$22.8 million, representing a slight increase as compared to the same period last year (i.e. HK$22.2 million) and contributed approximately 58.3% of the total revenue of the Group for the same corresponding period. Further as noted from IR2012, the intense competition in the automatic teller machines servicing industry continued to drive maintenance fees down, while manufacturers imposed sales quotas on retailers in an attempt to expand their market share, which resulted in the decrease in the segment gross profit margin for the six months ended 30 June 2012 as compared to the same period last year. The Company expected that the deficiency of capital, fluctuation in resource prices, and increase in labour costs remained to be the major issues for this service segment under the challenging PRC economy for the second half of 2012.

For the year ended 31 December 2011, the banking and finance systems integration services and software solutions segment recorded a revenue of approximately HK$53.1 million representing an increase of approximately 66.5% as compared to the same period last year (i.e. HK$31.9 million) and contributed approximately 72.3% of the total revenue of the Group for the same corresponding year. Despite the strong growth in revenue of approximately HK$21.2 million for this segment, the percentage increase in segment loss was higher than the percentage increase in revenue as compared to last year. As noted from the AR2011, such performance was mainly due to the intense price competition from manufacturers and the rising trends of the commodity prices and labor costs in the PRC.

Mining operation

The Group owns a 99.99% indirect interest in Golden Pogada LLC, which holds a mining right license for the Iron Mine located in south-central Mongolia. In addition, the Group indirectly owns the entire interest in Dadizi Yuan LLC, which holds mining and exploration licenses in respect of two alluvial gold mines located in Khar Yamaat, Khongor and Sharin Gol Soum of Darkhan Uul aimag Mongolia.

For the six months ended 30 June 2012, the mining operation segment reported nil revenue, which was primarily as a result of (i) the halting of the mining operation at the Iron Mine since the onset of the technical problems with its production equipment and machineries; and (ii) the continuous suspension of the operation at the gold mines during the period due to the political uncertainties surrounding the Mongolian elections. The Company will continue to monitor the situation in Mongolia before deciding on a suitable time to re-commence its gold mining operation.

For the year ended 31 December 2011, the mining operation segment recorded a revenue of approximately HK$15.9 million and contributed approximately 21.7% of the total revenue of the Group for the same corresponding year. As noted from the AR2011, the production at the Iron Mine, which has temporarily halted due to technical issues, has not re-commenced and the Company has not sold the inventory of iron ore produced during the trial production in 2011 pending the resolution of the logistics and transportation issues. The Company commenced its gold mining operation in July 2011 and operated smoothly during the second half of 2011 and did not encounter any other significant interruptions. However, due to the adverse weather condition in winter season, the gold mining activities have been suspended around end of October 2011.

Coal Trading & Logistics

The Group is engaged in the coal trading and logistics business through GLG's subsidiary, Global Link Logistics LLC ("**GLL**") and NARG's subsidiary, NAR Gold Fox Group Limited ("**NAR Gold Fox**").

For the six months ended 30 June 2012, the coal trading and logistics segment reported a revenue of approximately HK$16.3 million and contributed approximately 41.7% of the total revenue of the Group for the same corresponding year. According to IR2012, GLL continued to transport the coal products for a Mongolian coal mining company from one of its coal mines to the Gants Mod border crossing and such operation has been running relatively smoothly for the past few months and has been generating revenue to the Group; however, the Company expected that more capital investment will be required in order for this business to become profitable. Further, NAR Gold Fox started a trial run for the Ceke operation, which was subsequently aborted, pending the Group's further review and strategise the operational and funding requirements for this business. Since the washing process had been aborted, the raw coal was sold for the six months ended 30 June 2012. The Directors expected that the coal trading and logistics businesses are still in the early stages and will require more time and capital to be invested before they can start generating significant profit for the Group.

For the year ended 31 December 2011, the coal trading and logistics segment recorded a revenue of approximately HK$4.4 million and contributed approximately 6.0% of the total revenue of the Group for the same corresponding year. As noted from the AR2011, GLL entered into a coal transportation agreement with a Mongolian coal mining company, whereby GLL has agreed to transport the coal products from one of its coal mines to the unloading station near the Gants Mod border using heavy-duty trucks. The logistics operation has been formally commenced after several successful test runs. Meanwhile, a trial run for the Ceke operation was carried out, however, such trial run has not yet been completed as the washing process requires additional time and resources during the extreme weather conditions in winter months.

Recent financial position of the Group

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2011 and the six months ended 30 June 2012 as extracted from the AR2010, AR2011 and the IR2012 respectively:

	As at 30 June	As at 31 December	
	2012	2011	2010
	(Unaudited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*
Net current (liabilities)/assets	(227,590)	(174,380)	261,388
Bank balances and cash	32,998	33,573	259,086

The Group recorded audited consolidated net current liabilities of approximately HK$174.4 million as at 31 December 2011, as compared to audited consolidated net current assets of approximately HK$261.4 million as at 31 December 2010. The change from a net current assets to a net current liabilities position was mainly due to (i) the liabilities (including the principal amount and the accrued interest) recognized as a result of the US$30M Convertible Bonds amounting to approximately HK$242.8 million which will become due and payable in December 2012; and (ii) the Group has redeemed a total of US$13 million convertible bonds together with the accrued interests in December 2011 by way of cash. As at 30 June 2012, the Group's net current liabilities recorded a further increase to approximately HK$227.6 million. Such increase was primarily attributable to (i) the decrease in inventories from approximately HK$23.0 million as at 31 December 2011 to HK$8.2 million as at 30 June 2012; (ii) the decrease in trade and other receivables from approximately HK$76.2 million as at 31 December 2011 to HK$68.5 million as at 30 June 2012; and (iii) the increase in liabilities component of convertible loan notes from approximately HK$242.8 million as at 31 December 2011 to HK$270.6 million as at 30 June 2012, which mainly resulted from the loss on amendments of terms of US$30M Convertible Bonds of approximately HK$18.4 million which is recorded in the liabilities component of the US$30M Convertible Bonds.

Further stated in the IR2012, we noted that there have been various conditions that indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, given that (i) the maturity date of the US$30M Convertible Bonds is 13 December 2012; (ii) the Group had net current liabilities of approximately HK$227,590,000 as at 30 June 2012; and (iii) the Group incurred a loss attributable to owners of the Company of approximately HK$58,505,000 for the six months ended 30 June 2012.

As at 30 June 2012, the bank balances and cash of the Group was approximately HK$33.0 million. As advised by the Directors, the liabilities (including the principal amount and the accrued interest) recognized as a result of the US$30M Convertible Bonds amounting to approximately HK$270.6 million will become due and payable in March 2013 and the Group may not have sufficient internal resources to redeem the outstanding convertible bonds at maturity at the present stage.

II. Reasons for the Transactions

In view of (i) the Group's financial obligation to redeem the US$30M Convertible Bonds and settle any accrued and unpaid interests on 13 December 2012; and (ii) the existing liquidity position of the Group hindering the growth of the Company, we consider that there is a need for the Company to proceed with a restructuring plan to relieve its debt burden and optimize its business operation mix. In addition, in view of the continuous loss making performance of the Group's existing iron mining and coal trading and logistics business since its acquisition in 2009 and 2010 respectively, the Company has looked for merger and acquisition opportunities in the resources and mining business, which the Group has confidence of its prospects thereby contributing a more probable and steady revenue stream to the Group.

Given (i) the Subscription and the Proposed Alteration serve the purposes of reducing half of the outstanding amount of the US$30M Convertible Bonds by way of capitalization and defer the potential cash outlay in respect of the US$15M Convertible Bonds; (ii) additional capital and time is required for resolving the issues surrounding the Iron Mine for putting it into commercial operation, and the existing coal trading and logistics businesses of the Group are still in the early stage which required additional capital and time before it can generate significant profit for the Group; (iii) as stated in the Letter from the Board, the Disposal is expected to generate a gain on the Disposal of approximately HK$83.5 million, which is calculated with reference to the proceeds from the consideration of the Disposal of approximately HK$600.0 million and the adjusted carrying value attributable to the Disposal Group of approximately HK$225.0 million and the Sale Loan as at 30 September 2012 of approximately HK$291.5 million; and (iv) the substantial amount of measured and indicated resources at the Coal Mines, improved safety standards required to be implemented at the Coal Mines by the PRC authorities (further details are set out in the section headed "Information on the Lexing Group" below), we consider that it is commercially justifiable for the Group to proceed with the Transactions.

THE ACQUISITION

I. Information on the Lexing Group

Lexing

Lexing is a company incorporated in the BVI on 9 April 2010 and is a wholly-owned subsidiary of City Bloom. Lexing is an investment holding company and its principal assets are its investments, being an indirect 49% interest in Shanxi Coal through three of its wholly-owned subsidiaries, namely Shanxi Ruiying, Shanxi Changtong and Taiyuan Zhituo.

Shanxi Coal

Shanxi Coal is a company established in the PRC on 18 April 2008, with its scope of business includes the investment in, development and management of and advising on mineral and coal mining business, sale of equipment and machinery for mining operations, construction of gas station and ancillary facilities, and coal gas application and related projects. The operation period of Shanxi Coal commences from 18 April 2008 and ends on 15 April 2014. Shanxi Coal is currently owned as to an aggregate of 49% by Lexing through its three indirect wholly-owned subsidiaries, and as to the remaining 51% by the PRC Owners, which are entities under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

Shanxi Coal is principally engaged in the operation of the Coal Mines through the PRC Mine Companies as follows:

(a) Bolong, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Bolong Mine (Bolong was owned as to 95% by Shanxi Coal as at the date of the Announcement. Pursuant to the Bolong Supplemental Agreement (as defined below) dated 1 July 2012, Shanxi Coal shall hold the entire equity interest in Bolong as part of the Shanxi Mergers and Reorganisations (as defined below), details of which are set out in the section headed “History and development of the Lexing Group” in the Circular. The registration for the increase in Shanxi Coal’s equity interest in Bolong to 100% was completed on 22 October 2012);

(b) Fuchang, a 69.4%-owned subsidiary of Shanxi Coal and holder of the mining license of the Fuchang Mine (As at the Latest Practicable Date, the remaining 30.6% in Fuchang is owned Mr. Wu Fuhai, a third party independent of the Company and its connected persons);

(c) Jinxin, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Jinxin Mine;

(d) Liaoyuan, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Liaoyuan Mine; and

(e) Xinfeng, a wholly-owned subsidiary of Shanxi Coal and holder of the mining license of the Xinfeng Mine.

II. Information about the Coal Mines

As stated in the section headed "Business Model of the Lexing Group – Mergers and reorganisations of coal mines in Shanxi" of the Circular, Shanxi Coal has been authorized to undertake the mergers and reorganisations whereby small scale coal mines are merged and grouped into sizeable mining enterprises, undergo safety assessments and undertake necessary reconstruction and improvement works so as to enhance the overall production efficiency and safety standards before they are allowed to resume their mining operations at the Coal Mines pursuant to a document headed 《山西省人民政府關於加快推進煤礦企業兼併重組的實施意見》("Opinion of the People's Government of Shanxi Province on the implementation of accelerating mergers and reorganisations of coal enterprises"*) issued by the People's Government of Shanxi Province on 2 September 2008. Coal mines which are not able to meet the required standard of minimum production capacity are closed until necessary reconstruction and improvement works have been undertaken and thus the mining operation of the Coal Mines has come to a halt since March 2008.

All the coal mines have obtained all the required licenses and approvals for the improvement works and commenced the reconstruction and improvement works. Set out below is the table showing (i) the expected completion date of the reconstruction and improvement works; and (ii) the expected date of commencement of commercial operation of the respective mines:–

	Expected completion date of the reconstruction and improvement works	**Expected date of commencement of commercial operation**
Liaoyuan Mine	30 April 2013	1 August 2013
Jinxin Mine	Completed	1 June 2013
Xinfeng Mine	31 May 2013	1 September 2013
Bolong Mine	31 May 2013	1 September 2013
Fuchang Mine	Completed	1 May 2013

As stated in the section headed "Business Model of the Lexing Group" of the Circular, the required completion date of the improvement works for Xinfeng Mine is 29 May 2012. The expected completion date is currently 31 May 2013 and an application for the extension of the allowed period of its improvement work has been submitted by Xinfeng. Mining production at Xinfeng Mine will commence after the aforesaid improvement works have been completed and certified by the relevant authorities. As advised by City Bloom, it is a usual practice of the PRC Mine Companies to commence the renewal application around one month before the expiry date of the mining licenses the earliest. The PRC Mine Companies will apply for renewal of mining license at the appropriate time. Taking into account of the prior renewal of mining licenses of the PRC Mine Companies, as at the Latest Practicable Date, the directors of the Lexing Group do not foresee any obstacles in the renewal of the mining license upon their respective expiry. Mining production of the Coal Mines will commence after the aforesaid improvement works have been completed and certified by the relevant authorities. All the reconstruction and improvement works are expected to be completed by the end of May 2013, followed by three months of test runs, and with formal operations of Coal Mine are projected to start in September 2013 at the latest.

Apart from the completion of the required reconstruction and improvement works, certain licenses and permits are required to be obtained for the commercial production of the Coal Mines. As stated in the section headed "Business model of the Lexing Group" of the Circular, the permits and licenses required to be obtained for commercial production of the Coal Mines include: (i) 企業兼併重組整合方案的批覆 (approval for the company reorganisation proposal); (ii) 企業名稱變更核准通知書 (change of company name approval notice); (iii) 整合礦井地質報告審批 (approval for the mine geological report); (iv) mining license; (v) 礦井整合項目初步設計審批 (approval for the preliminary project design plan regarding the mine reorganisation); (vi) 礦井整合項目初步設計安全審批 (safety approval for the preliminary project design plan regarding the mine reorganisation); (vii) 項目建設工程開工批覆 (approval for the commencement of construction works); (viii) 礦長資格證 (qualification certificate of the mine manager); (ix) 礦長安全資格證 (safety qualification certificate of the mine manager); (x) business license; (xi) 煤礦建設項目整體竣工驗收文件 (acceptance certificate as to overall project completion) (the "**Acceptance Certificate**"); (xiii) 環境影響報告之批文 (approval of environmental impact report) which requires, among others, the obtaining of 關於核定礦井兼併重組整合項目污染物排放總量的函 (letter on the determination of the maximum pollutants discharge amount regarding the mine reorganisation); (xiii) 煤炭安全生產許可證 (work safety license); and (xiv) 煤炭生產許可證 (coal production permit).

The table below sets forth a summary of the mining licenses and/or permits to be obtained by the PRC Mine Companies for their commercial production and the expected date to obtain such licenses and/or permits:–

Mine	License(s)/permit(s) to be obtained for commercial production	Expected date to obtain the license(s)/permit(s)
Liaoyuan Mine	– Acceptance Certificate	– Second quarter of 2013
	– Work safety license	– Around the first half of 2013
	– Coal production permit	– Around the second half of 2013
Jinxin Mine	– Acceptance Certificate	– Second quarter of 2013
	– Work safety license	– Around the first half of 2013
	– Coal production permit	– Around the second half of 2013
Xinfeng Mine	– Acceptance Certificate	– Second quarter of 2013
	– Work safety license	– Around the first half of 2013
	– Coal production permit	– Around the second half of 2013
Bolong Mine	– Acceptance Certificate	– Second quarter of 2013
	– Work safety license	– Around the first half of 2013
	– Coal production permit	– Around the second half of 2013
Fuchang Mine	– Acceptance Certificate	– Second quarter of 2013
	– Work safety license	– Around the first half of 2013
	– Coal production permit	– Around the second half of 2013

According to the section headed "Business Model of the Lexing Group" of the Circular, the management of City Bloom originally expected that commercial operation of the Coal Mines will commence by the end of first half of 2012. However, the operation and the reconstruction and improvement works of the Coal Mines were interrupted by (i) additional requirement for employees in the coal mining industry (including basic shaft construction workers) to undergo new mandatory trainings who are not allowed to work in coal mines and/or to carry out construction work in coal mines until completion of certain sessions of such trainings pursuant to the additional requirements under certain notices issued by 山西省煤炭工業廳 (Coal Industry Office of the Shanxi Province*) and 太原市煤炭工業局 (Coal Industry Bureau of Taiyuan City*) in February 2012 in relation to production safety in coal mines, with effect from February 2012; and (ii) the recommendations as to the improvement and compliance with the government's standard given by the relevant government authorities during the extra inspections by the government authorities in the PRC from end of 2011 to April 2012. All the above additional requirements have resulted in the reduction in workforce available during the such period and thus the expected completion dates of the reconstruction and improvement works of the Coal Mines were delayed.

As at the Latest Practicable Date, all of the recommendations and improvement works as required by the relevant government authorities in the PRC in respect of the safety measures of the coal mining sites have been followed and completed and the payment of occupational injury and accidents insurances to workers of Fuchang Mine have been settled. All ongoing training attended by the employees of all the Coal Mines were completed at the end of 2012, but the respective certificates for the training has yet to be distributed to the employees of the Coal Mines. Further as advised by the management of the Lexing Group, the normal operation of the Coal Mines can be commenced as set out the scheduled timetable above once the respective certificates mentioned above have been distributed. In view of the above unexpected additional requirements imposed on the Coal Mines by the relevant governmental authorities which have to be fully complied before mining operation can be re-commenced, we were advised by the management of City Bloom regarding the possibility of imposing additional requirement by the relevant governmental authorities in the PRC and they are of the opinion that such possibility cannot be ruled out. We thus would like to draw the attention to the Independent Shareholders that, should further requirements be imposed on the Coal Mines by the relevant PRC authorities, the expected completion dates of the reconstruction and improvement works, and thus the expected date of commercial production, of the Coal Mines may be further delayed.

Information on the reserves and resources of the Coal Mines

Set out below is the breakdown of the reserves and resources information of the Coal Mines as extracted from the competent person's report ("**CPR**"), which was prepared independently by Mr. Ronald L. Lewis of John T. Boyd Company in accordance with the requirements under Chapter 18 of the Listing Rules and is set out in Appendix VI to the Circular:

	In-place resource *(Note 1)* *(million tonnes)*				Recoverable reserves *(Note 2)* *(million tonnes)*				Marketable reserves *(Note 3)* *(million tonnes)*			
Mine	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Processing Yield %	Proved	Probable	Total	% of Reserves
						Within Authorized Mining Elevation						
Bolong	18.58	19.27	–	37.85	11.09	10.25	21.34	93	10.27	9.54	19.81	45
Fuchang	8.10	2.31	–	10.41	4.62	1.06	5.68	92	4.23	0.99	5.22	12
Jinxin	1.38	2.28	–	3.66	0.78	1.02	1.80	94	0.72	0.98	1.70	4
Liaoyun	8.97	6.52	2.53	18.02	4.42	3.49	7.91	94	4.14	3.30	7.44	17
Xinfeng	6.39	6.59	–	12.98	4.09	3.32	7.41	93	3.79	3.07	6.86	16
Total	43.42	36.97	2.53	82.92	25.00	19.14	44.14		23.15	17.88	41.03	94
						Outside Authorized Mining Elevation						
Bolong	0.59	0.66	–	1.25	0.36	0.34	0.70	94	0.34	0.32	0.66	2
Jinxin	0.59	2.64	0.45	3.68	0.33	1.42	1.75	95	0.33	1.34	1.67	4
Total	1.18	3.30	0.45	4.93	0.69	1.76	2.45		0.67	1.66	2.33	6
						Total						
Bolong	19.17	19.93	–	39.10	11.45	10.59	22.04	93	10.61	9.86	20.47	47
Fuchang	8.10	2.31	–	10.41	4.62	1.06	5.68	92	4.23	0.99	5.22	12
Jinxin	1.97	4.92	0.45	7.34	1.11	2.44	3.55	95	1.05	2.32	3.37	8
Liaoyun	8.97	6.52	2.53	18.02	4.42	3.49	7.91	94	4.14	3.30	7.44	17
Xinfeng	6.39	6.59	–	12.98	4.09	3.32	7.41	93	3.79	3.07	6.86	16
Total	44.60	40.27	2.98	87.85	25.69	20.90	46.59		23.82	19.54	43.36	100

Notes:

1. The "in-place resources" are the coal resources in the ground, in situ and un-mined condition.

2. The "recoverable reserves" are proved and probable reserves prior to the adjustment for preparation plant yield and are referred to the portion of the coal seam that can be recovered with the mining techniques specified in the feasibility or design study.

3. The "marketable reserves" are the saleable coal products derived from the recoverable reserves after taking into account the mining and processing losses, where applicable.

III. Key financial information of the Lexing Group

Set out below is a summary of the key financial information of the Lexing Group for the period from 9 April 2010 (being the date of its incorporation) to 31 December 2010, the year ended 31 December 2011 and the nine months ended 30 September 2012 as prepared in accordance with the Hong Kong Financial Reporting Standards as extracted from Appendix II of the Circular:

	For the nine months ended 30 September 2012	For the year ended 31 December 2011	For the period from 9 April 2010 to 31 December 2010
	RMB'000	*RMB'000*	*RMB'000*
Revenue	21,757	8,703	–
Gross profit	404	156	–
Loss before taxation	(169,483)	(217,832)	(64,516)
Loss and total comprehensive expenses for the year/period	(169,483)	(217,832)	(64,516)

The Lexing Group recorded revenues of approximately RMB8.7 million (equivalent to approximately HK$10.7 million) and RMB21.8 million (equivalent to approximately HK$26.9 million) for the year ended 31 December 2011 and for the nine months ended 30 September 2012, respectively. Such revenues represented the revenue generated from the trading of coking coals. The Lexing Group recorded an increase in loss and total comprehensive expenses from approximately RMB64.5 million (equivalent to approximately HK$79.6 million) for the period from 9 April 2010 to 31 December 2010 to approximately RMB217.8 million (equivalent to approximately HK$268.9 million) for the year ended 31 December 2011.

Set out below is a summary of the major balance sheet items of the Lexing Group as at 31 December 2010 and 2011 and 30 September 2012 as extracted from Appendix II of the Circular:

	As at 30 September 2012	As at 31 December 2011	As at 31 December 2010
	RMB'000	*RMB'000*	*RMB'000*
Net current liabilities	(1,011,031)	(770,777)	(1,535,276)

The Lexing Group recorded net current liabilities of approximately RMB1,011.0 million (equivalent to approximately HK$1,248.1 million) as at 30 September 2012, representing an increase of approximately RMB240.2 million (equivalent to approximately HK$296.5 million) from approximately RMB770.8 million (equivalent to approximately HK$951.6 million) as at 31 December 2011.

As advised by the Directors, they noted that the reporting accountants of the Lexing Group have issued an unqualified audit opinion in respect of the financial statements of the Lexing Group as contained in Appendix II to the Circular. As disclosed on page II-5 of the Accountants' Report of the Lexing Group, attention is drawn to the existence of a material uncertainty in relation to the Lexing Group's ability to continue as a going concern. Notwithstanding the net current liabilities position of the Lexing Group and the loss recorded since its incorporation, the sole director of Lexing is satisfied that the Lexing Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as Shanxi Coal Transportation, a non-controlling shareholder of Shanxi Coal, has made advances amounting to approximately RMB1.4 billion as at 30 September 2012 and provided an additional unutilized loan facility of RMB698 million to the Lexing Group and the internal funds to be generated from mining operations to meet the Lexing Group's future funding needs. Taking into account the capital base of Shanxi Coal Transportation and the expected commencement of full commercial production of the Coal Mines in the second half of 2013, the Directors concur with the view of the directors of Lexing to prepare the financial statements of Lexing on a going concern basis. However, we would like to draw the attention of the Shareholders that, in the event that the aforesaid finance is not available or there is any delay of the resume of mining operations, the Lexing Group would be unable to meet its obligations as and when they fall due in the foreseeable future.

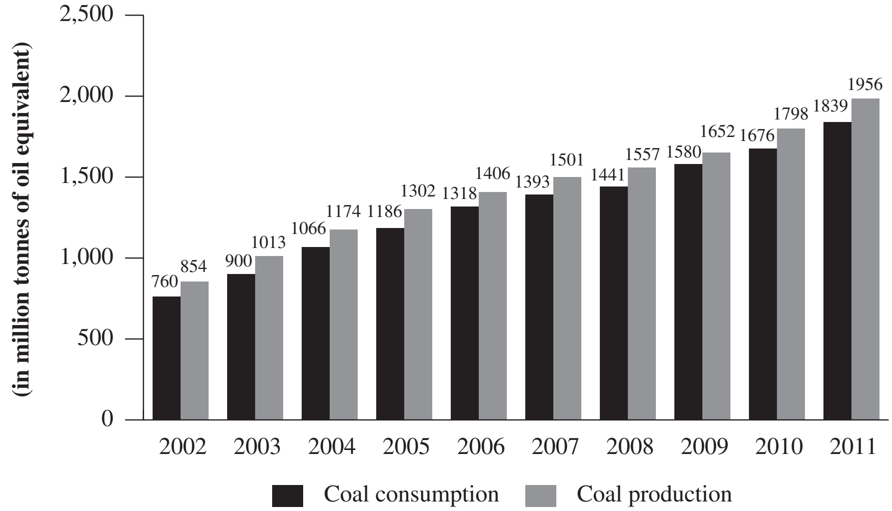
For the detailed discussion on the financial performance of the Lexing Group, please refer to the Accountants' Report of the Lexing Group as contained in Appendix II to the Circular.

IV. Prospects of the coal industry in the PRC

According to the BP Statistical Review of World Energy June 2012, (the "**BP Review 2012**") *(Note)*, coal is the most important source of energy in China, accounting for approximately 70.4% of its total energy consumption in 2011. For the same corresponding period, China had proven coal reserves of approximately 114,500 million tonnes as of 31 December 2011, representing approximately 13.3% of the aggregate global proven coal reserves and was ranked the third globally after the United States and Russia. China also had proven oil and natural gas reserves that accounted for approximately 0.9% and 1.5% of the aggregate global reserves respectively. Accordingly, it is forecasted that the coal reserves in the PRC will continue to be the most important source of energy and contribute to the economic development of the PRC in the near future.

Note: BP Review 2012 is an annual publication issued by BP, an independent third party to the Company, which summarizes global data on world energy markets, covering oil, natural gas, coal, nuclear energy, hydroelectricity and renewable energy and such report was not commissioned by the Company

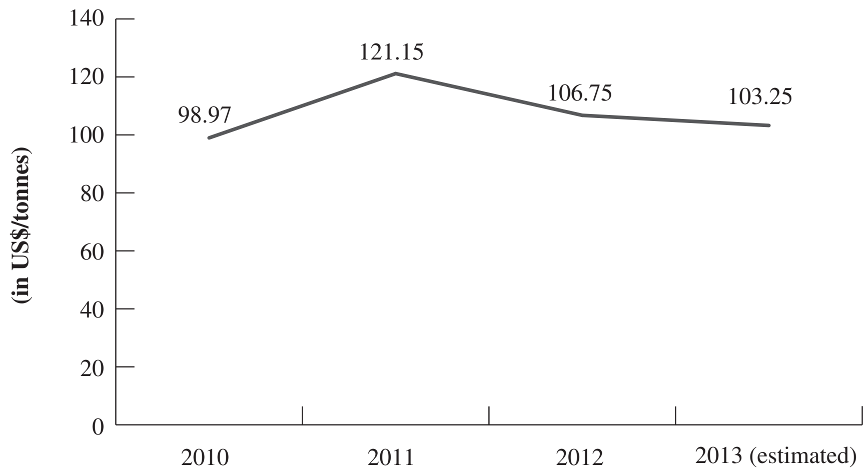
The chart below illustrates the total coal consumption and production in China from year 2002 to 2011:



Source: BP Review 2012

According to the BP Review 2012, the coal consumption in China in 2011 was approximately 1,839 million tonnes of oil equivalent, which accounted for approximately 49.4% of the aggregate global coal consumption. The coal consumption of approximately 760 million tonnes in 2002 increased to approximately 1,839 million tonnes in 2011, accounting for a compound annual growth rate ("**CAGR**") of approximately 10.3%, whereas the CAGR of the global coal consumption during the same period was approximately 4.6%. On the other hand, the coal production in China in 2011 was approximately 1,956 million tonnes of oil equivalent, which accounted for approximately 49.5% of the aggregate global coal production. The coal production of approximately 854 million tonnes in 2002 increased to approximately 1,956 million tonnes in 2011, accounting for a CAGR of approximately 9.6%, whereas the CAGR of the global coal production during the same period was approximately 5.1%. In 2011, China is ranked the first in both the global coal consumption and production.

The following chart sets forth the global coal price per tonne from year 2010 to 2013:



Source: Economist Intelligence Unit ("EIU")

According to the "World Commodity Forecasts: Industrial Raw Materials" as published by EIU *(Note)* in January 2012, global coal prices fell amid increasing concerns about a slowdown in the global economy in 2012 and uncertainty surrounding the eventual outcome of the ongoing sovereign debt crisis in the euro zone, with signs of slower growth in China, in addition to a widening market surplus of the coal, global coal prices are forecasted to decline for the year 2013, but to remain high by historical standards.

Note: EIU, an independent third party to the Company, is a specialist publisher providing analysis and forecast on over 200 countries and nine strategic industries and the report issued by EIU was not commissioned by the Company.

The following chart illustrates the production volume of coking coal in the PRC by provinces from 2006 to 2011:

Provinces	**2006** *million tonnes*	**2007** *million tonnes*	**2008** *million tonnes*	**2009** *million tonnes*	**2010** *million tonnes*	**2011** *million tonnes*
Shanxi	310	314	325	308	402	453
Shandong	126	127	120	127	136	147
Anhui	76	86	112	120	126	137
Heilongjiang	83	81	76	76	77	84
Henan	64	68	76	82	72	78
Top-5 total	**659**	**676**	**709**	**713**	**813**	**899**
China	**962**	**991**	**1,037**	**1,048**	**1,189**	**1,314**

Source: Fenwei (Note)

As illustrated in the above chart, the coking coal production in the PRC increased from approximately 962 million tonnes in 2006 to approximately 1,314 million tonnes in 2011, representing a CAGR of approximately 6.4%. Such increase in production of coking coal was mainly due to rapid growth in demand from production of crude steel. For the year 2006 to 2011, Shanxi Province has been the dominate province for the production of coking coal in the PRC.

In accordance with the Twelfth Five-year Plan on the Development of Coal Industry (the "**Twelfth Five-Year Plan**") as released by the National Development and Reform Commission of the PRC in March 2012, the PRC government, among other, supports the restructuring of the coal industry and encourages large coal enterprises to acquire small and medium-sized mines in order to enhance productivity, eliminate outdated methods of production and accelerate the construction of large-scale coal production bases, promotes the development of advanced and demonstrative projects of modern coal-related chemical operations. Based on the considerable efforts for the PRC government to develop its coal industry, it is expected that China will be capable of producing 4.1 billion tonnes of coal by year 2015. Further as stated in the development plan on the country transport system under the Twelfth Five-year Plan, it is noted that the demand for transporting coal by rail in the PRC is expected to reach 2.6 billion tonnes by 2015, however, given the imbalance of the railways, ports, coal production and consumption, it is expected that the demand for transporting coal will reach 2.8 billion tonnes to 3 billion tonnes. In light of the bottlenecks for the coal rail capacity in the PRC, the PRC government strives to expand the rail lines from Shanxi,

Note: Fenwei, a consultation services provider in coal and coke industry in the PRC, was commissioned by a subsidiary of the Lexing Group to compile technical consultancy report in relation to the coal industry.

Shaanxi and western Inner Mongolia to Caofeidian Port, from central and southern Shanxi to Shandong coastal ports, etc, and build new lines from Ordos and Shaanxi to central PRC like Hubei, Hunan and Jingxi. Given the favourable government policies under the Twelfth Five-Year Plan and the prospects of the coal industry in the PRC as mentioned above and the stabling market conditions of the global coal prices, the Directors are optimistic about the prospects of the business of the Lexing Group.

V. REASONS FOR AND BENEFITS OF THE ACQUISITION

As stated in the Letter from the Board, the Board is of the view that the Acquisition represents a valuable investment opportunity for the Group, having considered (i) the substantial amount of measured and indicated resources at the Coal Mines and the future growth opportunity; (ii) the improved safety standards required to be implemented at the Coal Mines by the PRC authorities; and (iii) the expected re-commencement of production of the Coal Mines and therefore the ability of the Coal Mines to generate revenue and cash flow to the Group.

Apart from the reasons as stated in the Letter from the Board, we have also taken into consideration of the followings:–

Current and persistent loss-making position of the Group

For the six months ended 30 June 2012, the Group reported a turnover from the continuing operations of approximately HK$39.2 million (six months ended 30 June 2011: approximately HK$27.1 million), which represented an increase of approximately 44.7% when compared to the same period last year. As noted from the IR2012, such increase was mainly contributed by the coal operation segment primarily as resulted from an increase in coal trading and logistics services of approximately HK$16.3 million. The Group recorded a decrease in the loss attributable to the owners of the Company from approximately HK$185.8 million for the six months ended 30 June 2011 to approximately HK$58.5 million for the six months ended 30 June 2012. According to IR2012, such decrease was primarily as a result of a lower impairment loss recognized in respect of the mining rights for the period (approximately HK$1.7 million) as compared to last year (approximately HK$129.3 million).

For the year ended 31 December 2011, the Group recorded a turnover from the continuing operations of approximately HK$73.5 million (2010: approximately HK$31.9 million), which represented an increase of approximately 130.2% as compared to the previous year. As noted from the AR2011, the significant increase in turnover was primarily contributed by an increase in revenue of the banking and finance systems integration services and software solutions segment of approximately HK$21.2 million. However, despite the strong growth in revenue of approximately HK$21.2 million for this segment, the percentage increase in segment loss was higher than the percentage increase in revenue, which was primarily as a result of the intense price competition from manufacturers and the rising trends of the commodity prices and labor costs in the PRC.

The Group recorded a decrease in the loss attributable to the owners of the Company from approximately HK$3,009.8 million for the year ended 31 December 2010 to approximately HK$865.3 million for the year ended 31 December 2011. As noted from the AR2011, such decrease in loss recorded was primarily attributable to a lower impairment loss recognized in respect of the iron mining business (approximately HK$819.0 million) as compared to last year (approximately HK$2,941.3 million). The impairment loss recognized during the year was as a result of a decrease in the fair value of the business enterprise value of Golden Pogada LLC, a 99.99%-owned subsidiary of NARG, after having considered there is a possibility of a significant change to the cost structure and overall profitability of the Group's iron mining business as a result of the likely increase in the transportation costs the inability of the Group to attract other large-scale buyers to absorb the transportation cost.

Further, we noted that the iron mining operation remained halted since the onset of the technical problems with its production equipment and machineries, though the technical issues have almost been resolved pending further testing and fine tuning of the equipment. The Group expected there would be further challenges ahead including obtaining the necessary approval of water usage from the local government for the required scale of operation at the Iron Mines. On the other hand, the Group's coal trading and logistics businesses are still in the early stages and the Directors expected that additional time and resources are required to be invested before they can make an impact on the Group's overall performance.

In light of (i) the loss-making business operation of the Group in recent years; (ii) additional capital and time is required for resolving the issues surrounding the Iron Mine for putting it into commercial operation, and the existing coal trading and logistics businesses of the Group are still in the early stage which required additional capital and time before it can generate significant profit for the Group; and (iii) the limited revenue generating power of the Group's existing business in the near future, we consider it is reasonable for the Group to seek for other business or development opportunities to broaden its revenue base as and when appropriate. Accordingly, we concur with the Directors that the Acquisition would be appropriate for the Company to strengthen its earnings base and to look for investment which has earnings potential.

The Acquisition is in line with the business strategy of the Group

The Group is principally engaged in the distribution of information technology products, mining operation, trading of iron and alluvial gold and coal trading and logistics.

As disclosed in the AR2010, in view the unsatisfactory and slower-than-expected pace of development of agro-conservation and bio-energy business of the Group and to focus on the mineral resources and mining sector, the Group discontinued its agro-conservation and bio-energy businesses in early 2010 and entered into the new mining business in Mongolia through the acquisitions of Iron Mine in December 2009.

With an aim to further diversify its business into the minerals and mining industry, the Group acquired 2 alluvial gold mines in April 2010. In addition, with reference to the AR2011, it is the Group's strategy to seek for attractive new businesses and hive off some of the slower performing business. As such, the Acquisition represents an investment opportunity for the Group to expand its mineral resources holdings and is expected to contribute a steady revenue stream in the near future given that the improvement works of the Coal Mines are expected to be completed by the end of May 2013 followed by a trial production period of around three months. Commercial production of the Coal Mines are expected to begin in September 2013 at the latest. In view of the above, we are of the view that the Acquisition is in line with the Group's stated business strategies and objectives and is within the Group's usual and ordinary course of business.

Prospects of the Lexing Group

According to the competent evaluator's report on the Coal Mines as set out in Appendix VI of the Circular, the Coal Mines are located approximately 7km to 15km west of Gujiao City in Shanxi Province. As stated in the section headed "Business Model of the Lexing Group" of the Circular, Gujiao City has been regarded as the major production site for coking coals by the PRC government since 1988. With its long development history, Gujiao is equipped with the coal processing facilities and the rail infrastructure. Further as stated in the competent evaluator's report on the Coal Mines as set out in Appendix VI of the Circular, the Gujiao-Chakou Highway passes the northern portion of the Bolong mine area. Roads also connect to the major towns in the region. The rail spur line for Malan Mine, connecting to Taiyuan, is approximately 2km from Bolong Mine. Meanwhile, with its close proximity to Taiyuan City, the transportation hub in the PRC, enables the coking coals of the Coal Mines have a convenient access to extensive railway and road transportation network to other parts of the PRC. Equipping with well-established transportation networks in Gujiao City, the coals from the Coal Mines can be conveniently transported to the coal processing plants nearby within Gujiao City by truck and the management of the Lexing Group believes that the existing and established transportation networks in Shanxi Province will reduce the transportation costs from the Coal Mines to customers and eventually enhance the competitiveness of its coking coal relative to other more remotely located producers or producers in other provinces.

Meanwhile, Shanxi Coal is currently beneficially owned as to an aggregate of 49% by the Lexing Group and as to the remaining of 51% by the PRC Owners, comprising 41% by Shanxi Coal Transportation and Sales Group Co., Ltd. and 10% by Shanxi Energy Industries Group Limited. We were advised by the Company that Shanxi Energy Industries Group Limited, being a state-owned enterprise since 1993, and Shanxi Coal Transportation and Sales Group Co., Ltd., being a large scaled modernized coal logistics group which is contributed by the Shanxi State-owned Assets Supervision and Administration Commission of the State Council of the PRC and 11 municipal State-owned Assets Supervision and Administration Commission of the State Council of the PRC and it produced approximately 41 million tonnes, transported 350 million tonnes & traded 250 million tonnes of coal for the year 2011. In addition, as stated in the Letter from the Board in the Circular, the directors of the Lexing Group are experienced in mining operation. Mr. Zhang Sanhuo, a proposed executive Director, has over 20 years' experience in the mining industry and has served as mine manager and general manager for mines in Shanxi. Mr. Zhang Xu, a proposed executive Director, has served as the general manager for Shanxi Coal since 2009, had the experience for the merger and reorganisation of 15 coal mines in Shanxi with aggregate coal reserve of over 200 million tons and annual production capacity of 5 million tons. In addition, each mine manager of Coal Mines is equipped with qualification certificate of the mine manager and safety qualification certificate of the mine manager. Based on the information provided by the Lexing Group and further discussion among the Company and the directors of the Lexing Group, the Directors concur with the view of the directors of the Lexing Group that the Lexing Group possesses an experienced production and management team, which presents the Group the necessary experience in managing coal mines at the operational level and is favorable for the Group's future operation in Shanxi Coal.

VI. Principal terms of the Acquisition Agreement

Consideration

The aggregate consideration payable by the Company for the Acquisition is HK$4,662 million (the "**Acquisition Consideration**"), which was arrived at after arm's length negotiations between Guang Cheng and City Bloom after taking into account of, among other things, (i) the aggregate estimated in-place resource and the aggregate estimated marketable reserve of the Coal Mines of 87.87 million tonnes and 43.37 million tonnes respectively as contained in the draft competent person's report on the Coal Mines dated 16 March 2012 prepared by Mr. Ronald L. Lewis ("**Mr. Lewis**") of John T. Boyd Company ("**JTB**"), a competent person under Chapter 18 of the Listing Rules, together with his team; (ii) the draft valuation of the effective interest of the Coal Mines held by Lexing of approximately RMB5,278 million (equivalent to approximately HK$6,516.0 million) as at 29 February 2012 prepared by Greater China using the income approach; (iii) a discount of approximately 28.5% to the valuation of the PRC Mine Companies over the consideration for the Lexing Sale Share; and (iv) the development prospects of the Coal Mines. According to the competent evaluator's report in respect for the Lexing Group prepared by Mr. George E. Edwards, the competent evaluator under chapter 18 of the Listing Rules, and his team as set out in Appendix VII to the Circular, the fair value of the mineral assets of the Coal Mines indirectly held by the Lexing Group is RMB5,541.0 million (equivalently to approximately HK$6,835.4 million) while the appraised value of the 100% equity interest in Lexing is RMB4,259.0 million (equivalent to approximately HK$5,253.9 million). The Acquisition Consideration of HK$4,662 million represents a discount of approximately 11.3% to the abovementioned appraised value of the equity interest in Lexing. The difference between the appraised value of the draft competent evaluator's report as at 29 February 2012 and the competent evaluator's report as contained in Appendix VII to this Circular is primarily as a result of the update of certain market data (including but not limited to the risk free rate, risk premium and the measure of systematic risk) which were used to derive the discount rate and the update of financial information of the Lexing Group.

Valuation

The valuation of the Lexing Group has been carried out by Greater China, an independent valuer, the full text of the competent evaluator's report of Lexing Group ("**Lexing Group Valuation Report**") is set out in Appendix VII to the Circular. According to the Lexing Group Valuation Report, the fair value of the mineral assets of the Coal Mines indirectly held by the Lexing Group is RMB5,541.0 million (equivalent to approximately HK$6,835.4 million) ("**Coal Mines Valuation**") while the appraised value of the equity interest in Lexing is RMB4,259.0 million (equivalent to approximately HK$5,253.9 million) ("**Lexing Group Valuation**"). In addition, in preparing the Lexing Group Valuation Report, we understand that Greater China, to certain extent, has also made reference to the CPR in respect of the Coal Mines, which was prepared independently by Mr. Lewis together with his team. The summary of the CPR is set out in Appendix VI to the Circular.

In assessing whether the Coal Mines Valuation and the Lexing Group Valuation could provide a valid benchmark to assess the fairness and reasonableness of the Acquisition Consideration, we have (i) reviewed both the Coal Mines Valuation and the Lexing Group Valuation Report and the CPR; (ii) interviewed and discussed with Greater China regarding the methodology adopted and basis and assumptions used for both the Coal Mines Valuation and the Lexing Group Valuation and noted that (a) Greater China has discussed with JTB relating to its methodologies and reporting standards used for the CPR and confirmed that it is satisfied with such methodologies and reporting standards which are in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves as published by Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (the "**JORC Code**"), being the internationally recognised standard relating to the reporting of mineral reserve; and (b) the Lexing Group Valuation Report is prepared in accordance with Chapter 18 of the Listing Rules and is in conformance with the Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the "**VALMIN Code**"), prepared by the VALMIN Committee. Meanwhile, we have also obtained and reviewed the copies of the certificates of the relevant qualifications of each of Greater China and JTB.

Basis and assumptions

We have discussed with Greater China in respect of the assumptions adopted by them in the valuation, including general assumptions such as exclusion of factors such as change in PRC's macro-economic policy, inflation and other abnormal factors in the valuation.

In addition, we understand that both the Coal Mines Valuation and the Lexing Group Valuation as evaluated by Greater China, to certain extent, was determined with reference to the CPR in respect of the Coal Mines. Further to our discussion with Greater China, we understood that (a) Greater China has discussed with JTB relating to its methodologies and reporting standards used for the CPR and confirmed that it is satisfied with such methodologies and reporting standards which are in accordance with the JORC Code; and (b) the Lexing Group Valuation Report is in conformance with the VALMIN Code, both of which JORC Code and VALMIN Code are being the internationally recognised standards relating to the reporting of mineral reserve.

Accordingly, we are of the view that both the Coal Mines Valuation and the Lexing Group Valuation has been reasonably prepared and are normal in nature without any unusual assumption and the basis thereof is fair and reasonable.

Valuation methodology

According to the Lexing Group Valuation Report and our discussion with Greater China, we are given to understand that Greater China has considered three common approaches, namely (i) the cost approach; (ii) the market approach; and (iii) the income approach, for the Coal Mines Valuation and the Lexing Group Valuation.

Pursuant to the Lexing Group Valuation Report, taking into account that (i) the amounts of exploration expenditure incurred/to be incurred do not truly reflect the value of the Shanxi Coal and the value of Shanxi Coal shall be determined by the amount of reserves/ resources in mine deposits from which economic benefits can be derived, rather than the appraised value of the cost of obtaining the Shanxi Coal; and (ii) there are no directly comparable transactions of, among other things, similar quality and quantity of each mineral, mining and processing systems and costs, production quantities and products, and location and schedule of mining and there is a lack of publicly available information for comparison purposes, Greater China considers that, the cost approach and market approach are not used to conclude the Coal Mines Valuation and the Lexing Group Valuation.

Given that the economic benefits streams of the Coal Mines can be identified and ascertained based on the production schedule and planned capital expenditure to be incurred provided by the management of the Lexing Group, as well as other cost estimates as detailed in the CPR, Greater China considers that the income approach to be the most appropriate valuation approach adopted for both the Coal Mines Valuation and the Lexing Group Valuation to assess the profitability of Shanxi Coal and based on the discounted cash flow method to calculate the net present value of the Shanxi Coal. For assumption of the appropriate discount rate, Greater China considers the cost of equity of the Modified Capital Asset Pricing Model ("**MCAPM**") to be an appropriate model for the estimation of the cost of capital of Shanxi Coal with reference to certain publicly listed mining companies in Hong Kong and the PRC engaged in similar businesses.

Taking into account that (i) the rationale of Greater China to adopt the income approach as the valuation methodology; (ii) the basis and assumptions in arriving the Coal Mines Valuation and the Lexing Group Valuation using the income approach; (iii) the work profile of Greater China and JTB in which we are satisfied with their qualifications and experience; (iv) the Lexing Group is an asset-based company and its principal asset is 49% equity interest in Shanxi Coal, we consider that, the methodologies and basis and assumptions adopted for the Coal Mines Valuation and the Lexing Group Valuation are fair and reasonable. Nevertheless, we would like to draw the attention of the Independent

Shareholders that like all valuation methods involving forecasts of future events, revenue and profits cannot be projected with complete accuracy and are dependent on the assumptions made. In the course of the Coal Mines Valuation and the Lexing Group Valuation, Greater China has considered a number of risk factors which would affect the profitability of Shanxi Coal. Such risk factors were considered since Shanxi Coal has not yet been operating at optimal capacity. Accordingly, such valuation serves as a reference as to whether the business of Shanxi Coal, if successful, will yield the economic benefit to the interested party in Shanxi Coal subject to the known facts and hypothesis as contained in the relevant documents.

Given that (i) the Acquisition Consideration represents a discount of approximately 28.5% to the draft valuation of the effective interest of the Coal Mines held by Lexing of approximately RMB5,278 million (equivalent to approximately HK$6,516.0 million) as at 29 February 2012 prepared by Greater China using the income approach; (ii) the Acquisition Consideration represents a discount of approximately 11.3% to the appraised value of the 100% equity interest in Lexing of approximately RMB4,259.0 million (equivalent to approximately HK$5,253.9 million); and (iii) the abovementioned principal factors for the Transactions, we are of the view that the Acquisition Consideration is fair and reasonable in so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Settlement methods of the Acquisition Consideration

The Acquisition Consideration amounting to HK$4,662 million, which shall be payable by the Company to City Bloom (or its nominees (as the case maybe)) in the following manner:

(i) HK$600 million will be deemed to have been authorised by City Bloom to be applied towards the payment of an equivalent amount payable by City Bloom to Mountain Sky pursuant to the Mountain Sky Agreement to satisfy the consideration payable by City Bloom in relation to the Share Sale; and which sum, in turn, will be authorised by Mountain Sky to be applied towards the payment of an equivalent amount payable by Mountain Sky to the Company pursuant to the Disposal Agreement to satisfy the consideration payable by Mountain Sky to the Company for the acquisition of the Disposal Group;

(ii) HK$400 million by way of (a) a cashier order drawn by a licensed bank in Hong Kong or by wire transfer of such sum to the bank account designated by City Bloom; and/or (b) issue of the Promissory Notes to City Bloom, which the Company shall notify City Bloom in writing the amount of each of such payment by cash and/or promissory note not less than seven Business Days prior to Completion.; and

(iii) as to the remaining balance of HK$3,662 million:

(a) by way of allotment and issue of the Consideration Shares, credited as fully paid, at an issue price of HK$0.17 per Consideration Share. The number of Consideration Shares issued, together with the Shares held by City Bloom and parties acting in concert with it at Completion, shall represent 29.9% of the enlarged issued share capital of the Company upon Completion; and

(b) (if after the payment of cash and issue and allotment of the Consideration Shares in (i), (ii) and (iii)(a) above, there shall remain any consideration of the Acquisition payable) as to the remaining balance of the consideration of the Acquisition, by way of issue of the Consideration Bonds.

Deemed settlement arrangement

The payment obligation of the Company for the part of the Acquisition Consideration of HK$600 million will be deemed to have been authorised by City Bloom to be applied towards the payment of an equivalent amount payable by City Bloom to Mountain Sky pursuant to the Mountain Sky Agreement to satisfy the consideration payable by City Bloom in relation to the Share Sale; and which sum, in turn, will be authorised by Mountain Sky to be applied towards the payment of an equivalent amount payable by Mountain Sky to the Company as the consideration for the Disposal. This part of the Consideration, which the Guang Cheng (being a wholly-owned subsidiary of the Company) is required to pay to City Bloom (as its nominees) pursuant to Acquisition Agreement, will eventually, be authorized to be applied towards the payment of an equivalent amount payable to the Company pursuant to Mountain Sky Agreement. That is, this part of the Consideration does not involve any cash outlay from the Group or issue any securities or convertibles of the Group, once all the agreements in relation to the Transactions has been duly executed and the Transactions have been completed simultaneously, it is deemed to have been settled.

Cashier order or promissory notes

The Company has the option to settle part of the Acquisition Consideration of HK$400 million either by way of cash or issue of promissory notes and shall notify City Bloom in writing the amount of each of such payment by cash and/or promissory note not less than seven Business Days prior to Completion. As at 30 June 2012, the Group recorded unaudited bank balances and cash of approximately HK$33.0 million and unaudited consolidated net current liabilities of approximately HK$227.6 million. The option to issue promissory notes in lieu of payment by way of cash can ease the liquidity position of the Group and minimize the possibility of the Transactions not able to proceed to Completion due to insufficient internal resources to finance this part of Acquisition Consideration.

Principle terms of the Promissory Notes

Pursuant to the Acquisition Agreement, the Company may choose to issue the Promissory Notes (as the case may be) in a maximum principal amount of HK$400 million to City Bloom (or its nominee(s)) as part payment of the Acquisition Consideration.

Set out below is the principal terms of the Promissory Notes:

Issuer	:	The Company
Principal amount	:	A maximum principal amount of HK$400 million
Interest	:	The Promissory Notes shall bear interest from the date of issue at a fixed rate of 5% per annum which will accrue on the principal amount of the Promissory Notes and be paid on the maturity date of the Promissory Notes No interest shall be accrued and payable in respect of the principal amount of the Promissory Notes which has been prepaid by Guang Cheng.
Maturity	:	The date of the third anniversary from the date of the issue of the Promissory Notes
Early repayment	:	Guang Cheng may, by giving not less than 14 days' written notice to City Bloom, redeem and prepay the Promissory Notes outstanding or any part thereof, provided that each such prepayment must be in the sum of not less than HK$1 million and in integral multiples of HK$1 million.

In order to further assess the fairness and reasonableness of the Promissory Notes with respect to interest rate, we have made reference to (i) the best lending rate of The HongKong and Shanghai Corporation Limited (the "**Best Lending Rate**") which was 5% per annum as at the Latest Practicable Date; and (ii) the interest rate of the unsecured borrowing of HK$8 million ("**Other Borrowing**") as at 31 December 2011 is at 1.5% per month which represents an effective annual interest rate of approximately 19.6%. We noted that the interest rate of the Promissory Notes of 5.0% is (i) equivalent to the Best Lending Rate; and (ii) far below the effective annual interest rate of the Other Borrowing obtained from an independent party to the Group. Further to our discussion with the management of the Group, we were given to understand that the settlement of the Consideration by way of the Promissory Notes with a term of three years can (i) defer the settlement of a portion of the consideration of the Acquisition up to a period of 3 years and reduces the immediate cash outlay required for the Acquisition, which allows the Group to preserve cash resources for business development or other working capital purposes; and (ii) avoid any potential dilution effect on the shareholding interest of the existing Shareholders. We also understand that the prepayment right of the Company provides flexibility to Company to refinance should the Company be able to obtain alternative financing at an interest rate lower than that of the Promissory Notes.

Based on the above, we are of the view that the terms of the Promissory Notes are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Issuance of the Consideration Share

Pursuant to the Acquisition Agreement, the number of Consideration Shares to be issued to City Bloom (or its nominee(s)), which together with the Shares held by City Bloom and parties acting in concert with it, will be 29.9% of the enlarged issued share capital of the Company at Completion. For illustration purpose, the maximum number of Consideration Shares to be issued is 21,541,176,470 which is calculated by dividing the remaining balance of the Acquisition Consideration after deducting (i) the settlement of HK$600 million under the Mountain Sky Agreement; and (ii) the cash payment and/or issue of the Promissory Notes of HK$400 million, by the issue price of HK$0.17 per Consideration Share, and assuming no Consideration Bonds is issued. The maximum number of Consideration Shares to be issued represents approximately 1,682.8% of the issued share capital of the Company as at the Latest Practicable Date and approximately 79.4% of the enlarged share capital of the Company on Completion and full conversion of the convertible securities (including the New CBs) of the Company.

Comparison of the Issue Price with the prevailing Share price

The issue price of the Consideration Shares (which is the same as the initial conversion price of the Consideration Bonds) of HK$0.17 per Share represents:

(i) a discount of approximately 50.0% to the closing price of HK$0.340 per Share as quoted in the daily quotation sheets of the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 50.3% over/to the average of the closing prices of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 5 consecutive trading days up to and including the Latest Practicable Date of HK$0.342 per Share;

(iii) a discount of approximately 50.4% to the average of the closing prices of the Shares as quoted in the daily quotation sheets of the Stock Exchange for the last 10 consecutive trading days up to and including the Latest Practicable Date of HK$0.343 per Share;

(iv) a discount of approximately 48.6% to the average closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 30 consecutive trading days up to and including the Latest Practicable Date of approximately HK$0.331 per Share;

(v) a discount of approximately 39.3% to the closing price of HK$0.280 per Share as quoted in the daily quotation sheets of the Stock Exchange on the Last Trading Date;

(vi) a discount of approximately 37.0% to the average of the closing prices of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Date of HK$0.270 per Share;

(vii) a discount of approximately 35.1% to the average of the closing prices of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date of approximately HK$0.262 per Share;

(viii) a discount of approximately 35.8% to the average closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date of approximately HK$0.265 per Share;

(ix) a discount of approximately 46.7% to the net assets value attributable to equity holders of the Company of approximately HK$0.319 per Share as at 31 December 2011 based on the audited financial statements of the Group for the year ended 31 December 2011; and

(x) a discount of approximately 36.3% to the net assets value attributable to equity holders of the Company of approximately HK$0.267 per Share as at 30 June 2012 based on the unaudited financial statements of the Group for the six months ended 30 June 2012.

As set out in the Letter from the Board, the Issue Price was determined after arm's length negotiations between the parties to the Acquisition Agreement with reference to the (i) the average closing prices of the Shares since 6 March 2012 (being the date of signing of a non-legally binding memorandum of understanding between the Company and the Vendor in relation to the possible Acquisition) and up to the Last Trading Date; (ii) the substantial size of the Consideration Shares to be issued as part of the Consideration; and (iii) the net assets value of the Group as at 31 December 2011.

Historical Share Price Performance

For the purpose of assessing the fairness and reasonableness of the Issue Price, we reviewed the daily closing price of the Shares as quoted on the Stock Exchange for the period from 13 June 2011 (being the 12 calendar months period prior to the date of the Acquisition Agreement) up to and including 12 June 2012, being the date of the Acquisition Agreement (the "**Share Price Review Period**").

Source: Website of the Stock Exchange (www.hkex.com.hk) and Bloomberg

During the Share Price Review Period, the daily closing prices of the Shares ranged from HK$0.2 to HK$0.9 per Share, with an average daily closing price of approximately HK$0.4. The lowest closing price of the Shares recorded on 2 December 2011 and the highest closing price of the Shares recorded on 23 and 24 June 2011. The Issue Price is lower than (i) the lowest closing price during the Share Price Review Period by approximately 15.0%; and (ii) the average daily closing price by approximately 81.1%. We further noted that the closing prices of the Shares had been moving downwards in general from June 2011 onwards despite that there had been a temporary abrupt climb and fluctuation in the Share price from mid-February to April 2012. We have enquired into and were confirmed by the Directors that save and except for the signing of a non-legally binding memorandum of understanding in relation to the Acquisition on 6 March 2012, they were not aware of any material incidents which might have affected the Share price from mid-February to April 2012.

We noted that the Issue Price represents a discount of approximately 50.0% to the closing price of HK$0.34 per Share as quoted on the Stock Exchange on the Latest Practicable Date. The average closing price of the Shares since 6 March 2012 (being the date of signing of a non-legally binding memorandum of understanding between the Company and the Vendor in relation to the possible Acquisition) and up to the Last Trading Date was approximately HK$0.3 per Share, and the Issue Price represents a discount of approximately 43.3% to such average closing prices of the Shares.

Analysis of trading volume of the Shares

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

	Total monthly trading volume of the Shares	Average trading volume of the Shares per trading day during the month	% of average daily trading volume of the Shares to the number of total issued Shares	Number of trading days in each month
2011				
June	23,181,400	1,159,070	0.10%	21
July	4,180,300	261,269	0.02%	20
August	4,726,400	214,836	0.02%	23
September	3,529,400	252,100	0.02%	20
October	6,771,200	376,178	0.03%	20
November	86,641,100	3,938,232	0.35%	22
December	64,234,800	2,919,764	0.26%	20
2012				
January	9,630,800	437,764	0.04%	18
February	22,166,200	1,055,533	0.09%	21
March	22,263,600	1,011,982	0.09%	22
April	11,309,000	538,524	0.05%	18
May	17,833,100	775,352	0.07%	22
June (up to 12 June 2012)	3,505,000	438,125	0.04%	8

Source: Bloomberg and website of the Stock Exchange

The above table illustrates that the average daily trading volume of the Shares per month was thin during the Share Price Review Period. The average daily trading volume of the Shares was on or below 0.35% of the then total number of issued Shares. As such, we view that the Shares were illiquid in the open market.

Comparison with other issues of consideration shares

In order to assess the fairness and reasonableness of the terms of the Consideration Shares, we have, on the best effort basis, based on the information available from the Stock Exchange, identified the following comparable companies (the "**CS Comparables**"), being the companies listed on the Stock Exchange which involved acquisitions by listed companies in Hong Kong involving the issue of shares as all or part of the consideration for the period from 13 March 2012 and up to and including 12 June 2012, being the date of the Acquisition Agreement (the "**Review Period**").

Although the nature of the consideration shares issued by the CS Comparables may not be the same as the Consideration Shares, having considered that the Review Period (i) represents relatively comparable market conditions and sentiments as that around the time of signing the Acquisition Agreement; and (ii) provides a time span for identifying sufficient samples for comparable analysis purpose, we consider that the selected time frame is appropriate for the comparison purposes which would provide a reasonable number of comparables as it provides an insight on the principal terms of the consideration shares recently issued by other listed companies on the Stock Exchange under similar market conditions and sentiments and the CS Comparables may reflect the recent trend of the issue of consideration shares in the market. Accordingly, we are of the view that the CS Comparables are fair and representative samples.

Based on the abovementioned criteria, we have identified CS Comparables comprising 10 companies listed on the Stock Exchange. Set out below the details of the CS Comparables:

Date of announcement	Company name (stock code)	Share consideration price	Value of the consideration shares	Premium/ (discount) of share consideration price over/(to) the closing price prior to the date of the announcement *(%)*	Premium/ (discount) of share consideration price over/(to) the average closing price for last five consecutive trading days prior to the date of the announcement *(%)*	Net asset value per share *(Note 1)*	Premium/ (discount) of the share consideration price over/ (to) net asset value per share *%*
28 May 2012	Enerchina Holdings Limited (622)	HK$0.10	HK$160 million	13.60	17.60	HK$0.49	(79.59)
15 May 2012	Shifang Holdings Limited (1831)	HK$0.50	HK$60 million	(5.66)	(5.30)	HK$1.92	(73.96)
4 May 2012	Come Sure Group Holdings Limited (794)	HK$2.00	HK$21.14 million	81.82	68.07	HK$1.6	25.27
23 April 2012	China Data Broadcasting Holdings Limited (8016)	HK$1.00	HK$135 million	(42.53)	(42.53)	HK$0.14	614.29
1 April 2012	Sino Resources Group Limited (223)	HK$0.30	HK$75.55 million	29.87	23.25	N/A *(Note 2)*	N/A *(Note 2)*
29 March 2012	Sinocorp Resources (Holdings) Limited (476)	HK$0.75	HK$90 million	(3.80)	(2.60)	HK$0.11	571.16
18 March 2012	Karrie International Holdings Limited (1050)	HK$0.346	HK$45 million	0.29	0.87	HK$0.98	(64.82)
12 January 2012	CVM Minerals Limited (705)	HK$0.126	HK$83.16 million	5.00	5.70	HK$0.15	(15.28)
10 January 2012	Sino Union Energy Investment Group Limited (346)	HK$0.716	RMB175 million	49.17	36.64	HK$1.34	(46.41)
15 December 2011	China Haidian Holdings Limited (256)	HK$1.00	HK$56 million	28.20	26.60	HK$0.83	20.5
Maximum				**81.82**	**68.07**		**614.29**
Minimum				**(42.53)**	**(42.53)**		**(79.59)**
Average				**15.59**	**12.83**		**105.68**
The Company				**(39.3)**	**(37.0)**		**(36.3)**

Notes:

1. Net asset value per share refers to the latest published financial statements of each of the Share Comparables prior to the date of the relevant announcement.

2. This CS Comparable recorded net liabilities for its latest financial year prior to the date of the relevant announcement.

Based on the above illustration, the discount/premium represented by the issue price per share issued by respective CS Comparables to (i) their respective closing prices on the last trading day before the suspension of trading in the shares pending for the release of the relevant announcements ranged from a discount of approximately 42.53% to a premium of approximately 81.82%, with a mean of premium of approximately 15.59%; and (ii) their respective net assets value per share ranged from a discount of approximately 79.59% to a premium of approximately 614.29%, with a mean of premium of approximately 105.68%. The Issue Price, which represents a discount of approximately 39.3% to the closing price of the Shares on the Last Trading Date and a discount of approximately 36.3% to net asset value per share, is hence within the said market range.

Having considered that (i) the Group incurred losses attributable to the Shareholders for the three financial years ended 31 December 2011 and the six months ended 30 June 2012; (ii) the deteriorated liquidity position of the Group with worsen gearing ratios of approximately 0.92 as at 30 June 2012 as compared to approximately 0.69 as at 31 December 2011 and the Group recorded net cash outflow from the operating activities for the year ended 31 December 2011; (iii) the discount of the Issue Price to the Last Trading Date falls within the market range of the CS Comparables; (iv) the discount of the Issue Price to the net asset values per Share falls within the market range of the CS Comparables; (v) that the Share price had been moving downwards in general during the Share Price Review Period regardless of a temporary abrupt climb and fluctuation from mid-February to April 2012; and (vi) there will be no immediate cash outlay for the Company to settle the Acquisition Consideration by way of the issue of Consideration Shares, we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

Principal terms of the Consideration Bonds

Pursuant to the Acquisition Agreement, the Company will issue the Consideration Bonds to City Bloom (or its nominee(s)) for settlement of part of the consideration of the Acquisition upon Completion. Set out below is the principal terms of the Consideration Bonds:

Principal amount	:	A maximum principal amount of HK$3,662 million, which is equivalent to the remaining balance of the consideration of the Acquisition after deducting (i) the settlement of HK$600 million under the Mountain Sky Agreement; and (ii) the cash payment or issue of the Promissory Notes of HK$400 million.
Interest	:	The holder(s) of the Consideration Bonds shall be entitled to interest at the rate equal to the rate of dividend per Share from time to time declared and paid by the Company to the Shareholders as if the Consideration Bonds have been converted in full into Conversion Shares. The interest (if any) shall be payable to the holder(s) of the Consideration Bonds at the same time when the relevant dividend is payable to Shareholders. For the avoidance of doubt, (i) if no dividend is payable to the Shareholders for a particular year or period, or (ii) prior to the date of closure of the register of members of the Company for the purpose of determining the identity of the holder of its ordinary Shares who are entitled to the dividend (if any), the relevant Consideration Bond has been converted in full into Conversion Shares or redeemed after the relevant conversion notice or notice of redemption (a the case may be) has been duly given in accordance with the conditions of the Consideration Bonds, no interest will be payable to the holder(s) of the Consideration Bonds.
Maturity	:	The date falling five years after the date of issue of the Consideration Bonds.

Conversion price	:	The initial conversion price is HK$0.17 per Share (subject to adjustment and is determined after arm's length negotiations between the Company and City Bloom with reference to the net assets value per Share on a fully diluted basis upon Completion).
Conversion right	:	The holder(s) of the Consideration Bonds has/have the right to convert the Consideration Bonds into Conversion Shares in amounts not less than a whole multiple of HK$500,000 during the period from the day immediately following the issue date up to 4:00 p.m. on the maturity date of the Consideration Bonds, provided that as a result of such conversion, (i) City Bloom and parties acting in concert with it shall not in aggregate own more than 29.9% in all the issued Shares (or any other voting right percentage which triggers a mandatory general offer under the Takeovers Code); and (ii) public float of the Shares shall not be less than 25% of all the issued Shares.
Ranking of Conversion Shares	:	The Conversion Shares, when issued and allotted, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Conversion Shares.
Ranking of the Consideration Bonds	:	The Consideration Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu and ratably without preference among themselves, and rank at least equally with all other present and future unsubordinated and unsecured obligations of the Company.
Transferability	:	The Consideration Bonds will be transferable to any person in whole multiples of HK$500,000 provided that if the transfer is made to a connected person (as defined under the Listing Rules) of the Company, such transfer shall not be made without the prior written consent of the Company and shall comply with the requirements under the Listing Rules.

Voting rights	:	The Consideration Bonds do not confer any voting rights on the holder(s) of the Consideration Bonds (prior to the conversion of the Consideration Bonds into the Conversion Shares) at any meeting of the Company.
Early redemption	:	The Company shall have the right by serving a prior written notice not less than seven Business Days on holder(s) of the Consideration Bonds with the total amount proposed to be redeemed from the holder(s) of the Consideration Bonds (in amounts of not less than a whole multiple of HK$500,000) at 100% of the principal amount of the Consideration Bonds during the period commencing from six months following the issue date to the maturity date of the Consideration Bonds.
Application for listing	:	No application will be made for the listing of the Consideration Bonds. The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares to be issued and allotted upon exercise of the conversion rights attaching to the Consideration Bonds.

Upon the exercise in full of the conversion rights attaching to the Consideration Bonds at the initial conversion price of HK$0.17 per Share, the Company will issue up to a maximum of 21,541,176,470 Shares pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM, which represents approximately 1,682.8% of the issued share capital of the Company as at the Latest Practicable Date and approximately 79.4% of the enlarged share capital of the Company on Completion and full conversion of the convertible securities (including the New CBs) of the Company.

Comparison with other issues of convertible bonds/notes

In order to assess the fairness and reasonableness of the terms of the Consideration Bonds, we have, on the best effort basis, based on the information available from the Stock Exchange, identified the following comparable companies (the "**CB Comparables**"), being the companies listed on the Stock Exchange which involved (i) acquisitions by listed companies in Hong Kong involving the issue of convertible bonds/notes as all or part of the consideration; and (ii) issuance of convertible bonds/notes during the Review Period.

We have also considered limiting the sample of comparable to companies that are engaged in similar business as the Lexing Group. However, taking into account that (i) the conversion price per share of convertible bonds/notes are generally determined with reference to a discount or premium to recent prevailing market price of the shares of the listed issuers; and (ii) the extent of the discount or premium of the conversion price per share of convertible bonds/notes do not appear to have a strong correlation with the industry sector of the listed issuers, we are of the view that limiting the sample of comparable using the aforementioned approach would not be able to provide a meaningful analysis. We would like to highlight that the comparisons with the CB Comparables are for illustrative purposes given that the convertible bonds/notes issued by the CB Comparables may not be entirely comparable to the Consideration Bonds in terms of, including but not limited to, the business, operation and prospects as well as size, nature and purpose of the issuance of the convertible bonds/notes.

In view of the foregoing, we consider that the CB Comparables provide a general reference to the Independent Shareholders but should not be used in isolation in determining the reasonableness of the terms of the Consideration Bonds.

Based on the abovementioned criteria, we have identified CB Comparables comprising 51 companies listed on the Stock Exchange. Set out below the details of the CB Comparables:

Date of agreement	Company name (stock code)	Principal amount	Conversion price per share	Interest rate *(% per annum)*	Maturity *(years)*	Premium/ (discount) to share price as at the last trading day *(%)*
8 June 2012	Baofeng Modern International Holdings Company Limited (1121)	HK$176 million	HK$1.31	7.0	3	11.02
31 May 2012	North Mining Shares Company Limited (433)	HK$252 million	HK$0.36	Zero	2	28.57
27 May 2012	Enerchina Holdings Limited (622)	HK$1.04 billion	HK$0.10	Zero	5	13.60
25 May 2012	Media China Corporation Limited (419)	HK$700 million	HK$0.10	Zero	3	8.70
25 May 2012	Hsin Chong Construction Group Ltd. (404)	HK$135 million	HK$1.00	4.0	1	14.90
22 May 2012	Jiangchen International Holdings Limited (1069)	HK$38.6 million	HK$0.81	Zero	3	(18.20)
18 May 2012	C.banner International Holdings Limited (1028)	RMB189 million	HK$2.40	Zero	4	4.35
15 May 2012	New Times Energy Corporation Limited (166)	HK$81 million	HK$0.85	Zero	2	(4.50)
9 May 2012	China Tianyi Holdings Limited (756)	HK$232.8 million	HK$1.89	3.5	3	33.10
7 May 2012	China Natural Investment Company Limited (8250)	Up to HK$100 million	HK$0.05	Zero	3	(59.68)
3 May 2012	Xinyi Glass Holdings Limited (868)	HK$776 million	HK$6.00	Zero	5	19.80

Date of agreement	Company name (stock code)	Principal amount	Conversion price per share	Interest rate *(% per annum)*	Maturity *(years)*	Premium/(discount) to share price as at the last trading day *(%)*
27 April 2012	Luen Thai Holdings Limited (311)	US$4.6 million	HK$1.20	6.5	2	10.10
26 April 2012	China Ruifeng Galaxy Renewable Energy Holdings Limited (527)	US$100 million	HK$1.2 *(Note 1)*	8	5	(35.50)
23 April 2012	RCG Holdings Limited (802)	HK$88.7 million	HK$0.85	2	3	(5.56)
19 April 2012	The Hong Kong Building and Loan Agency Limited (145)	HK$32 million	HK$0.10	10	3 *(Note 2)*	132.60
19 April 2012	Tai Shing International (Holdings) Limited (8103)	HK$15 million	HK$0.25	Zero	1.25	2.50
12 April 2012	China Billion Resources Limited (274)	HK$50 million	HK$0.10	Zero	1	14.94
3 April 2012	Long Success International (Holdings) Limited (8017)	HK$100 million	HK$0.30	13	3	55.44
31 March 2012	Tse Sui Luen Jewellery (International) Limited (417)	HK$250 million	HK$6.40	5	5	4.23
29 March 2012	Sinocop Resources (Holdings) Limited (476)	HK$2.91 billion	HK$0.75	Zero	10	(3.80)
21 March 2012	China Hongqiao Group Limited (1378)	US$150 million	HK$7.27	6.5	5 *(Note 3)*	25.00
15 March 2012	Mobile Telecom Network (Holdings) Limited (8266)	HK$23.4 million	HK$0.25	Zero	3	0.00
14 March 2012	China Overseas Grand Oceans Group Ltd. (81)	HK$2.2 billion	HK$12.532	2.0	5 *(Note 4)*	30.00
13 March 2012	361 Degrees International Limited (1361)	US$150 million	HK$3.81	4.5	5 *(Note5)*	27.40
13 March 2012	China Eco-Farming Limited (8166)	Up to HK$20 million	HK$0.10	Zero	3 *(Note 6)*	20.48
6 March 2012	Siberian Mining Group Company Limited (1142)	US70 million	HK$0.52	3	3	0.00
6 March 2012	Wah Nam International Holdings Limited (159)	HK$78 million	HK$0.60	5	3	15.40
2 March 2012	Pacific Century Premium Developments Limited (432)	HK$2.904 billion	HK$1.64 *(Note 7)*	5.5	5 *(Note 8)*	19.70
29 February 2012	One Media Group Limited (426)	HK$75.6 million	HK$0.90	1.0	3	111.8
21 February 2012	Larry Jewelry International Company Limited (8351)	HK$72 million	HK$0.80	3.0	2	9.59
23 February 2012	Smart Union Group (Holdings) Limited (2700)	HK$30 million	HK$0.50	Zero	3	42.86
14 February 2012	China E-Learning Group Limited (8055)	HK$66 million	HK$0.50	1.0	3	192.00
20 January 2012	China Eco-Farming Limited (8166)	HK$18 million	HK$0.0375	Zero	1 *(Note 9)*	(35.34)
16 February 2012	China Environmental Resources Group Limited (1130)	HK$20 million	HK$0.10	1.5	1	26.58
30 January 2012	China Ocean Shipbuilding Industry Group Limited (651)	HK$105 million	HK$0.15	3.0	3	30.43
26 January 2012	OPES Asia Development Limited (810)	Up to HK$75 million	HK$0.36	3.0	3	1.41 *(Note 10)*

Date of agreement	Company name (stock code)	Principal amount	Conversion price per share	Interest rate *(% per annum)*	Maturity *(years)*	Premium/ (discount) to share price as at the last trading day *(%)*
20 January 2012	China Public Healthcare (Holdings) Limited (8116)	Up to HK$520 million	HK$0.049	Zero	5	(15.52)
20 January 2012	China Public Healthcare (Holdings) Limited (8116)	Up to HK$100 million	HK$0.049	Zero	5	(15.52)
20 January 2012	Hong Long Holdings Limited (1383)	HK$30 million	HK$0.1228	0.1	1	(11.01)
19 January 2012	Li Ning Company Limited (2331)	RMB750 million	HK$7.74	4.0	5	15.20
17 January 2012	Chiho-Tiande Group Limited (976)	HK$815.8 million	HK$6.00	4.0	3	51.90
12 January 2012	CVM Minerals Limited (705)	HK$106.84 million	HK$0.126	5.0	5	5.00
10 January 2012	Karce International Holdings Company Limited (1159)	US$176 million	HK$0.5	Zero	3	108.33
10 January 2012	Karce International Holdings Company Limited (1159)	US$3.344 billion	HK$1.0	Zero	5	316.67
30 December 2011	Sino Prosper State Gold Resources Holdings Limited (766)	HK$282.21 million	HK$0.15	Zero	5	76.47
22 December 2012	Culture Landmark Investment Limited (674)	HK$75 million	HK$0.08	12	1	5.26
21 December 2012	China Fortune Financial Group Limited (290)	HK$40.38 million	HK$0.20	12	3	24.20
20 December 2012	Ping An Insurance (Group) Company of China, Ltd. (2318)	Up to RMB26 billion	*(Note 11)*	3 *(Note 11)*	6	*(Note 11)*
19 December 2012	Kai Yuan Holdings Limited (1215)	HK$280 million	HK$0.15	3.5	2	(3.23)
13 December 2012	Interchina Holdings Company Limited (202)	Up to HK$294.5 million	HK$0.31	2	3	(18.42)
13 December 2011	Long Success International (Holdings) Limited (8017)	HK$300 million	HK$0.08	Zero	2	6.67
Maximum				**13**	**10**	**316.67**
Minimum				**Zero**	**1**	**(59.68)**
Average				**2.82**	**3.38**	**25.80**
12 June 2012	**The Company**	**Up to HK$3,662 million**	**HK$0.17**	*(Note 12)*	**5**	**(39.3)**

Notes:

1. Taking the most conservative assumption that the 30 days volume weighted average price of the Shares falls below HK$1.33 preceding the completion date of the subscription agreement, the lowest possible initial conversion price shall be HK$1.20. The minimum conversion price of HK$1.20 is used for illustrative purpose.

2. The maturity date of this convertible bonds issued by this company is stated to be 30 April 2015.

3. The maturity date of this convertible bonds issued by this company is stated to be 10 April 2017.

4. The maturity date of this convertible bonds issued by this company is stated to be 21 March 2017.

5. The maturity date of this convertible bonds issued by this company is stated to be on or about 3 April 2017.

6. The maturity date of this convertible bonds issued by this company is stated to be 31 December 2015.

7. The conversion price of this convertible bond shall be set on the issue date (i.e. 9 May 2014) and to be equal to 140% of the 20 trading days average of the closing price of the shares ended on such issue date, but not less the minimum conversion price of HK$1.64 per conversion shares. The minimum conversion price of HK$1.64 is used for illustrative purpose.

8. The maturity date of this convertible bond shall count from its issue date of 9 May 2014.

9. The maturity date of this convertible bond issued by this company is stated to be on or about 1 April 2013.

10. The convertible bonds of this company may be issued in not more than 10 tranches. For the first three tranches of the convertible bonds being issued, the conversion price shall be HK$0.36 per conversion share, whereas the conversion price for the remaining tranches of such convertible bonds shall be either 90% of the average closing price per share for the last five trading days preceding the date of the issue of the relevant tranche of such convertible bonds or HK$0.36 per conversion share, whichever is higher. The conversion price for the first three tranches of HK$0.36 is used for illustrative purpose.

11. The conversion price of this convertible bond was not determined at the time of the relevant announcement, and such convertible bond shall bear an interest rate of up to 3.0% per annum.

12. The holder(s) of the Consideration Bonds shall be entitled to interest at the rate equal to the rate of dividend per Share from time to time declared and paid by the Company to the Shareholders as if the Consideration Bonds have been converted in full into Conversion Shares.

Conversion price

We noted from the above table that the conversion prices of the CB Comparables ranged from a discount of approximately 59.68% to a premium of approximately 316.67% to/over the closing prices of their respective shares on the last trading days prior to the date of the relevant agreements or the release of the relevant announcements in relation to the issue of the respective convertible bonds/notes, with an average of premium of approximately 25.80%. The conversion price of the Consideration Bonds, which represents a discount of approximately 39.30% to the closing price of the Shares on the Last Trading Date, hence falls within the said market range.

In view of the above comparison and taken into consideration the deteriorated financial performance of the Group for the two financial years ended 31 December 2011 and the six months ended 30 June 2012 as discussed above, we are of the view that the conversion price of the Consideration Bonds is in line with the recent market practice and is fair and reasonable so far as the Independent Shareholders are concerned.

Interest rate

As noted from the table above, the interest rates of the CB Comparables ranged from zero to 13% with an average of approximately 2.82%. The holder(s) of the Consideration Bonds shall be entitled to interest at the rate equal to the rate of dividend per Share from time to time declared and paid by the Company to the Shareholders as if the Consideration Bonds have been converted in full into Conversion Shares. Declaration and payment of dividend (if any) to the Shareholders has to be approved by the Board and then the relevant resolution has to be put forward to Shareholders for approval in the general meeting of the Company. As advised by the Directors, there is no regular and/or fixed amount of dividend payment to be made to the Shareholders. During the two financial years ended 2011 and the six month ended 30 June 2012, there was no dividend declared, paid or proposed during each of the relevant periods. Though the historical dividend payment history does not indicate a future dividend payment policy or pattern of the Group, it may, however, serve as a reference. For illustration purposes, taking into account that no dividend were declared, paid or proposed during each of the relevant periods, the Consideration Bonds may subject to zero interest rate, which shall fall within the range of the CB Comparables. However, we would like to draw the attention to the Independent Shareholders that the actual interest rate payable to the holders of the Considerable Bond is subject to future dividend payment policy of the Group and cannot be ascertained at the moment, however, as advised by the Directors, when deciding whether to pay a dividend to the Shareholders, they will also take into account, among others, the financial performance of the Group, the amounts payable to the holders of the Consideration Bonds, etc. In light of the fact that the decision regarding the declaration, recommendation or payment of a dividend is solely at the discretion of the Directors, we consider the interest rate of the Consideration Bonds is fair and reasonable to the Company and Independent Shareholders as a whole.

Maturity

The term of the CB Comparables ranged from 1 year to 10 years and the term of the Consideration Bonds of 5 years is within the market range of the CB Comparables.

Having considered the various factors set out above and in particular, (i) the conversion price for the Consideration Bonds, which is the same as the Issue Price, represents a discount of approximately 39.3% to the closing price per Share as at the Last Trading Date, which falls within the said market ranges of CB Comparables; (ii) the Consideration Bonds shall be entitled to interest at the rate equal to the rate of dividend per Share from time to time declared and paid by the Company to the Shareholder and the decision regarding the declaration, recommendation or payment of a dividend is solely at the discretion of the Directors; (iii) the principal terms of the Consideration Bonds are in line with those prevailing in the market as presented in the table above; and (iv) the issue of the Consideration Bonds, which is subject to early redemption at the option of the Company, enables the Company to defer the settlement of a substantial portion of the Consideration up to a period of 5 years and reduces the immediate cash outlay required for the Acquisition, we consider the issuance of the Consideration Bonds, as part of the payment terms under the Acquisition Agreement, to be in the interest of the Company and the Shareholders as a whole and the principal terms of the Convertible Bonds are fair and reasonable.

Our view on the settlement methods of the Acquisition Consideration

Having considered that (i) part of the Acquisition Consideration of HK$600 million shall be set-off as described in the paragraph headed "Deemed settlement arrangement" above which in turn will not result in any cash outlay thereof; (ii) both the issue of the Promissory Notes, Consideration Shares and Consideration Bonds allow the Group to reduce its immediate cash outlay in connection with the Acquisition; (iii) the Promissory Notes shall bear interest at a fixed rate of 5% and the interest shall only be paid on the maturity date of the Promissory Notes; (iv) the Consideration Bonds shall bear interest at the rate equal to the rate of dividend per Share from time to time declared and paid by the Company to the Shareholders, which the decision regarding the declaration, recommendation or payment of a dividend is solely at the discretion of the Directors dividend; (v) the Promissory Notes will not dilute the shareholding interests of the existing Shareholders; and (vi) there is no immediate funding needs to settle Promissory Notes and Consideration Bonds, we are of the view that the settlement method of the Consideration is fair and reasonable and in the interest of the Company and Shareholders as a whole.

Other material terms of the Acquisition

Deed of indemnification by Ultra Asset and Mountain Sky

Mountain Sky Resources Holdings Limited, which is currently holding 18.81% interest in Mountain Sky, has filed claims against Mountain Sky, Ultra Asset (being a substantial Shareholder as at the date hereof), the Company and Guang Cheng in connection with, among others, the alteration of certain terms and conditions of the US$30M Convertible Bonds in February 2012. The claims involves, among others, (i) the seeking of an injunction restraining the Company, Guang Cheng and Mountain Sky from taking or procuring any further steps in respect of certain proposed transactions as described in the Letter from the Board, in particular any steps that involve selling Mountain Sky's Shares and CPS in the Company pursuant to the Mountain Sky Agreement in return for the Iron Mine pursuant to the Disposal Agreement (the "**Injunction**"); (ii) an order declaring that the directors' and shareholders' resolutions of Mountain Sky approving the components of the Proposed Transaction, the Additional Charge or Preference Shares and the Charge of Share are void and of no effect.

It is one of the conditions precedent to the Acquisition Agreement that the Claims and/or in (if any) any other claims, actions or proceedings which are against the defendants named in the Action and/or any of City Bloom or Business Ally or their respective affiliates and arising from the circumstances set out in the Action, which, in the reasonable opinion of City Bloom, have adversely affected or will adversely affect the Acquisition and the transactions contemplated under the Acquisition Agreement having been dealt with by the relevant parties, in such a manner as agreed by the parties to the Acquisition Agreement.

In respect of the fulfillment of the above condition precedent, the parties to the Acquisition Agreement will consider all possible arrangements to deal with the Claims in a manner which aims to balance the interests of all parties. This may include, but not necessarily be, a full and final settlement of or a successful strike-off of the Claims. In any event, the final arrangement of dealing with the Claims has to be mutually agreed by City Bloom and Guang Cheng in order to fulfill this condition.

The Company has been given an expressed undertaking by Ultra Asset and Mountain Sky, pursuant to which the Company and its subsidiaries will be indemnified against, among others, all losses in connection with the Indemnified Claims.

Having considered that (i) the reliefs in the Claims are mainly sought from Ultra Asset and/or Mountain Sky; (ii) the Company has been given an expressed undertaking by Ultra Asset and Mountain Sky, pursuant to which the Company and its subsidiaries will be indemnified against, among others, all losses in connection with the Indemnified Claims, the Company believes that this arrangement is fair and reasonable and in the interests of the Shareholders as a whole. In addition, as stated in the announcement of the Company dated 27 August 2012, after consultations with the Company's BVI legal advisers, the Company considers that the Claims against the Company are unmeritorious and without any justifiable basis. As such, the Company believes that City Bloom and Guang Cheng would be able to agree on an acceptable arrangement to fulfill this condition. However, we would like to draw the attention of the Independent Shareholders that, as advised by Walkers, the legal adviser of the Company as to BVI law, should (i) the Claims made by the Claimant against the Company under the Action could be proved, the Injunction may be granted by the BVI Court to restrain the Company, Guang Cheng and Mountain Sky to proceed further with the Transactions; and (ii) the Injunction has been granted by the BVI Court before Completion, the timing for Completion may be adversely affected. Should all conditions precedent of the Transactions having been fulfilled (other than this condition precedent) on or before 30 June 2013, being the latest time when all the conditions precedent of the Acquisition Agreement has to be fulfilled, City Bloom can choose to waive such condition precedent as this is one of the condition precedent is waivable by the City Bloom pursuant to the Acquisition Agreement.

III. Risk Factors

The Acquisition may, inevitably, increase the level of risk exposure of the Enlarged Group. Independent Shareholders should note that every business has its own specific risk factors and be aware of the risk factors, which may not be exhaustive, relating to the Acquisition as stated in the paragraph headed "Risk Factors" of the section headed "Additional Information On the Coal Mines" to the Circular.

IV. Conclusion

Having considered, among others,

(i) the reasons for and the benefits of the Acquisition as stated in the paragraph headed "Reasons for and benefits of the Acquisition" in the section headed "The Acquisition", including;

   i. the current and persistent loss-making position of the Group;

ii. the Acquisition is in line with the business strategy of the Group; and

iii. the limited revenue generating power for the Group's existing business in the near future;

iv. the prospect of the Lexing Group; and

(ii) the principal terms of the Acquisition Agreement, including:

i. the Acquisition Consideration represents a discount of approximately 28.5% to the draft valuation of the effective interest of the Coal Mines held by Lexing of approximately RMB5,278 million (equivalent to approximately HK$6,516.0 million as at 29 February 2012) and represents a discount of approximately 11.3% to the appraised value of the 100% equity interest in Lexing as at 30 September 2012;

ii. the interest rate of the Promissory Notes is equivalent to the Best Lending Rate and far below the effective annual interest rate of the Other Borrowing and the underlying rationale of and benefits from the issuance of Promissory Notes;

iii. the principal terms of the CS, including the discount of the Issue Price to the Last Trading Date and the discount of the Issue Price to the net asset values per Share, fall within the range of the CS Comparables; and

iv. the principal terms of the Consideration Bonds, including the discount of conversion price to the closing price of the Shares on the Last Trading Date, term to maturity, fall within the range of the CB Comparables,

we concur with the view of the Directors that the principal terms of the Acquisition Agreement are fair and reasonable and the Acquisition represents a rational business opportunity of the Group to diversify its mineral resource holdings and is in the interests of the Company and the Shareholders as a whole.

THE DISPOSAL

Pursuant to the Disposal Agreement, Mountain Sky has agreed to acquire and the Company has agreed to sell: (i) the NARG Sale Shares, representing the entire issued share capital of NARG; (ii) the GLG Sale Shares, representing the entire issued share capital of GLG; and (iii) the Sale Loan.

I. The background of the Disposal

Information on the Disposal Group

NARG Group

NARG is a company incorporated in the BVI and its principal activity is investment holding. The NARG Group is engaged in iron mining business in Mongolia. NARG owns a 99.99% indirect interest in Golden Pogada LLC, which is the registered holder of the mining right license for the Iron Mine located in south-central Mongolia. As at the Latest Practicable Date, production at the Iron Mine, which has been temporarily halted due to technical issues, has not re-commenced and the company has not sold the inventory of iron ore produced during the trial production in 2011.

GLG Group

GLG is a company incorporated in the BVI and its principal activity is investment holding. The GLG Group is engaged in coal trading and logistic operations at both the Ceke and Gants Mod border crossings, the two major border crossings for coal transportation at the Sino-Mongolian border.

As set out in the Letter from the Board, below is the summary of the key unaudited combined financial information of the Disposal Group for the two years ended 31 December 2011 and the nine months ended 30 September 2012 prepared under the Hong Kong Financial Reporting Standards:

	For the year ended 31 December		**For the nine months ended 30 September**
	2011	**2010**	**2012**
	HK$' million	*HK$' million*	*HK$' million*
	unaudited	unaudited	unaudited
Turnover	4.43	–	19.26
Loss before taxation	(25.51)	(22.45)	(13.98)
Loss after taxation and minority interest	(25.49)	(22.27)	(14.06)

According to the table above, the turnover of the Disposal Group has increased from nil for the year ended 31 December 2010 to approximately HK$4.43 million for the year ended 31 December 2011. As advised by the Company, such increase in turnover was mainly attributable to GLL's commencement of a trial running of its business model during the second half year of 2011. The loss after taxation and minority interest has increased by approximately 14% from approximately HK$22.27 million for the year ended 31 December 2010 to approximately HK$25.49 million for the year ended 31 December 2011. As advised by the Company, such increase in loss was mainly attributable to the increase in the administrative expenses. In addition, we further noted from AR2011 that an impairment loss of approximately HK$819 million in respect of the mining right of Golden Pogada LLC has been recognised for the year ended 31 December 2011. According to the Unaudited Pro Forma Financial Information of the Enlarged Group as set out in Appendix IV, the impairment loss of approximately HK$819 million should be further made to the aforementioned loss of approximately HK$25.49 million, as if the Disposal Group was disposed of on 1 January 2011. For the nine months ended 30 September 2012, the Disposal Group has recorded a turnover of approximately HK$19.26 million which was solely generated by the operation of GLG Group and a loss after taxation and minority interest of approximately HK$14.06 million.

II. Reasons for and benefits of the Disposal

As set out in the Letter from the Board, in light of the issues surrounding the Iron Mine operation and the start-up status of the coal trading businesses, the Board believes that the Disposal is in the interest of the Company and the Shareholders as a whole, as it would allow the Group to focus its resources on the Coal Mines which are expected to generate more attractive returns to the Group. In order to facilitate the completion of the Acquisition and having taken into account the uncertainty surrounding the Iron Mine operation and the start-up status of the coal trading businesses, the Company proposed to dispose of the existing Iron mining and coal trading businesses to Mountain Sky under the Disposal Agreement so that the consideration of the Disposal of HK$600 million can be used to settle part of the consideration for the Acquisition. The Directors (other than the members of the Independent Board Committee) consider that the terms of the Disposal are fair and reasonable and on normal commercial terms and that the entering into of the Disposal Agreement is in the interests of the Company and the Shareholders as a whole.

We have taken into account of the following factors when assessing the rationale behind the Disposal:

(i) Issues and uncertainties surrounding the Disposal Group

Iron Mining

As set out in the Letter from the Board, during 2010, the Company completed the design on the construction of the Iron Mine, installed dry processing equipment according to the design, and performed blasting and trial production on site. Iron ore can be processed by using dry processing or wet processing. Dry processing uses very little water, but produces a low-iron content product, usually less than 55% iron content. Wet processing uses more water to process low grade iron ore into a higher iron content product with around 65% of iron content or above. In early 2011, the Company received water usage approval from the local authority for an amount of water usage less than the originally required amount. The amount of water usage approval obtained by the Company was insufficient for the wet processing methodology. Further work for proving the adequacy of water resources is required to apply for the necessary water usage amount for wet processing for the Iron Mine.

In additional to the aforementioned limited water supply, in relation to the iron mining business of the Company, as disclosed in AR2011, the Group faced some unexpected challenges in the form of adverse weather conditions, nation-wide diesel shortage and technical problems with its production equipment and machinery during 2011. The mining operation at Oyut Ovoo was halted pending resolution of the technical issues.

Subsequently in February 2012, as disclosed in AR2011, China Railway Mongolia Investment LLC, the Company's logistic partner, has informed the management that since the Group has not yet established the require scale of production at the Oyut Ovoo Mine and as a result of the delay in the overall construction progress of the transit and loading dock near the Choir train station, and the rail extension line linking the docking facility to the main rail line of the Choir station (the "**Choir Project**"), the Group will have to bear the logistics cost of transporting Iron ore products from the Oyut Ovoo Mine to Erenhot. The impact exerted by the additional transportation cost is substantial as we further noted from AR2010 that transportation solution is the main emphasis for the Group because it is a critical element to the success of mining and developing bulk mineral resources in Mongolia. The delay in the completion of the Choir Project would hinder the Company from offering a competitive price for its iron mining products.

Coal Trading and Logistics

In the second quarter of 2011, the Company began the coal trading business with 10 trucks at Gants Mod. We further noted from IR2012 that around the end of 2011, a trial run for the Ceke operation was carried out but was subsequently aborted due to the relatively long funding cycle and substantial outlay of capital. As advised by the Company, the coal trading and logistics businesses were still at an early stage as at the Latest Practicable Date and would also require significant working capital before it can start to generate profit for the Group.

(ii) The persistent loss-making of the Disposal Group

The Group has been suffering loss for the two years ended 31 December 2011 and the six months ended 30 June 2012. As noted from the summary of the key unaudited combined financial information of the Disposal Group as set out in the paragraph headed "Information on the Disposal Group", the Disposal Group has been suffering loss for the two years ended 31 December 2010 and 31 December 2011 and the nine months ended 30 September 2012.

(iii) Improved financial position of the Group after completion of the Disposal

As disclosed in the Letter from the Board, a gain on the Disposal of approximately HK$83.5 million will be recognised upon the completion of the Disposal, which is calculated with reference to the proceeds from the Disposal Consideration of approximately HK$600 million and the adjusted carrying value attributable to the Disposal Group of approximately HK$225.0 million and the Sale Loan as at 30 September 2012 of approximately HK$291.5 million. Shareholders and investors should note that the exact amount of the actual gain on the Disposal may be different from the above as the then net assets of the Disposal Group and the Sale Loan will be different on the completion date of the Disposal. The excess of the consideration of the Disposal over the carrying value of the Disposal Group and the Sale Loan as at 30 September 2012 is HK$454.0 million (without taking into account, among other things, fair value of mining rights and deferred tax liabilities).

(iv) More effective use of the resources of the Group

The Company believes that the Disposal would allow the Company to unlock the heavy outlay of capital for the early stage of the GLG Group. Moreover, it will facilitate the completion of the Acquisition and hence allow the Directors to focus and more effectively allocate the Group's resources to the Coal Mines. As disclosed in IR2012, the Company would focus its capital resources on the operation of the Coal Mines which are expected to contribute a more steady revenue stream to the Group.

Having considered the abovementioned, we concur with the Directors that the Disposal is commercially justifiable and in the interests of the Company and the Shareholders as a whole.

III. Principal terms of the Disposal Agreement

Conditions precedent to the Disposal Agreement

The completion of the Disposal Agreement is conditional upon, among other things, the completion of the Acquisition Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement taking place simultaneously. As such, the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement are inter-conditional on each other.

Disposal Consideration

As disclosed in the Letter from the Board, the aggregate consideration for the NARG Sale Shares, the GLG Sale Share and the Sale Loan is HK$600 million (the "**Disposal Consideration**"). The Disposal Consideration shall be settled by the application of the payment of an equivalent amount payable by Guang Cheng to City Bloom pursuant to the Acquisition Agreement to satisfy part of the consideration for the Acquisition, which will be authorised by City Bloom to be applied towards the payment of an equivalent amount payable by City Bloom to Mountain Sky pursuant to the Mountain Sky Agreement to satisfy the consideration of the Share Sale; and which sum, in turn, will be authorised by Mountain Sky to be applied towards the payment of the equivalent amount payable by Mountain Sky to the Company as the Disposal Consideration.

We have considered adopting the price-to-earnings approach and price-to-book approach in evaluation of the Disposal. Given the Disposal Group was loss-making for the year ended 31 December 2011, we consider comparable analysis with price-to-earnings approach is not applicable.

Price-to-book approach

Based on the unaudited net asset value of the Disposal Group of approximately HK$239.3 million and the Sale Loan of approximately HK$328.1 million as at 31 December 2011, the adjusted net asset value of the Disposal Group will be approximately HK$567.4 million as at 31 December 2011 (the "**Derived NAV**"). Accordingly, Disposal Consideration represents 1.06 times (the "**PBR**") of the Derived NAV.

In order to assess the fairness and reasonableness of the PBR, we have identified suitable comparable companies (the "**Industry Comparables**") being listed companies on the Stock Exchange (on Growth Enterprise Market or Main Board of the Stock Exchange) engaging in businesses similar to the Disposal Group including, but not limited to, (i) the iron mining business or (ii) the coal trading and logistics businesses. To the best of our knowledge, we have identified 6 Industry Comparables in the iron mining business and 3 Industry Comparables in the coal trading and logistic business through Bloomberg. The PBRs are based on their respective market capitalizations as at 12 June 2012, being the date of the Disposal Agreement, and the net asset value as set out in their latest annual/interim/quarterly reports published before 12 June 2012. In view that (i) the Industry Comparables are engaged in similar business of either one of the NARG Group and the GLG Group which constitute the Disposal Group; (ii) the PBRs of the Industry Comparables are determined with reference to the date of the Disposal Agreement; and (iii) notwithstanding the Industry Comparables may vary in terms of profitability, the analyses on PBR mainly focus on the book values of the Industry Comparables, we consider the Industry Comparables are fair and representative samples. Independent Shareholders should note that the stated PBRs of the respective companies could be sensitive to, amongst other things, each of their particular businesses, financial position and market price performance of the shares of the respective companies and therefore, the PBRs of the Industry Comparables listed below are for information and reference purposes only.

Industry Comparables (Stock code)	**Principal business**	**Market capitalization** *(Note 1)* *(HK$ million)*	**Net asset value** *(Note 2)* *(HK$ million)*	**PBR** *(Note 3)* *(times)*
Iron mining business				
Vale S.A (6210)	Research, production and marketing of iron ore and pellets, nickel, fertilizer, copper, coal, manganses, ferroalloys, cobalt, platinum group metals and precious metals, and operation of energy, logistics and steel	37,253	657,462	0.06
China Hanking Holdings Ltd. (3788)	Iron ore mining and production and sale of iron ore concentrates.	4,484	1,389	3.23
China Vanadium Titano-Magnetite Mining Co. Ltd. (893)	Mining, ore processing, iron pelletising and sale of iron concentrates, iron pellets and titanium concentrates.	2,407	3,962	0.61
IRC Ltd. (1029)	Production and development of industrial commodities products including iron ore that are used in industry across the world.	2,858	6,342	0.45
Newton Resources Ltd. (1231)	Owning and operation of iron ore mine.	1,580	1,398	1.13

Industry Comparables (Stock code)	Principal business	Market capitalization (Note 1) (HK$ million)	Net asset value (Note 2) (HK$ million)	PBR (Note 3) (times)
China Zhongsheng Resources Holdings Ltd. (2623)	Iron and ilmenite ore exploration, iron ore mining and iron ore processing to produce iron concentrates.	887	539	1.65
Maximum				**3.23**
Minimum				**0.06**
Average				**1.19**
Coal trading and logistics business				
Winsway Coking Coal Holdings Ltd. (1733)	Supply of imported coking coal into China, provide services through integrated platform, comprising logistics parks, coal processing plants, and road and railway transportation capabilities.	4,830	7,273	0.66
Ming Kei Holdings Ltd. (8239)	Coal trading, general trading, and property investment.	107	113	0.95
China Qinfa Group Ltd. (866)	Coal operation business involving purchase and sales, filtering, storage, blending, shipping and transportation of coal.	2,386	1,456	1.64
Maximum				**1.64**
Minimum				**0.66**
Average				**1.08**
The Disposal Group	**(i) Iron mining business** **(ii) Coal trading and logistics business**	**600**	**567.4**	**1.06**

Source: website of the Stock Exchange (www.hkex.com.hk) and Bloomberg

Notes:

1. Market capitalization as at 12 June 2012, being the date of the Disposal Agreement

2. The net asset value set out in the latest annual/interim reports of the Industry Comparables published prior to 12 June 2012

3. Based on market capitalization as at the date of the Disposal Agreement and the latest net asset value prior to the date of the Disposal Agreement

As illustrated in the above table, the PBR based on the Derived NAV, being approximately 1.06 times, falls within the range of the PBRs of the Industry Comparables in iron mining business from approximately 0.06 times to approximately 3.23 times, as well as in coal trading and logistics businesses from approximately 0.66 times to approximately 1.64 times.

Valuation approach

Given GLG Group recorded net liabilities of HK$1.13 million as at 30 September 2012 and as advised by the Company, the coal trading and logistics businesses were still at an early stage as at the Latest Practicable Date and would also require significant working capital to succeed, we therefore consider focusing on the NARG Group Valuation (as defined below) to assess the fairness and reasonableness of the Disposal Group Consideration.

Based on the draft valuation report of the NARG Group (the "**NARG Group Valuation Report**") in respect of equity interest of approximately HK$566 million ("**NARG Group Valuation**") as at 30 September 2012 prepared by Greater China using the income approach and the market approach, the Disposal Consideration represents a premium of approximately 6.01% over the aforesaid valuation. The Directors considered that the aforesaid valuation reflected the economic substance of the underlying assets with reference to, among other things, the future production schedule, production capacity, the amount of reserve and resources, the capital expenditure to be incurred and the recent market price of iron and cost of production.

To evaluate the validity of the NARG Group Valuation, we have (i) reviewed the NARG Group Valuation Report; (ii) interviewed and discussed with Greater China regarding the methodology adopted and basis and assumptions used for the NARG Group Valuation and noted that Greater China has discussed with SRK Consulting China Limited ("**SRK**") relating to its methodologies and reporting standards used for the technical assessment report ("**Technical Report**") and Greater China has confirmed that it is satisfied with such methodologies and reporting standards which are in accordance with the JORC Code and VALMIN Code, being the internationally recognised standards relating to the reporting of mineral reserve. Meanwhile, we have also obtained and reviewed the copies of the certificates of the relevant qualifications of each of Greater China and SRK.

Accordingly, we are of the view that the NARG Valuation has been reasonably prepared and are normal in nature without any unusual assumption and the basis thereof is fair and reasonable.

Valuation methodology

According to the NARG Group Valuation Report and our discussion with Greater China, we understand that Greater China has considered three common approaches, namely (i) the cost approach; (ii) the market approach; and (iii) the income approach, for the NARG Group Valuation.

Pursuant to the NARG Group Valuation Report, taking into account that (i) the amounts of exploration expenditure incurred/to be incurred do not truly reflect the value of the Iron Mine; (ii) the cost approach does not address technical or economic aspects of the prospects of the commodity market and financial market, economic conditions or country risk and (iii) the value of the Iron Mine shall be determined by the amount of reserves/ resources in mine deposits from which economic benefits can be derived, rather than the expenditure spent on the exploration, Greater China considers that, the cost approach is not appropriate for the NARG Group Valuation.

Given that the economic benefits streams of the Iron Mine can be identified and ascertained based on the production schedule and planned capital expenditure to be incurred provided by the management of the Disposal Group, as well as other cost estimates as detailed in the Technical Report, Greater China considers that the income approach to be an appropriate valuation approach adopted for the NARG Group Valuation to assess the profitability of the Iron Mine and based on the discounted cash flow method to calculate the net present value of the Iron Mine. For assumption of the appropriate discount rate, Greater China considers the cost of equity of the MCAPM to be an appropriate model for the estimation of the cost of capital of the Iron Mine with reference to certain publicly listed mining companies in Hong Kong and Australia engaged in similar businesses.

According to Greater China, the comparable transaction method under market approach is considered as another appropriate method to reflect fair market value of the Iron Mine since it can provide additional information to investors about the value of the Iron Mine and hence indicated whether the offer of selling the Iron Mine is reasonable when compared with other similar transactions. Taking into account the significant fluctuation in the iron ore price, Greater China has developed two scenarios based on different market price assumptions and come up with a valuation range.

Taking into account that (i) the rationale of Greater China to adopt the discounted cash flow method under income approach and the comparable transaction method under market approach as the valuation methodologies; (ii) the basis and assumptions in arriving at the NARG Group Valuation using the aforesaid methodologies; (iii) the work profile of Greater China and SRK in which we are satisfied with their qualifications and experience, we consider that, the methodologies and basis and assumptions adopted for the NARG Group Valuation are fair and reasonable.

Having taken into account that (1) the Disposal Consideration represents a premium over the NARG Group Valuation evaluated by Greater China and (2) the PBR based on the Derived NAV falls within the range of the PBRs of the Industry Comparables, we concur with the Directors that the Disposal Consideration is fair and reasonable so far as the interests of the Company and the Shareholders are concerned.

IV. Recommendation in relation to the Disposal

Taking into consideration of the above mentioned principal factors and reasons in relation to the Disposal, in particular:

(i) the issues and uncertainties surrounding the Disposal Group;

(ii) the persistent loss-making of the Disposal Group;

(iii) the improved financial position of the Group after the completion of the Disposal;

(iv) more effective use of resources of the Group;

(v) the PBR based on the Derived NAV falls within the range of the PBRs of the Industry Comparables; and

(vi) the Disposal Consideration represents a premium over the NARG Group Valuation as at 30 September 2012,

we concur with the Directors that the terms of the Disposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Disposal were entered into upon normal commercial terms. We recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolution to be proposed at the SGM to approve the Disposal.

THE SUBSCRIPTION AND PROPOSED ALTERATION

In assessing the Subscription and the Proposed Alteration, we have taken into account the following principal factors and reasons:

I. The background of the Subscription and Proposed Alteration

By a subscription agreement dated 8 September 2010 (the "**2010 Subscription Agreement**") (as amended and supplemented by a supplemental letter dated 21 September 2010 and further amended by two supplemental agreements dated 29 October 2010 and 6 January 2012 (collectively the "**Convertible Bond Subscription Agreement**"), respectively) entered into between the Company and Business Ally, the Company agreed to issue, and Business Ally agreed to subscribe, on and subject to the terms and conditions set out in the 2010 Subscription Agreement, for up to US$33,000,000 in two tranches in the aggregate principal amount of 8% interest rate per annum, convertible into fully paid ordinary shares of

HK$0.01 each in the capital of the Company. Business Ally has completed the subscription of US$30M Convertible Bonds on 14 September 2010 and has elected not to subscribe for the US$3,000,000 convertible bonds under the 2010 Subscription Agreement.

The Company and Business Ally further entered into a second supplemental agreement dated 6 January 2012 (the "**Second Supplemental Agreement**"), to amend certain terms of the US$30M Convertible Bonds. The proposed alteration of the terms of the US$30M Convertible Bonds has been approved by the Shareholders at the SGM held on 23 February 2012.

Pursuant to the Second Supplemental Agreement, Mountain Sky has charged, in favor of Business Ally, (i) the 986,054,490 CPS registered under its name; and (ii) all Shares registered its name (i.e. the 155,350,000 Shares) (collectively referred to as the "**Additional Charges**"), in addition to the 514,932,886 CPS, which were charged by Mountain Sky in favor of Business Ally (i.e. the 155,350,000 Shares and 1,500,987,376 CPS in aggregate (the "**Mountain Sky Charges**")), and entire issued share capital of Green Paradise Enterprises Ltd., which were charged by NARG in favor of Business Ally (the "**NARG Charges**"), under the original terms of the US$30M Convertible Bonds.

As set out in the Letter from the Board, the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement are inter-conditional on each other and their respective completions shall take place simultaneously.

As at the Latest Practicable Date, the outstanding principal amount of the US$30M Convertible Bonds including accrued interest is approximately US$31.55 million (equivalent to approximately HK$244.48 million), which is to be settled by the Group by entering into (1) the Subscription Agreement, and (2) the Third Supplemental Agreement

Pursuant to the Subscription Agreement, the consideration for the Subscription shall be satisfied by setting off against the aggregate of a) US$15,000,000 principal amount of the Set-off Convertible Bonds, and b) US$4,906,138, being the Additional Interest. For illustration purpose only, the maximum number of Subscription Ordinary Shares and Subscription CPS to be issued is 907,485,687 which is calculated by dividing the sum of US$15 million (equivalent to approximately HK$116.3 million) and US$4,906,138 (equivalent to approximately HK$38,022,567) being the Additional Interest assuming the Completion Date is on 30 June 2013, by the issue price of HK$0.17 per Subscription Ordinary Share and Subscription CPS, subject to the adjustment such that upon Completion, Business Ally and any party acting in concert with it shall hold less than 20% shareholding in the total issued ordinary share capital of the Company upon Completion. Pursuant to the

Third Supplemental Agreement, the Company and Business Ally agreed to alter the terms of the Remaining US$15M Convertible Bonds as set out under the section "**The Proposed Alteration**" in the Letter from the Board.

The Board believes that the Subscription and the Proposed Alteration will enable the Group to reduce its liabilities and the potential cash outflow which would otherwise be required for the repayment of the US$30M Convertible Bonds at maturity on 13 December 2012 (the "**US$30M CB Maturity Date**"), as well as strengthen its capital base.

II. Reasons for the Subscription and Proposed Alteration

The recent financial position and financial performance of the Group

We noted that, with reference to the circular made by the Company dated 7 February 2012 in relation to the Second Supplemental Agreement, each bondholder will have the right (at its sole discretion), inter alia, to require the Company to redeem in full (or in part) the US$30M Convertible Bonds with respect to certain events relating to acquisition and/or disposal of major assets under the terms of the Convertible Bond Subscription Agreement ("**Major Assets Acquisition and/or Disposition**"). We noted that the Acquisition and/or Disposal constitute as events under the Major Assets Acquisition and/or Disposition.

As disclosed in IR2012, the Group's unaudited bank balances and cash stood at approximately HK$33.0 million as at 30 June 2012, which implies the Group faces a shortfall of approximately HK$199.5 million to meet the payment obligation of US$30 million (equivalent to approximately HK$232.5 million) should Business Ally opts for redemption of the US$30 million Convertible Bonds. In addition, the Group has recorded net cash outflow in operating activities of approximately HK$73.0 million and approximately HK$70.2 million for the year ended 31 December 2010 and for the year ended 31 December 2011 respectively. Also, the Group has recorded a net loss attributable to the owners of the Company of approximately HK$865.4 million for the year ended 31 December 2011. We consider it to be difficult for the Group to meet the payment obligation from its internal resources when it falls due on the US$30M CB Maturity Date.

Apart from considering the Group's ability in meeting the payment obligation from its internal resources, we have also considered the Group's ability in raising funds from (i) banks, or (ii) capital market, when we consider whether it is commercially justifiable for the Group to enter into the Subscription Agreement and the Third Supplemental Agreement.

Other financing alternatives

Bank financing

In addition to the abovementioned, the Group has also recorded net current liabilities of approximately HK$227.6 million as at 30 June 2012, which the Directors consider may indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. In the case of the Lexing Group, we noted from the financial information about the Lexing Group in Appendix II that its bank balances and cash stood at approximately RMB25.2 million as at 30 September 2012. The Lexing Group has also recorded net current liabilities of approximately RMB1,011.0 million as at 30 September 2012. In addition, the Lexing Group has recorded a net loss attributable to the owners of the Lexing Group of approximately RMB$82.1 million for the nine-month period ended 30 September 2012.

Given their recent financial positions and financial performance, we consider that it will be difficult for the Group to obtain sufficient financings from banks prior to the US$30M CB Maturity Date.

Equity financing

We noted from the website of the Stock Exchange that from the end of August 2011 to the end of August 2012, the twelve months period immediately prior to the period of which the relevant parties entered into the Subscription Agreement and the Third Supplemental Agreement, the average daily turnover has decreased from approximately HK$73.5 billion to approximately HK$53.2 billion, a decrease of approximately 27.6%. We further noted that the total fund raised (including IPOs) on Stock Exchange during such period have decreased from approximately HK$350.1 billion to approximately HK$186.4 billion, a decrease of approximately 46.8%. We consider such market sentiment during the period to be unfavorable for the Group to undertake refinancing at the capital market of the US$30M Convertible Bonds, a size approximately 60% of the market capitalization of the Group as at the Latest Practicable Date. We consider that the Group is therefore more likely to obtain sufficient refinancing before the US$30M CB Maturity Date from existing stakeholders who are more likely to have better assessment on the business and financial fundamentals of the Group

Share charges over (a) the 155,350,000 Shares and 1,500,987,376 CPS held by Mountain Sky and (b) the entire issued share capital of Green Paradise Enterprises Ltd. held by NARG, in favor of Business Ally

As mentioned under the paragraph headed "the background of the Subscription and the Proposed Alteration", in order to facilitate the completion of the Mountain Sky Agreement and Disposal Agreement, each being one of the conditions precedent to the completion of the Transactions, Business Ally is required to give a release in full the charges on the Mountain Sky Charges and NARG Charges and confirm that entering into the Transactions will not constitute any breach of the terms of the US$30M Convertible Bonds.

By entering into the Subscription Agreement together with the Third Supplemental Agreement, Business Ally has given its consent to the entering into of the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties and has further confirmed that the entering into the aforesaid agreements and the transactions contemplated thereunder will not constitute any breach of the terms of the US$30M Convertible Bonds.

Taking into account of (i) the recent financial position and financial performance of the Group; (ii) other financing alternatives, (iii) the unconditional consent given by Business Ally for the entering into the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties; and (iv) the release of the charge the Mountain Sky Charges and NARG Charges, we view that it is commercially justifiable for the Group to enter into the Subscription and the Proposed Alteration.

III. Principal terms of the Subscription Agreement and the Third Supplemental Agreement

Principal terms of the Subscription Agreement and our analysis are set out below:

Additional Interest

As set out under the section "the Subscription" in the Letter from the Board, the Additional Interest is referred to the difference between (i) an amount that would yield the IRR at the rate of 18% calculated on the Set-Off Convertible Bonds from the issue date of the US$30M Convertible Bonds up to and including the date of completion of the Subscription (such amount shall take into account of any interest (other than default interest) previously paid with respect to the Set-Off Convertible

Bonds), and (ii) interest on the Set-Off Convertible Bonds accrued from the date of the last interest payment (i.e. 14 March 2012) up to and including the date of completion of the Subscription at the rate of 8% per annum. Assuming the Completion Date is on 30 June 2013, the Additional Interest amounts to approximately US$4,906,138.

We noted that pursuant to the Second Supplemental Agreement, in the event of any redemption of the US$30M Convertible Bonds by the bondholder prior to the maturity date as a result of redemption as a result of Major Assets Acquisition and/or Disposition as defined in the Second Supplemental Agreement (the "**Early Redemption**"), interest (which shall include all interest previously paid to the bondholder) shall be calculated at the rate of 18% per annum on the outstanding principal amount of the US$30M Convertible Bonds from the issue date up to the date of actual redemption. As stated on the notice of the special general meeting dated 23 February 2012, the ordinary resolution to approve, confirm and ratify the Supplemental Agreement Second Supplemental Agreement have been duly passed.

We noted that the Acquisition and Disposal constitute as event under the Major Assets Acquisition and/or Disposition as defined in the Second Supplemental Agreement and Business Ally is entitled to request for the Early Redemption. As set out in the Letter from the Broad, Business Ally has not requested for the Early Redemption.

We also noted that with reference to the announcement made by the Company dated 8 September 2010 in relation to the issuance of the US$30M Convertible Bonds, the Company shall redeem all outstanding Convertible Bonds at maturity at the gross yield to maturity of 18% per annum, calculated on the outstanding principal amount of the Convertible Bonds for the period from the date of issue of the US$30M Convertible Bonds. As a result, we view that had the Company not entered into the Transactions, the Company would still have been obligated to redeem all outstanding Convertible Bonds at maturity at the gross yield to maturity on 13 December 2012 of 18% per annum as stated under the terms and conditions of the US$30M Convertible Bonds.

Given that (a) the Company would still have been obligated to redeem all outstanding Convertible Bonds at maturity at the gross yield to maturity of 18% per annum as stated under the terms and conditions of the US$30M Convertible Bonds had the Company not entered into the Transactions, (b) the Additional Interests of approximately US$4,906,138 is to be satisfied by the Company by way of Subscription Ordinary Shares and/or Subscription CPS at issue price of HK$0.17 and therefore the arrangement will reduce the potential cash outflow of the Company, we view that the entering into the Subscription Agreement is in the interest of the Company and its Shareholders in respect of the Additional Interest.

Issue Price

Pursuant to the Subscription Agreement, the number of Subscription Ordinary Shares and Subscription CPS is to be issued at issue price of HK$0.17 per Subscription Ordinary Share and Subscription CPS (the "**Subscription Price**"), equivalent to the issue price of the Consideration Share.

The Subscription Price was determined after arm's length negotiations between the Company and Business Ally which represents:

(i) a discount of approximately 39.3% to the closing price of HK$0.28 per Share as quoted in the daily quotation sheets of the Stock Exchange on the Last Trading Date ("**last trading day benchmark**");

(ii) a discount of approximately 50.0% to the closing price of HK$0.340 per Share as quoted in the daily quotation sheets of the Stock Exchange on the Latest Practicable Date;

(iii) a discount of approximately 37.0% to the average of the closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Date of HK$0.27 per Share;

(iv) a discount of approximately 35.1% to the average of the closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date of approximately HK$0.262 per Share;

(v) a discount of approximately 35.8% to the average of the closing price of the Share as quoted in the daily quotation sheets of the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date of approximately HK$0.265 per Share;

(vi) a discount of approximately 46.7% to the net assets value attributable to equity holders of the Company of approximately HK$0.319 per Share as at 31 December 2011 based on the audited financial statement of the Group for the year ended 31 December 2011; and

(vii) a discount of approximately 36.3% to the net assets value attributable to equity holders of the Company of approximately HK$0.267 per Share as at 30 June 2012 based on the unaudited financial statements of the Group for the six months ended 30 June 2012.

When considering the fairness and reasonableness of the Subscription Price, we have taken into account (i) the historical Share price performance, (ii) the historical trading liquidity of the Shares. We have also compared (a) last trading price benchmark, (b) net asset value of the Company with that of Very Substantial Acquisitions that involves issue of new shares or convertible securities.

Historical Share price performance

When comparing and analysing the Subscription Price relative to the historical Share price performance, we have analysed the monthly highest and lowest closing prices and the monthly average daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 1 June 2011 up to and including the Last Trading Date (the "**Historical Review Period**") with 12 full calendar months, which are shown as follows:

	Highest closing price *HK$*	Lowest closing price *HK$*	Average daily closing price *HK$*	Number of trading days in each month
2011				
June	0.90	0.65	0.76	21
July	0.81	0.69	0.75	20
August	0.75	0.46	0.55	23
September	0.58	0.48	0.50	20
October	0.49	0.40	0.45	20
November	0.44	0.21	0.36	22
December	0.26	0.20	0.23	20
2012				
January	0.26	0.21	0.23	18
February	0.36	0.26	0.32	21
March	0.40	0.33	0.35	22
April	0.35	0.29	0.32	18
May	0.31	0.24	0.27	22
June (up to 12 June 2012)	0.28	0.25	0.27	8

Source: Bloomberg

During the Historical Review Period, the average daily closing price of the Shares ranged from HK$0.23 to HK$0.76 per Share in each month and followed a general downward moving trend since June 2011 up to the Last Trading Date. We noted that the Share price had generally been decreasing from the closing highest of HK$0.90 on 23 and 24 June 2011 to the closing lowest of HK$0.20 on 2 December 2011 during the Historical Review Period.

Historical trading liquidity of the Shares

With reference to the subparagraph headed "Analysis of trading volume of the Shares" under the Acquisition section of this letter, the average daily trading volume of the Shares per month was thin during the Share Price Review Period. The average daily trading volume of the Shares was on or below 0.35% of the then total number of issued Shares. As such, we view that the Shares were illiquid in the open market.

Comparison with other Very Substantial Acquisitions that involves issue of new shares or convertible securities

We have identified suitable comparable companies being listed companies on the Stock Exchange which have made announcements for making Very Substantial Acquisitions as defined under the Listing Rules, by issuing new shares or convertible securities in the recent six months period up to 6 September 2012, the date of entering into the Subscription Agreement and the Third Supplemental Agreement among the relevant parties (the "**Subscription Review Period**"). We consider the Subscription Review Period to be reasonable and meaningful for identifying transactions with terms and conditions comparable to those of the Transactions because the Subscription Review Period represents relatively comparable market conditions and sentiments as that around the time of the Transactions. To the best of our knowledge, we have identified by searching through published information on the Stock Exchange's website a total of 10 comparables (the "**Subscription Comparables**") which involves the issuance of new shares or convertible securities in Very Substantial Acquisitions in the market. We consider the Subscription Comparables to be fair and representative samples, and are meaningful and exhaustive under the Subscription Review Period.

Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Subscription Comparables and we have not conducted any in-depth investigation into the businesses, operations and prospects of the Subscription Comparables. The Subscription Comparables are therefore used to provide a general reference for the common market practice of companies listed on the Stock Exchange entered into Very Substantial Acquisitions during the Subscription Review Period, which involved the issue of shares or convertible securities. Our analysis is summarized in the table below:

Comparable (stock code)	Date of Announcements	Issue Price	Premium/(discount) of issue price over(to) closing price on the last trading day prior to the release of announcement (%)	Premium/ (discount) over(to) NAV per share (%)	Adjustment to conversion price upon subsequent issuance of securities or convertible securities at a price below the original conversion price
EC-Founder (Holdings) Co. Ltd. (618)	6/9/2012	0.43	0.00%	58.09%	No
China Chengtong Development Group Ltd. (217)	21/8/2012	0.308	(6.67%)	(23.52%)	No
Epicurean and Co., Ltd. (8213)	28/6/2012	0.08	21.21%	227.00%	Yes
China Pharmaceutical Group Ltd. (1093)	26/6/2012	2.15	4.88%	(44.30%)	Yes
Waytung Global Group Ltd. (21) *(Note 1)*	14/6/2012	0.2	11.11%	(18.63%)	No
Media China Corporation Ltd. (419)	25/5/2012	0.1	8.70%	(61.59%)	Yes
Enerchina Holdings Ltd. (622)	28/5/2012	0.1	13.64%	(79.69%)	Yes
Sinocop Resources (Holdings) Ltd. (476)	29/3/2012	0.75	(3.85%)	571.16%	No
China Data Broadcasting Holdings Ltd. (8016)	23/4/2012	1	(42.53%)	614.29%	No
Mobile Telecom Network (Holdings) Ltd. (8266)	16/3/2012	0.25	0.00%	165.56%	Yes
North Asia Resources Holdings Limited (61)	**12/6/2012**	**0.17**	**(39.30%)**	**(36.30%)**	
Max			**21.21%**	**614.29%**	
Min			**(42.53%)**	**(79.69%)**	
Mean			**0.65%**	**140.84%**	
Median			**2.44%**	**19.73%**	

Note 1: Assuming that the capital reorganisation is completed

Source: the Stock Exchange's website

(a) Discount of Subscription Price to the last trading day benchmark, compared to those of the Subscription Comparables

During the Subscription Review Period, we noted that the range of premium and discount of the issue price of the Subscription Comparables to the last trading day benchmark is between 21.21% premium and 42.53% discount, with mean and median of 0.65% premium and 2.44% premium respectively.

In the case of the Company, we noted that the discount of the issue price of the Subscription Comparables to the last trading day benchmark is 39.30% discount, falling within the relevant range of the Subscription Comparables.

(b) Discount of Subscription Price to net asset value, compared to those of the Subscription Comparables

Based on the table above, we noted that the range of premium and discount of the issue price to the consolidated net asset value per share of the Subscription Comparables is between 614.29% premium and 79.69% discount, with mean and median of 140.84% premium and 19.73% premium respectively.

In the case of the Company, we noted that the Subscription Price represents a 36.3% discount to the consolidated net asset value per share of the Company as at 30 June 2012, falling within the relevant range of the Subscription Comparables.

In view of (i) the general downward moving trend of the market price of the Shares during the Historical Review Period; (ii) the illiquid trading of the Shares in the open market during the Historical Review Period; (iii) the discount of Subscription Price to the last trading day benchmark and net asset value attributable falling within the range to that of the Subscription Comparables, we concur with the Directors that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Principal terms of the Remaining US$15M Convertible Bonds as altered under the Third Supplemental Agreement and our analysis are set out below:

We have compared the principal terms under the Third Supplemental Agreement with the principal terms of the US$30M Convertible Bonds and noted that the terms and conditions of the Third Supplemental Agreement are in essence consistent with or more favorable to the corresponding terms and conditions of the US$30M Convertible Bonds. We have included our analysis on the terms of the Third Supplemental Agreement that warrant our special discussions as follows:

Principal Amount

Existing terms	**Amended Terms**
US$30 million	US$15 million (being the principal amount of the Remaining US$15M Convertible Bonds after completion of the Subscription Agreement)

The US$30M Convertible Bonds is to be settled by the Group by entering into the Subscription Agreement and the Third Supplemental Agreement, which together consists of, among others, the Set-off Convertible Bonds and the Remaining US$15M Convertible Bonds.

Pursuant to the Subscription Agreement, a principal sum of US$15,000,000 of the Set-off Convertible Bonds is to be set off for settlement of part of the consideration for the Subscription. Accordingly, the principal amount of the US$30M Convertible Bonds is to be amended from US$30 million to US$15 million under the Third Supplemental Agreement.

Maturity

Existing terms	**Amended Terms**
13 December 2012	The Third Anniversary of the date of completion of the Third Supplemental Agreement

Pursuant to the Second Supplemental Agreement, the maturity date for the US$30M Convertible Bonds is 13 December 2012. Upon completion of the Third Supplemental Agreement, the maturity date for the Remaining US$15M Convertible Bonds will be extended to the date falling on the third anniversary of the completion date of the Third Supplemental Agreement.

As aforementioned above, given the Group's recent financial positions and financial performances, we view that the extension will reduce the potential cash outflow in December 2012 which was the original maturity date for the US$30M Convertible Bonds.

Interest

Existing terms	**Amended Terms**
8.0% per annum on the outstanding aggregate principal amount of the Convertible Bonds, payable annually commencing from the Issue Date up to (and including) the Maturity Date. All accrued interest shall be payable in the event of redemption or conversion	The Remaining US$15M Convertible Bonds bear interest from and including the issue date and up to (i) the maturity date; (ii) the date on which redemption is completed pursuant to the conditions of the Remaining US$15M Convertible Bonds; or (iii) the date of actual receipt by the holder(s) of the Remaining US$15M Convertible Bonds of the share certificate(s) of the Shares to be allotted and issued upon exercise of the conversion rights attaching to the Remaining US$15M Convertible Bonds, whichever is the earliest, at the interest rate of 8.0% per annum.

Pursuant to the existing terms of the US$30M Convertible Bonds, the Company is obligated for interest of 8% per annum. Pursuant to the Third Supplemental Agreement the Company is obligated for interest of 8% per annum during the period specified therein. Accordingly, we view that the existing term of the US$30M Convertible Bonds is in essence consistent with amended terms of the US$30M Convertible Bonds.

Conversion Price

Existing terms	Amended Terms
HK$0.27 per conversion share	The conversion price is HK$0.27 per Share (subject to adjustment) which is determined after arm's length negotiations between the Company, City Bloom and Business Ally and is equivalent to the existing conversion price of the US$30M Convertible Bonds.

Pursuant to the existing terms of the US$30M Convertible Bonds, the conversion price of the US$30M Convertible Bonds is HK$0.27, where the adjustment of the conversion price taking effect in accordance with the announcement made by the Company dated 3 January 2012. Pursuant to the Third Supplemental Agreement, the conversion price of the Remaining US$15M Convertible Bonds remains at HK$0.27 per Share.

Adjustment to conversion price

Existing terms	Amended Terms
This is a new condition	In the event that the Company issue and/or allot shares and any other convertible or exchangeable securities at an issue or conversion price ("**Subsequent Issue/Conversion Price**"), or otherwise grant any right or option to any person entitling to subscribe for any shares in the capital of the Company at a price ("**Subsequent Subscription Price**"), below the Conversion Price of the Remaining US$15M Convertible Bonds, the Bondholder shall have the right to adjust the Conversion Price to be equivalent to the Subsequent Issue/Conversion Price or the Subsequent Subscription Price.

There is no such condition under the existing terms of the US$30M Convertible Bonds. Pursuant to the Third Supplemental Agreement, in the event that the Company issue shares and any other convertible securities at Subsequent Issue/Conversion Price, or otherwise grant any right entitling to subscribe for any shares of the Company at Subsequent Subscription Price, which are below the conversion price of the Remaining US$15M Convertible Bonds, the Bondholder shall have the right to adjust the conversion price of the Remaining US$15M Convertible Bonds to be equivalent to the Subsequent Issue/Conversion Price or the Subsequent Subscription Price.

From the Subscription Comparables, we noted that it is not unusual for the conversion price of a convertible securities to be subject to adjustment as a result of subsequent issuance of securities or convertible securities at a price below the original conversion price. As such, we consider that adjustment to conversion price is a customary term for convertible securities in a fair and commercial market based on arm's length negotiations to ensure that the holder(s) of the relevant convertible securities is/are not worse off and thus is on normal commercial terms.

Conversion

Existing terms	**Amended Terms**
This is a new condition	The conversion of any part of the outstanding US$15M Convertible Bonds shall not cause, following such conversion, (1) the relevant holder and parties acting in concert with it as defined under the Takeovers Code will directly or indirectly control 20% or more of the entire issued Shares; or (2) the public float of the ordinary shares in the share capital falls below the minimum public float requirements stipulated under the Listing Rules.

There is no such condition under the existing terms of the US$30M Convertible Bonds. Pursuant to the Third Supplemental Agreement, the conversion of any part of the outstanding US$15M Convertible Bonds shall not cause, following such conversion, (1) the relevant holder and parties acting in concert with it will control 20% or more of the entire issued Shares; or (2) the public float of the ordinary shares in the share capital falls below the minimum public float requirements stipulated under the Listing Rules. We consider the aforesaid amended term serves to protect the Company from non-compliance of the Takeovers Code and the Listing Rules by virtue of the conversion action of the holders of the Remaining US$15M Convertible Bonds. We therefore are of the opinion that the aforementioned amended term is beneficial to the Company.

Redemption right of the Company

Existing terms	**Amended Terms**
This is a new condition	The Company shall have the right at any time during the period commencing from the issue date and expiring on the maturity date to redeem the whole or part of the outstanding amount of the Remaining US$15M Convertible Bonds plus an amount that would yield an IRR of 15% on the outstanding principal amount of the Remaining US$15M Convertible Bonds from the issue date up to (and including) the date of actual redemption (for the avoidance of doubt, such IRR of 15% per annum shall include all interests (other than default interest) previously paid to the holder(s) of the Remaining US$15M Convertible Bonds.

There is no such condition under the existing terms of the US$30M Convertible Bonds. Pursuant to the Third Supplemental Agreement, the Company shall have the right before the maturity of the Remaining US$15M Convertible Bonds to redeem the outstanding amount of the Remaining US$15M Convertible Bonds at a rate that would yield an IRR of 15% of the outstanding principal amount of the Remaining US$15M Convertible Bonds. Accordingly, we consider that the redemption right provides the Company with an extra flexibility to redeem the outstanding Remaining US$15M Convertible Bonds.

Redemption upon material acquisition or disposal by the Company

Existing terms	Amended Terms
In the event (i) the Company acquires (directly or indirectly) any asset with value exceeding HK$100,000,000; or (2) the Company disposes (directly or indirectly) any assets which is not in the ordinary course of business, where the value of such assets exceeds HK$100,000,000 (together, the "**Major Assets Acquisition and/or Disposition**"), each bondholders will have the right to require to the Company to redeem in full the US$30M Convertible Bonds at interest (which shall include all interest previously paid to the Bondholder(s)) calculated at the rate of 18% per annum on the outstanding principal amount of the US$30M Convertible Bonds from the issue date up to the date of actual redemption.	*This condition is intentionally deleted*

Pursuant to the existing terms of the US$30M Convertible Bonds, in the event of the Major Assets Acquisition and/or Disposition, the Company is required to redeem in the full the US$30M Convertible Bonds at interest calculated at the rate of 18% per annum on the outstanding principal amount. The condition is deleted under the Third Supplemental Agreement. Accordingly, we view that this provides the Company with flexibility to make acquisition or disposal in accordance with its business objectives at such time.

Event of default

With respect to the change of the circumstances that constitutes an event of default, we have reviewed and compared the existing terms under the US$30M Convertible Bonds with the amended terms under the Third Supplemental Agreement. We are of the view that majority of the existing terms under the US$30M Convertible Bonds is in essence similar to that of the amended terms under the Third Supplemental Agreement, except for the followings which we believe are materially different and therefore should be outlined for Shareholders:

Existing terms	Amended Terms
(1) For event of default relating to substantial sale of assets ("Substantial Sale")	
Substantial sale of assets which is (a) not in ordinary course of business; and (b) the value of which exceeds HK$30,000,000 unless prior consent was obtained from the holders of which the holders cannot unreasonably withheld such consents.	Substantial sale of assets which is (a) not in ordinary course of business; and (b) the value of which exceeds 20% of the total net asset value of the Company as shown in its latest consolidated audited accounts unless prior consent was obtained from the holders of which the holders cannot unreasonably withheld such consents.

(2) For event of default relating to the disposal of mines in Oyutt Oyoo ("Oyutt Oyoo Disposal")

Any disposal of the mines located in Oyut Ovoo held by the Company and its subsidiaries to any third parties, unless the parties otherwise agree in writing	*This condition is intentionally deleted*

(3) For event of default relating to subsequent issuance of convertible securities ("Subsequent Convertible Issuance")

(This is a new condition)	The Company issues any convertible securities subsequent to the date of completion of the Third Supplemental Agreement and the maturity date of such securities is earlier than 31st December 2015.

For Substantial Sale, pursuant to the existing terms of the US$30M Convertible Bonds, the Company is restricted from disposing any non-ordinary course of business whose value exceeds HK$30,000,000. Pursuant to the Third Supplemental Agreement, the Company is restricted from disposing any non-ordinary course of business whose value exceeds 20% of the total net asset value of the Company. According to Appendix IV of the Circular, upon the Completion, the Enlarged Group will have pro-forma net asset of approximately HK$4,954 million. We view that HK$30,000,000, the subject monetary benchmark under the existing terms of the US$30M Convertible Bonds, represents approximately 0.6% of the pro-forma total net asset value of the Enlarged Group. We view that this represents a relatively small percentage of the pro-forma total net asset value of the Company and therefore consider that it limits the Company to dispose non-ordinary course of business. Accordingly, we view that the amended term provides the Company with flexibility to dispose non-ordinary course of business in the future.

For Oyut Ovoo Disposal, since the mine located in Oyut Ovoo is one of the assets to be disposed under the Disposal, we view that deletion of this condition under the Third Supplemental Agreement facilitates the completion of the Disposal.

For Subsequent Convertible Issuance, there is no such condition under the existing terms of the US$30M Convertible Bonds. Pursuant to the Third Supplemental Agreement, the Company is in essence not allowed to issue any convertible securities whose maturity date is earlier than 31 December 2015.

We view that this condition would narrow further funding channels of the Company in respect of the issuance of convertible securities. In assessing such impact, we note that the number of Shares to be converted from all of the CPS and convertible bonds of the Company will be approximately 24,504 million Shares (the "**Unconverted Shares**") as at the Latest Practicable Date, being the difference between (a) total number of Shares issued immediately after the conversion of the CPS and convertible bonds of the Company of approximately 26,388 million Shares and (b) total number of Shares issued immediately after the completion of the Transactions and Share Sale of approximately 1,884 million Shares. The Unconverted Shares represents approximately 1,914.4% and 92.86% of the total number of issued Shares at the Latest Practicable Date and total number of Shares as enlarged by the conversion of the CPS and convertible bonds of the Company, respectively. Having considered that the convertible loan notes would potentially cause a relatively large dilution effect, we are of the view that the Company may have difficulty to conduct further fund raising exercise by issuing of any convertible securities in the future. Therefore, we doubt the issuance of convertible securities could be an effective way to conduct further fund-raising exercise for the Company. As such, we consider that this condition will have limited negative impact on funding channel of the Company.

Conclusion

On balance, in view of the above, we consider that the Third Supplemental Agreement is entered into upon normal commercial terms, is fair and reasonable so far as the Independent Shareholders are concerned.

Conditions precedent to the Subscription Agreement and the Third Supplemental Agreement:

We noted that the completion of the Subscription Agreement and the Third Supplemental Agreement is conditional upon the fulfillment of the conditions as set out in the Letter from the Board. We consider that the conditions precedent to the Subscription Agreement and Proposed Alteration are entered on normal commercial terms with the followings that warrant our special mentions:

The completion of the Transactions is conditional on multiple agreements taking place simultaneously

As set out in the Letter from the Board, the completion of the Subscription Agreement and Proposed Alteration is conditional upon, among other things, the completion of the Acquisition Agreement, the Subscription Agreement, the Third Supplemental Agreement and the Mountain Sky Agreement taking place simultaneously. As such, the Subscription Agreement and Proposed Alteration, the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement are inter-conditional on each other.

Deed of indemnification in connection with the Indemnified Claims

It is one of the conditions precedent to the Subscription Agreement and Proposed Alteration that a deed of indemnification in connection with the Indemnified Claims entered into between Ultra Asset as the indemnifying party and Business Ally is being executed and delivered by Ultra Asset to Business Ally. As at the Latest Practicable Date, the deeds of indemnification were entered into by respective parties which have been duly executed and delivered. In other words, this condition is fulfilled as at the Latest Practicable Date.

Other factors considered

Aside from the above, we have also considered other factors that may have impact on the Shareholders' interest as a whole. We noted that both the issue price per Subscription Ordinary Share and the conversion price per Subscription CPS of HK$0.17 are lower than the conversion price of HK$0.27 of the US$30M Convertible Bonds. For the principal amount of the Set-off Convertible Bonds of US$15,000,000, the Company is required to issue a maximum of an extra approximately 253,267,974 Shares (the "**Extra Shares**"), being the difference between i) approximately a total of 683,823,529 Subscription Ordinary Shares and shares upon conversion of Subscription CPS which is calculated by dividing US$15 million by the issue price of

HK$0.17 per Subscription Ordinary Share and Subscription CPS and ii) approximately 430,555,555 Shares which is calculated by dividing US$15 million by the conversion price of HK$0.27. As a result, at the Subscription Price, the Extra Shares amounts to approximately HK$43 million (the "**Impact**").

Recommendation in relation to the Subscription and the Proposed Alteration

Despite the Impact, having considered the principal factors and reasons, in particular:

(i) the recent financial positions and financial performance of the Group;

(ii) the unconditional consent given by Business Ally for the entering into the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties;

(iii) the release of the charge on the Shares and CPS currently held by Mountain Sky and the entire issued share capital of Green Paradise Enterprises Ltd. held by NARG the liquidity position of the Group as at 30 June 2012;

(iv) the reasonableness of the Subscription Price;

(v) the unaudited gain on disposal of the Disposed Group of approximately HK$83.5 million; and

(vi) the discount of the Acquisition resulting from the difference between the Acquisition Consideration of approximately HK$4,662 million and the Lexing Group Valuation of approximately HK$5,253.9 million,

on balance, we concur with the Directors that the terms and conditions of the Subscription Agreement and the Third Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We also consider that the Subscription Agreement and the Third Supplemental Agreement were entered into upon normal commercial terms.

IV. The Specific Mandate

In connection with the creation of the Subscription CPS and the issuance of the Subscription Ordinary Shares and the Conversion Shares (as converted from the Subscription CPS) under the Subscription Agreement, and the Consideration Shares and the Conversion Shares (as converted from the Consideration Bonds) under the Acquisition Agreement to be issued upon completion of the Transactions shall rank pari passu in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of Specific Mandate from the Independent Shareholders at the SGM to grant the Directors such authority.

As abovementioned, we noted that the pricing of the Subscription Ordinary Shares, the Conversion Shares as converted from the Subscription CPS, the Consideration Shares and the Conversion Shares as converted from the Consideration Bonds proposed to be issued under the Specific Mandate, which are all determined as HK$0.17 per Shares, to be fair and reasonable.

POTENTIAL DILUTION EFFECTS ON THE TRANSACTIONS

The table below sets forth, for illustrative purpose only, the effect of the Disposal, the Acquisition, the Subscription and the Share Sale on the shareholding structure of the Company immediately after Completion:

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Transactions and the Share Sale, and assuming Ultra Asset converts a portion of the CPS for 19,452,727 Shares and transfers in total 200 million Shares to Business Ally		Immediately after the conversion of all the CPS and convertible bonds of the Company (assuming completion of the Transactions)	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Mountain Sky	155,350,000	12.13	–	–	–	–
Ultra Asset	180,547,273	14.10	–	–	418,615,909 *(Note 2)*	1.59
Get Best Management Ltd.	142,045,453	11.10	142,045,453	7.54	227,272,725 *(Note 2)*	0.86
Business Ally	–	–	376,645,011 *(Note 3)*	19.99	1,538,041,242 *(Note 5)*	5.83
City Bloom	–	–	563,366,372 *(Note 4)*	29.90	23,402,193,942 *(Note 6)*	88.68
Directors and directors of the subsidiaries of the Group	12,370,820	0.97	12,370,820	0.66	12,370,820	0.05
Public	789,739,485	61.70	789,739,485	41.91	789,739,485	2.99
Total	1,280,053,031	100.00	1,884,167,141	100.00	26,388,234,123	100.00

Notes:

1. Assuming no conversion of the US$30M Convertible Bonds into Shares by Business Ally before Completion.

2. As at the Latest Practicable Date, Ultra Asset and Get Best Management Ltd. are holding 385,500,400 CPS and 75,000,000 CPS, respectively which are respectively convertible into 438,068,636 Shares and 85,227,272 Shares. Upon completion of the Transactions and the Share Sale, Ultra Asset will convert a portion of the CPS held by it to 19,452,727 Shares and transfer in total 200 million Shares to Business Ally.

3. Pursuant to the Subscription Agreement, the Subscription Ordinary Shares and Subscription CPS that shall be issued and allotted by the Company and subscribed by Business Ally upon Completion shall be subject to adjustment such that at Completion, Business Ally shall be issued and allotted such number of ordinary Shares that would give Business Ally and any parties acting in concert with it an aggregate interest just less than 20% shareholding in the total issued ordinary share capital of the Company.

4. Pursuant to the Acquisition Agreement, the number of Consideration Shares to be issued and allotted by the Company together with the Shares then held by City Bloom and any parties acting in concert with it shall be equivalent to 29.9% of the issued ordinary Shares at Completion.

5. For illustration purpose only, the figure represents the sum of (i) 200,000,000 Shares to be transferred to Business Ally by Ultra Asset; (ii) 907,485,687 Shares, being the maximum number of Subscription Ordinary Shares and Subscription CPS to be issued, which is calculated by dividing the sum of US$15 million (equivalent to approximately HK$116.3 million, being part of outstanding principal amount of the US$30M Convertible Bonds to be capitalised under the Subscription Agreement), and US$4,906,138 (equivalent to approximately HK$38,022,567, being the Additional Interest assuming the Completion Date is on 30 June 2013), by the issue price of HK$0.17 per Subscription Ordinary Share and Subscription CPS; and (iii) 430,555,555 Shares to be issued upon conversion of the Remaining US$15M Convertible Bonds at the conversion price of HK$0.27 per Share.

6. For illustration purpose only, the figure represents the sum of (i) 21,541,176,470 Shares, being the maximum Consideration Shares to be issued, which is calculated by dividing the remaining balance of the consideration of the Acquisition after deducting (a) the settlement of HK$600 million under the Mountain Sky Agreement; and (b) the cash payment or issue of the Promissory Note of HK$400 million, i.e. HK$3,662,000,000 by the issue price of HK$0.17 per Consideration Share, and assuming no Consideration Bond is issued; (ii) 155,350,000 Shares to be transferred under the Mountain Sky Agreement; and (iii) 1,705,667,472 Shares to be issued upon the conversion of the 1,500,987,376 CPS to be transferred under the Mountain Sky Agreement.

As illustrated in the table above, the existing aggregate shareholding of the public Shareholders will be decreased from approximately 61.70% as at the Latest Practicable Date to approximately 41.91% immediately after completion of the Transactions and the Share Sale, and assuming Ultra Asset converts a portion of the CPS for 19,452,727 Shares and transfers in total 200 million Shares to Business Ally, and further diluted to 2.99% (which such scenario is for illustrative purposes only) immediately after the conversion of all the CPS and convertible bonds of the Company (assuming completion of the Transactions).

FINANCIAL EFFECT

Given that the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement and the Third Supplemental Agreement and Mountain Sky Agreement are inter-conditional on each other, the financial effects of the Transactions on the Company have been considered together.

Immediately after the Completion, Lexing will be a wholly-owned subsidiary of the Group and its financial results will be consolidated into those of the Group, while the Disposal Group will cease to be subsidiaries of the Group and their respective results will be deconsolidated from those of the Group. The Group will not hold any shareholding interests in the Disposal Group upon completion of the Disposal.

Total assets

As at 30 June 2012, the unaudited total assets of the Group were approximately HK$682.7 million. Assuming Completion taken place on 30 June 2012, the unaudited pro forma total assets of the Enlarged Group as at 30 June 2012 would be approximately HK$16,393.9 million as set out in the Appendix IV to the Circular. The increase is attributable to the Acquisition which offset the impact resulted from the Disposal on the total assets value.

Net assets

As at 30 June 2012, the unaudited net assets of the Group were approximately HK$304.1 million. Assuming Completion taken place on 30 June 2012, the unaudited pro forma net assets of the Enlarged Group as at 30 June 2012 would be approximately HK$4,954.7 million as set out in the Appendix IV to the Circular. The increase is attributable to the Acquisition

Working Capital

As at 30 June 2012, the unaudited total bank balances and cash of the Group were approximately HK$33.0 million. Assuming Completion taken place on 30 June 2012, the unaudited pro forma bank balances and cash of the Enlarged Group as at 30 June 2012 would be approximately HK$56.6 million as set out in Appendix IV to the Circular.

Earnings

The Group recorded an audited loss attributable to Shareholders of approximately HK$865.4 million for the year ended 31 December 2011. The net loss (both before and after taxation) of the Lexing Group for the year ended 31 December 2011 amounted to approximately HK$263.6 million). Assuming Completion on 1 January 2011, the unaudited pro forma net loss of the Enlarged Group will be approximately HK$1,917.5 million as set out in the Appendix IV to the Circular.

Liabilities

As at 30 June 2012, the unaudited total liabilities of the Group were approximately HK$378.6 million. Assuming Completion taken place on 30 June 2012, the unaudited pro forma total liabilities of the Enlarged Group as at 30 June 2012 would be approximately HK$11,439.2 million as set out in Appendix IV to the Circular.

Our view

Shareholders should note that the aforementioned unaudited pro forma figures are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon Completion.

Notwithstanding the abovementioned increase in total liabilities and negative effect in earnings, having considered that (i) there have been various conditions that indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, given that (a) the maturity date of the US$30M Convertible Bonds is 13 December 2012; (b) the Group had net current liabilities of approximately HK$227,590,000 as at 30 June 2012; and (c) the Group incurred a loss attributable to owners of the Company of approximately HK$58,505,000 for the six months ended 30 June 2012; (ii) the unaudited pro forma net assets of the Enlarged Group as at 30 June 2012 is approximately HK$4,954.7 million assuming Completion taken place on 30 June 2012, representing an increase of approximately 1,529.3% as compared to approximately HK$304.1 million of the unaudited net assets of the Group as at 30 June 2012; and (iii) there are potential positive effects on the future revenue and earnings of the Group having regard to the future development potential of the Lexing Group, we consider that the potential financial effects of the Transactions on the Group is general acceptable and the Transactions are in the interest of the Company and the Shareholders as a whole.

Others

As advised by the Directors, they noted that the reporting accountants of the Lexing Group have issued an unqualified audit opinion in respect of the financial statements of the Lexing Group as contained in Appendix II to the Circular. As disclosed on page II-5 of the Accountants' Report of the Lexing Group, attention is drawn to the existence of a material uncertainty in relation to the Lexing Group's ability to continue as a going concern. Notwithstanding the net current liabilities position of the Lexing Group and the loss recorded since its incorporation, the directors of Lexing are satisfied that the Lexing Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as Shanxi Coal Transportation, a non-controlling shareholder of Shanxi Coal, has made advances amounting to approximately RMB1.4 billion as at 30 September 2012 and provided an additional unutilized loan facility to the Lexing Group and the internal funds to be generated from mining operations to meet the Lexing Group's future funding needs. In the event that the aforesaid finance is not available or there is any delay of the resume of mining operations, the Lexing Group would be unable to meet its obligations as and when they fall due in the foreseeable future. Taking into account the capital base of Shanxi Coal Transportation and the expected commencement of full commercial production of the Coal Mines in the second half of 2013, the Directors concur with the view of the directors of Lexing to prepare the financial statements of Lexing on a going concern basis. Nevertheless, we would like to draw the attention of the Independent Shareholders that there can be no assurance that the Lexing Group would be able to adhere to its current development and production schedule or that the estimates of the required capital and operating expenditure will prove accurate. In the event that there is any delay in the scheduled commercial production of the Coal Mines or unforeseen capital expenditures, the business, results of operations, financial condition and prospects of the Lexing Group may be materially and adversely affected.

Based on the pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, assuming Completion on 30 June 2012, the Enlarged Group would have recorded net current liabilities of HK$4,126.6 million, of which approximately HK$2,911.5 million are non-cash derivative component of the convertible securities of the Enlarged Group. Having considered (i) the aforesaid unutilised facilities of approximately RMB698 million (equivalent to approximately HK$837.6 million) provided by Shanxi Coal Transportation to the Lexing Group; and (ii) the profitability of the Lexing Group upon full commencement of commercial production of the Coal Mines in the second half of 2013, the Directors believe the Enlarged Group has sufficient working capital for the Enlarged Group's present requirements for at least the next twelve months. The proceed to be received in relation to the Placing amounting to US$60 million (equivalent to approximately HK$468 million) will also provide the Enlarged Group with additional funding towards its working capital.

RECOMMENDATIONS ON THE TRANSACTIONS

Having considered the principal factors and reasons as set out in our letter, in particular,

(i) the reasons for and the benefits of the Acquisition as stated in the paragraph headed "Reasons for and benefits of the Acquisition" in the section headed "The Acquisition" are in the interests of the Company and the Shareholders as a whole, in particular, after considering that:

   i. the current and persistent loss making position of the Group;

   ii. the Acquisition is in line with the business strategy of the Group;

   iii. the limited revenue generating power for the Group's existing business in the near future;

   iv. the prospect of the Lexing Group; and

(ii) the principal terms of the Acquisition Agreement and the transactions contemplated thereunder are conducted on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole, after considering that,

   i. the Acquisition Consideration represents a discount of approximately 28.5% to the draft valuation of the effective interest of the Coal Mines held by Lexing of approximately RMB5,278 million (equivalent to approximately HK$6,516.0 million as at 29 February 2012) and represents a discount of approximately 11.3% to the appraised value of the 100% equity interest in Lexing as at 30 September 2012;

   ii. the interest rate of the Promissory Notes is equivalent to the Best Lending Rate and far below the effective annual interest rate of the Other Borrowing and the underlying rationale of and benefits from the issuance of Promissory Notes;

   iii. the principal terms of the CS, including the discount of the Issue Price to the Last Trading Date and the discount of the Issue Price to the net asset values per Share, fall within the range of the CS Comparables;

   iv. the principal terms of the Consideration Bonds, including the discount of conversion price to the closing price of the Shares on the Last Trading Date, term to maturity, fall within the range of the CB Comparables;

(iii) the reasons for and benefits of the Disposal as stated in the paragraph headed "Reasons for and benefits of the Disposal" in the section headed "The Disposal" are in the interests of the Company and the Shareholders as a whole, after considering that:

i. the issues and uncertainties surrounding the Disposal Group;

ii. the persistent loss-making of the Disposal Group;

iii. the improved financial position of the Group after the completion of the Disposal; and

iv. the effective use of resources of the Group

(iv) the principal terms of the Disposal Agreement and the transactions contemplated thereunder are conducted on normal commercial terms, are fair and reasonable so far as the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole, in particular, after considering that:

i. the consideration for the Disposal of HK$600 million will be set-off against the Transactions pursuant to the Acquisition Agreement and the Mountain Sky Agreement and thus there is no immediate cash outlay thereof; and

ii. the PBR (based on the Derived NAV) of the Disposal Group falls within the range of the Industry Comparables;

iii. the Disposal Consideration represents a premium over the NARG Group Valuation as at 30 September 2012.

(v) the reasons for and benefits of the Subscription and Proposed Alteration as stated in the paragraph headed "Reasons for the Subscription and Proposed Alteration" in the section headed "The Subscription and Proposed Alteration" are in the interests of the Company and the Shareholders as a whole despite the Impact, after considering that:

i. the recent financial position and financial performance of the Group;

ii. other forms of financing alternatives might be not be a sound and feasible alternative to the Group;

iii. the unconditional consent given by Business Ally for the entering into the Acquisition Agreement, the Disposal Agreement and the Mountain Sky Agreement by the relevant parties; and

iv. the release of the Mountain Sky Charges and NARG Charges

(vi) the overall financial effects of the Transactions on the Group,

on balance, we consider that the terms of the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee and the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition Agreement, the Disposal Agreement, the Subscription Agreement, the Third Supplemental Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Oriental Patron Asia Limited
Joseph Chan **Karlson Chan**
Director *Director*

In compliance with relevant requirements under the Listing Rules, the Company sets out below the risk factors of the Group for the Shareholders' attention. The Directors believe that there are certain risks involved in the operations of the Lexing Group and these risks can be categorized into: (i) risks relating to the PRC coal mining industry; (ii) business risks relating to the Lexing Group; (iii) risk relating to the local laws and regulations applicable to the coal mining industry and the coal mining enterprises (e.g. the PRC law, laws and regulations on environmental protection, mining license, compliance costs; and (iv) risks relating to operating in the PRC (e.g. the political and economic condition in the PRC). Additional risks and uncertainties not presently known to the Directors, or not expressed or implied below, or than the Directors currently deem immaterial, may also adversely affect the Lexing Group's business, operating results and financial condition in a material aspect.

I. RISKS RELATING TO THE PRC COAL MINING INDUSTRY

1. The Lexing Group's results of business operations may be affected by the cyclical nature of the coal market price fluctuations

Most of the Lexing Group's revenue is derived from coal sales. As such, the results of business operations of the Lexing Group mainly rely on the coal market prices and the supply and demand of coal in the PRC domestic market. The Lexing Group mainly refers to the domestic coal market price to set the relevant sale prices, which is affected by any changes in the supply and demand of coal in the market. There could be many factors which are not controllable by the Lexing Group from time to time leading to shortage or oversupply in the PRC domestic coal market. These factors include but not limited to:–

(a) global and domestic economic and political conditions, as well as competition from other energy sectors;

(b) the development and expansion of the electricity and manufacturing industries which have significant demand on the coal industry;

(c) the relevant PRC regulations, including but not limited to the tariff of the national railway system, which is crucial for the logistic part;

(d) the development of other alternative sources of power generation (for example: natural gas, petroleum, hydroelectric and nuclear power); and

(e) the relevant environmental laws and regulations which limit carbon emissions.

The Lexing Group cannot guarantee that domestic coal demand will continue to grow in the domestic coal market. Furthermore, there will be no guarantee that there will not be any oversupply of coal or the coal prices in the PRC will remain stable. Excess production capacity of the coal industry or any sharp reduction in the domestic coal prices are likely to affect the average selling price of the Lexing Group's coal products. As such, the Lexing Group's business operations and the corresponding financial results could be materially adversely affected.

The supply and demand of coke and coal in the PRC and international market are subject to fluctuations. Fluctuations in supply and demand and prices of coking coal and coal-related products may be beyond the control of the Lexing Group.

If the market price of coking coal or coal-related products falls sharply after Completion, such market fluctuations will have an adverse impact on the Group's future results of operations and its financial position. If coal or coal products prices continue to slump, the Group's profitability and ability to meet the capital expenditure requirements will be adversely affected. There is no assurance that the Lexing Group in the future will be able to maintain or reduce its current production costs, or to maintain or increase its production.

2. The operations of the Lexing Group is subject to the regulatory requirements of the PRC Government

Similar to other coal industry players in the PRC, the Lexing Group is subject to the full regulations under the relevant PRC national, provincial and local government regulations, policies and measures. Such regulations, policies and measures covers (including but not limited to) the following areas:

(a) grant the coal exploration and mining rights;

(b) grant relevant coal production and safety production permits;

(c) limit the production capacity;

(d) set up relevant environmental, safety and health standards;

(e) determine the relevant coal transportation price;

(f) determine the coal export quotas;

(g) implement temporary measures on the coal price;

(h) impose taxes, levies and fees relevant to the coal exploration and coal mining activities.

Any changes in the relevant regulatory requirements may cause significant adverse impact on the liabilities, costs and/or duties of the Lexing Group. In the event that the Lexing Group fails to comply with the relevant laws and regulations, the mining operations of the Lexing Group may be suspended and/or the Lexing Group may be subject to fines. Any form of such punishment could materially and adversely affect the business, operations and financial position of the Lexing Group. According to the relevant PRC laws and regulations, the production amount of any coal industry player cannot exceed the stipulated threshold set out in the coal production safety permit. Any non-compliance with such laws and regulations can result in punishment imposed by the relevant authorities.

There is no guarantee that the relevant PRC authorities will not amend the existing laws and regulations. Furthermore, there is no guarantee that the relevant PRC authorities will not impose any further stringent laws and regulations. Compliance of such laws and regulations may cause substantial capital commitment on the part of the Lexing Group and will cause uncertainty to the business prospect of the Lexing Group.

3. Intense competition within the PRC coal industry and the competitiveness of the Lexing Group

The coal industry market is under intensive competitions. The relevant factors affecting the competition of the PRC coal industry include price, capacity, coal type, transportation costs and capacity, processing capability and brand awareness. The continuing integration of the coal industry further intensified the market competition. The Lexing Group is facing competitions from other coal mining companies and coal traders. Such competitors may be able to obtain more financial resources and may have a higher degree of integration and better operating efficiency with more advanced technology. Those competitors may also enjoy lower logistic costs and higher production capacity than that of the Lexing Group. If the Lexing Group cannot improve its product quality and maintain price competitiveness, the

Lexing Group may not be able to maintain its existing competitiveness and that will cause limitation of the future business development and expansion of the Lexing Group, which will in turn affect the revenue and profit of the Lexing Group. There is no guarantee that the increased competition will not affect the business, operations and financial position of the Lexing Group.

4. The business of the Lexing Group may be affected by the relevant environmental regulations and measures

The Lexing Group is obliged to comply with the relevant environmental laws and regulations, which impose strict requirements on the Lexing Group. These laws and regulations may impose levy on pollutions and fines for any non-compliances.

It is contemplated that the relevant environmental laws and regulations will become more stringent in future and compliance of such laws and regulations may incur additional costs and expenses on the Lexing Group.

In addition, the PRC is a party to the 1992 United Nations Framework Convention on Climate Change and the 1997 Kyoto Protocol. Under such convention and protocol, any measures to be imposed for reduction of emission of greenhouse gas may cause the reduction in coal consumption, which will in turn affect the business operations and financial position of the Lexing Group.

5. The PRC macro-economic measures may have adverse impact on the business of the Lexing Group

In order to stabilize the economic growth of the PRC, the PRC authorities may from time to time impose various macro-economic measures. The Lexing Group cannot predict the future economic growth and also the impact of such measures on the business of the Lexing Group. As such, those measures may have adverse impact on the business of the Lexing Group.

6. The coal demand may be affected by the growth of the steel industry

The steel industry is a main customer for the coal demand of the Lexing Group and any fall in the steel price and/or production capacity will in turn cause the reduction in demand of coal and coke. As such, the business prospect of the Lexing Group will rely upon the growth of the PRC steel industry, which is in turn affected by various factors including but not limited to the relevant government policies.

II. BUSINESS RISKS RELATING TO THE LEXING GROUP

1. Risks in association with the renewal of the mining license and other requisite permits

According to the PRC Mineral Resources Law (《中華人民共和國礦產資源法》) (the "**Mineral Resources Law**"), all mineral resources in the PRC are belonged to the state. Coal production enterprises in the PRC are required to obtain the mining license and other requisite permits including but not limited safe production permit, coal production permits and business licenses before carrying out coal production and mining activities.

While the Lexing Group has arranged all its operating subsidiaries to obtain the relevant mining licenses and owner qualification certificate (礦長資格証), the other permits will be obtained after completion construction of the coal mine infrastructure and conditions for safe production in accordance with the relevant criteria.

According to the Mineral Resources Law, all mineral resources are state owned and mining licenses shall have to be obtained by enterprises before conducting mining activities. While the mining license holder may apply for renewal of the mining license after its expiration, there is no assurance that the mining license upon the expiration will be renewed on favourable terms. As at the Latest Practicable Date, the mining licenses in respect of the Coal Mines owned by the Lexing Group will expire in 2014 or 2015 (as the case may be), while the Lexing Group expect that there will be no legal obstacles for the Lexing Group to renew the relevant licenses, there is no guarantee as the renewal will be granted by the relevant PRC authorities.

2. Risks in association with the reliance with limited number of major customers

The Lexing Group is principally engaged in the coal mining and sales of such coal products to independent third parties. Most of the sales of the Lexing Group are through annual contracts with its major customers. In the event that the Lexing Group cannot renew such annual sales contracts or enter into new sales contracts with other customers on favourable terms, the business operations, revenue and financial position of the Lexing Group may be subject to certain adverse impact to a certain extent.

The current revenue of the Lexing Group relies upon a limited number of major customers. The sales from customers of the corresponding periods contributing over 10% of the total sales of the Lexing Group are shown in Appendix II of this circular. Nevertheless, the demands from those major customers can be affected by a number of unforeseeable events which is out of the control of the Lexing Group. If any of the major customers reduce their purchases of coal from the Lexing Group, the business, operating results and financial position of the Lexing Group may be suffered.

3. The Lexing Group may not be able to obtain new mineral resources and development of those new mineral resources

The total reserves of the Coal Mines held by the Lexing Group will reduce as a result of the coal exploitation exercise. As part of the long term strategy of the Lexing Group, the Lexing Group is planning to increase its coal reserve base by way of mergers and acquisitions and application to the relevant Government authority for new mineral resources. When the Lexing Group will not be able to get these new mineral resources and/or fail to identify suitable future acquisition targets and/or fail to develop those new mineral resources, the Lexing Group's business, results of operations and financial conditions can be adversely affected.

4. Risks in association with safety accidents

The coal production exercise faces certain inherent risks, such as faults in machineries, roadway pressure, abandoned wells drainage, bad weather, floods and other natural disasters. In addition, the Lexing Group also faces operational risks relating to its industrial engineering activities, such as any unexpected maintenance problems and design errors. While the Lexing Group has adopted certain safety measures, there is no guarantee that there will be no occurrence of any accidents in the mining environment, which may present dangers to the employees of the Lexing Group. Any safety incident can increase the operating costs, reduce coal production and/or lead to temporary interruption of the business of the Lexing Group.

In addition, when the coal gas concentration is too high in the mining environment, the mining activities can result in an explosion caused by any sparks. While the gas concentration is relatively low in the current underground coal operations of the Lexing Group, there is no guarantee that the gas concentration will keep at a relatively low level in future during the development of the coal mining activities. In addition, while the Lexing Group had a safety record of zero death in the past operating history, the Lexing Group cannot assure that the current implemented safety measures of the Lexing Group, such as the ventilation and gas sensing system, are sufficient to prevent all possible gas explosion incidents. Any coal well accident may result in direct suspension of the business operations of the Lexing Group, which in turn will have a material adverse impact on the Lexing Group's business, results of operations, financial position and corporate image.

Moreover, any coal mining accident occurs in mines surrounding the Coal Mines of the Lexing Group may also increase the safety risk of the Lexing Group. Any coal mining accident may cause the introduction of new safety regulations, which may increase the production costs of the Lexing Group.

5. Risks in association with the capital commitment of the Lexing Group

The development of the business of the Lexing Group requires a substantial amount of capital expenditure. In the event that the Lexing Group cannot meet the capital expenditure requirements or fails to obtain sufficient financing, the development of the business of the Lexing Group will be delayed or suspended and the current and future projects of the Lexing Group may be subject to adverse impact. Historically, the Lexing Group relies upon long term bank loan facilities and shareholders' loans to support its development and there is no guarantee that such supports will continue.

Furthermore, the working capital requirements of the Lexing Group will be subject to numerous factors including but not limited to any contingent liabilities payable by the Lexing Group and there may cause further capital commitment on the part of the Lexing Group. In the event that the Lexing Group fails to meet such capital commitment, there will be a certain extent of adverse impact on the business of the Lexing Group.

6. The actual coal production commencement date may be delayed due to the government policy and other regulatory reasons

The relevant authorities may impose certain policies and regulations on the coal production business. For instance, there may be policies for mandatory staff trainings and there may be physical site visits for safety checking. All such government policies and regulations may causes delays in the actual coal production commencement, which may in turn affect the business of the Lexing Group.

7. Risks in association with natural disasters and the Lexing Group may not have sufficient insurance coverage

There may be certain unforeseeable natural disasters. Furthermore, such potential risks may not be eliminated by implementation of precautionary measures. Furthermore, the current insurance coverage of the Lexing Group may not cover any potential risks resulting from such natural disasters. In the event that the business of the Lexing Group will be suspended as a result of such disasters, there will be material adverse impact on the business, operations and financial positions of the Lexing Group.

8. The Lexing Group has not obtained all necessary licenses for its properties

As at the Latest Practicable Date, the Lexing Group has not obtained all necessary licenses, including the land use rights certificates and/or building ownership certificates, for all of its premises. There is no guarantee that the Lexing Group can obtain all such licenses and approvals for the buildings. The lack of such licenses may cause adverse impact on the business operations of the Lexing Group. Furthermore, the Lexing Group may face litigation risks for occupying those lands and properties.

9. The Lexing Group will be subject to those risks identified in the competent person's report on the Coal Mines

The competent person's report on the Coal Mines identifies certain potential risks on exploration and exploitation of the Coal Mines and the Lexing Group will be subject to such risks. Furthermore, such report may not reflect the future development of the Lexing Group.

10. The performance of the Lexing Group will be subject to the performance of its sub-contractors

The Lexing Group has engaged certain third party sub-contractors to undertake the development and construction works of the Coal Mines in accordance with the contracts entered into between the Lexing Group and those sub-contractors. In the event that those sub-contractors fail to perform in accordance with the terms of those contracts, it will inevitably cause delays in the implementation of business development plan of the Lexing Group, which will in turn affect the performance of the Lexing Group.

Furthermore, there may be risks that the Lexing Group may not be able to identify appropriate sub-contractors to carry out the necessary works. In such case, the performance of the Lexing Group will be adversely affected.

11. The coal production process may be subject to numerous workplace risks and accidents

The coal production process is subject to a number of workplace risks, including but not limited to industrial accidents, suspension in water and electricity, material equipment failure, failure in management information systems and bad weathers. All such risks may cause suspension in coal production process and affect costs of production, and therefore will reduce the production capacity of the Lexing Group.

12. The success of the Lexing Group will rely on its coal logistic network

The Lexing Group mainly relies on public highways and railways to deliver the coal and coke to its customers. The transportation network is not under control of the Lexing Group and therefore may not meet the needs of the Lexing Group. Furthermore, the logistic network may be affected by accidents such as railway accidents. In the event that the Lexing Group cannot deliver on time, it will deteriorate the relationship between the Lexing Group and its customers, which will in turn affect the business of the Lexing Group.

13. New technology in steel production may affect the business of the Lexing Group

As the demand of coal has a close relationship with the steel industry, any new technology in steel production without the use of coal may affect the demand of coal and this will have an adverse impact on the business prospects of the Lexing Group.

III. RISK RELATING TO THE LOCAL LAWS AND REGULATIONS APPLICABLE TO THE COAL MINING INDUSTRY AND THE COAL MINING ENTERPRISES (E.G. THE PRC LAW, LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION, MINING LICENSE, COMPLIANCE COSTS)

Government Policies, Regulations and Measures Applicable to Coal Mining Operations in the PRC and Shanxi

1. Coal industry in the PRC

The coal industry in the PRC is subject to extensive regulations by the PRC government. These regulations govern a wide range of areas including, but not limited to, investments, exploration, production, mining rights, distribution, trading, transportation and exports related to coal. In addition, coal operations are subject to fees and taxes, as well as safety and environmental protection laws and regulations.

Pursuant to《國務院關於投資體制改革的決定》(the State Council's Decision on the Institutional Reform of Investment System*) promulgated on 16 July 2004 and《政府核准的投資項目目錄》(2004年本)(Catalogue of Investment Projects Approved by the Government (2004)*), applications for all coal mine development projects within the state-planned mining areas are required to be submitted to the National Development and Reform Commission ("**NDRC**") for approval, while those for other general coal mining development projects shall be submitted to the competent investment regulatory authority of the local governments for approval.

Pursuant to《外商投資產業指導目錄(2011年修訂)》(Guidance Catalogue of Industries for Foreign Investment (revised in 2011)*) (the "**Guidance Catalogue of Industries**"), which was promulgated on 24 December 2011 and implemented on 30 January 2012, coal exploration and mining does not fall into the categories of industries in which foreign investment is encouraged, restricted or prohibited, while the exploration and mining of special and rare coal falls into the category of industry in which foreign investment is restricted. As advised by the PRC legal adviser of the Company, the PRC Mine Companies involved in exploration of the coking coal which is classified as special and rare coals under the Guidance Catalogue of Industries where foreign investments in the majority stake in the PRC Mine Companies are restricted. Since Lexing is indirectly holding less than 50% of the shareholding interest in the PRC Mine Companies, the Acquisition Agreement remains legally binding and enforceable as at the Latest Practicable Date.

2. The Coal Law, the Mineral Resources Law and related laws and regulations

In August 1996, the Standing Committee of the National People's Congress promulgated《中華人民共和國煤炭法》(Law of the People's Republic of China on the Coal Industry*) (the "**Coal Law**"), which became effective on 1 December 1996. The Coal Law was further revised in April 2011, which became effective on 1 July 2011. The Coal Law sets forth requirements in many areas of coal production, including, among others, exploration, the approval of new mines, the issuance of production permits, the implementation of safety standards, the trading of coal, the protection of mining areas from destructive exploitation, the protection of miners and administrative supervision.

All mineral resources in the PRC are state-owned under the current《中華人民共和國礦產資源法》(Mineral Resources Law of the People's Republic of China*) (the "**Mineral Resources Law**"), which was promulgated on 19 March 1986 and amended on 29 August 1996. The Ministry of Land and Resources ("**MLR**") is responsible for the supervision and administration of the mining and exploration of mineral resources nationwide. The geology and mineral resources bureaus of the people's government of each province, autonomous region and municipality are responsible for the supervision and administration of the exploration, development and exploitation of mineral resources within their own jurisdictions. Enterprises engaging in the exploration and exploitation of mineral resources must obtain exploration rights or mining rights, as the case may be, which are transferable.

According to the Coal Law and the Mineral Resources Law, exploration and exploitation of coal is subject to supervision by MLR and the relevant local mineral resource authorities and coal administration departments. Upon approval, an exploration permit for each exploration area being applied for or a mining permit for each mine being applied for will be granted by MLR or the relevant local mineral resource authority responsible for supervising and inspecting exploration and exploitation of mineral resources in the jurisdiction. Annual reports are required to be filed by the holders of mining permit with the relevant administrative authorities that issued the permits. A coal producer must also obtain a production permit for each of its mines in order to begin producing and selling coal in the PRC. A coal producer is also required to obtain 礦長資格證 (Qualification Certificate of the Mine Manager*) for each of its mine managers. In addition, the production capacity of each coal mine is subject to annual review by NDRC or its provincial counterpart.

Pursuant to《礦產資源開採登記管理辦法》(Procedures for the Registration of Mining of Mineral Resources*), which was promulgated and implemented on 12 February 1998, an applicant for mining right shall file an application in advance for designating the licensed area with the registration administration authority based on the approved report on geological exploration reserves. The state implements a system of acquisition for value on the mining rights.

Under the Coal Law and the Mineral Resources Law, coal producers are required to achieve certain reserve recovery rates. Pursuant to the provisions for the implementation of the Mineral Resources Law, a mine operator must follow certain procedures in closing a mine, including, among other things, submitting a mine closure geology report to the regulatory authority that originally approved the opening of the mine. Mining rights are transferable subject to the approvals of relevant geological, mineral resources and land authorities of the PRC and upon satisfaction of other conditions as stipulated under PRC laws and regulations. A holder of a mining permit has the right to and is also obligated to conduct mining activities in the area and within the time period designated in the mining permit.

3. Laws and regulations in relation to safety

The State Administration of Work Safety ("**SAWS**") and the State Administration of Coal Mine Safety ("**SACMS**") under the supervision of SAWS are the PRC government authorities exercising control over and supervision of the safety of coal production. In order to proceed with the construction of a coal mine project, the project's safety designs and procedures must be examined and approved by SACMS or its local offices. Upon the completion of a coal mine construction project and before the commencement of production, further inspection and approval by SACMS or its local offices of the facilities and conditions is required. SACMS also conducts regular safety inspections of coal producers pursuant to《中華人民共和國安全生產法》(Safety Production Law of the People's Republic of China*),《中華人民共和國礦山安全法》(Mining Safety Law of the People's Republic of China*) and applicable safety regulations. Pursuant to《煤礦建設項目安全設施監察規定》(Rules on Supervision of Coal Mine Construction Project Safety Facilities*) which was passed on 2 July 2003 and implemented on 15 August 2003, the safety assessment of a coal mine construction project covers safety pre-assessment (which is done at the feasibility study stage) and safety acceptance assessment (which is done prior to production or use). In addition, the design of safety facilities of a coal mine construction project shall be examined and approved by the coal mine safety administration prior to the commencement of construction work. Upon completion, a coal mine construction project can be put into normal production or use after going through a combined trial operation. The period of combined trial operation shall be no less than one month but no more than six months. A coal mine construction project can be put into production and use only after its safety facilities and conditions have been inspected and accepted by the coal mine safety authorities. Under 《煤礦企業安全生產許可證實施辦法》(Implementation Measures for Coal Production Safety Permits*) which is effective from 17 May 2004, each operating coal mine is required to apply for a 煤炭安全生產許可證 (Work Safety License*) from SACMS or its provincial counterpart. Under《煤礦安全規程》(Safety Regulations in Coal Mine*) which is effective from 1 January 2005, each operating coal mine is required to apply for a Qualification Certificate of the Mine Manager and a special staff operating qualification certificate from SACMS or its provincial counterpart.

4. Laws and regulations in relation to environmental protection

The Ministry of Environmental Protection ("**MEP**") is responsible for the overall supervision and control of environmental protection in the PRC. It formulates national standards for discharging waste materials and environmental protection and monitors the environmental protection systems in the PRC. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction.《中華人民共和國環境保護法》(Environmental Protection Law of the People's Republic of China*) (the "**Environmental Protection Law**") requires all operations that produce pollutants or other hazards to take environmental protection measures and to establish an environmental protection responsibility system. Such system must include the adoption of effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. Any entity that discharges waste material must report to and register with the relevant environmental protection authority.

5. The Water Pollution Prevention Law

《中華人民共和國水污染防治法》(Water Pollution Prevention Law of the People's Republic of China*) (the "**Water Pollution Prevention Law**") was promulgated on 11 May 1984 and revised on 15 May 1996 and 28 February 2008. It is the legal framework for the prevention and control of water pollution in respect of terrestrial and underground water from rivers, lakes, canals, channels and reservoirs. Environmental protection authorities of local governments are vested with the functions to supervise and administer the prevention and control of water pollution, while MEP is in charge of the formulation of national water quality standards and national pollutant discharge standards. The provincial governments can supplement unstipulated items by setting local standards and file them with MEP. Any enterprise or institution that discharges water pollutants is subject to a discharge fee in accordance with relevant regulations and a fine in case of emissions in excess of the prescribed level, and has to take corrective measures for the excess within a time limit. The urban centralized water pollutant disposal institutions provide services and charge water pollutant disposal fees to maintain the normal operation of centralized sewage processing facilities. Any enterprise or institution which has paid a sewage treatment fee is not subject to the pollutant discharge fees.

6. The Atmospheric Pollution Prevention Law

《中華人民共和國大氣污染防治法》(Atmospheric Pollution Prevention Law of the People's Republic of China*) (the "**Atmospheric Pollution Prevention Law**") was promulgated on 5 September 1987, revised on 29 August 1995 and became effective on 1 September 2000. It is used for the prevention and control of atmospheric pollution from, among other things, the burning of coal, motor-driven vehicles and vessels, exhaust gases and dust. Environmental protection administration departments of governments at or above county level are responsible for conducting unified supervision and management of the prevention and control of atmospheric pollution. Where atmospheric pollutants are discharged, the concentration of those pollutants must not exceed the standards prescribed by the State and local authorities. In addition, fees are levied by the government for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants discharged. Entities that fail to comply with the Atmospheric Pollution Prevention Law will be subject to a warning notice, a fine, the confiscation of illegal earnings and the suspension of or the closure of their operations as determined by the competent environmental protection authority. They may also be subject to potential criminal liability. Any entity that has caused an atmospheric pollution hazard shall eliminate the pollution and compensate relevant entities or individuals for the relevant loss.

7. Provisions on the Protection of the Geologic Environment of Coal Mines

Pursuant to《礦山地質環境保護規定》(Provisions on the Protection of the Geologic Environment of Coal Mines) promulgated on 2 March 2009 and effective on 1 May 2009, (a) an owner of mining right shall pay a security deposit to guarantee performance of its obligations to restore the geological environment of the relevant mines; (b) the entire amount of security deposit collected shall be placed in a special account; (c) prior to the closure of a mine, the holder of the relevant mining permit shall complete the restoration of the geological environment of the mine, apply for an inspection of the mine and submit a report regarding the restoration of the geological environment of the mine; and (d) the security deposit together with interest shall be refunded if the inspection is satisfactory, otherwise the relevant land and resources authority shall organize the restoration using the security deposit and the relevant mine owner shall be liable for any shortfall if the security deposit is insufficient. As confirmed by City Bloom, the security deposit in the amount of RMB5 per tonne shall be paid upon commencement of operation of the Coal Mines.

8. Regulations in relation to the environmental protection of construction projects

On 29 November 1998, the State Council promulgated《建設項目環境保護管理條例》(Regulations on the Administration of Construction Project Environmental Protection*) (the "**Regulations on Construction Project Environmental Protection**"). On 28 October 2002, the Standing Committee of the National People's Congress approved《中華人民共和國環境影響評價法》(Law on Appraising of Environment Impact of the People's Republic of China*) which became effective on 1 September 2003. According to the aforesaid regulations, the PRC government has set up a system to evaluate the environmental impact of construction projects, and classify and administer the environmental impact appraisals of construction projects in accordance with the degree of their environmental impact. Pursuant to the aforesaid Regulations on Construction Project Environmental Protection, installations for the prevention and control of pollution at a construction project shall be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to commence production or put to use until its installations for the prevention and control of pollution are examined and assessed to be up to standard by the relevant environmental protection administration department that will examine and approve the environmental impact appraisal of the applicant.

9. Laws and regulations in relation to land

Pursuant to《中華人民共和國土地管理法》(Land Administration Law of the People's Republic of China*) promulgated on 25 June 1986, effective on 1 January 1987 and amended on 28 August 2004, state-owned land and land collectively-owned by collective economic entities may be allocated and used by units or individuals according to the law. The ownership of land and land use rights registered according to the relevant laws shall be protected by the law. Pursuant to Article 30 of the《中華人民共和國礦產資源法實施細則》(Implementation Rules on the Mineral Resources Law of the People's Republic of China*) promulgated and effective on 26 March 1994, it provides that a mine owned with a valid mining right permit has the legal right to construct mining related production facilities and living facilities on the property under which the mine is located and to obtain land use rights in respect of the parcel(s) of land for the purposes of such facilities.

On 16 April 2012, the Lexing Group obtained the approval from Shanxi Land and Resources Office for permitting the planning area of approximately 34.1532 hectares by the PRC Mining Companies out of the total 28 mining companies in Gujiao City. Pursuant to Article 57 of《中華人民共和國土地管理法》(the Land Administration Law of the People's Republic of the PRC*), an entity which has a need to undertake construction activities will be entitled to use a parcel of land after the entity has obtained the approval of the government authorities of land and resources (above the county level). The approval from the land and resources bureau will be in the form of a temporary land use right. With the approval from the land and resources bureau, the entity can enter into a lease agreement with the collective economic entity which owns the collectively-owned land. Upon the expiration of the temporary land use right, the entity shall have to restore the land to the original state.

Under《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(Interim Regulations of the People's Republic of China on Assignment and Transfer of the Right to Use State-owned Land in Urban Areas*) (the "**Interim Regulations on Assignment and Transfer**") promulgated and enforced by the State Council on 19 May 1990, a system in relation to the assignment and transfer of state-owned land use rights is adopted. A land user shall pay land premium to the state as consideration for the grant of land use rights within a certain term, and the land user may transfer, lease or mortgage, or otherwise commercially use the land use rights within the term of use. Under Interim Regulations on Assignment and Transfer and《中華人民共和國城市房地產管理法》(Urban Real Estate Administration Law of the People's Republic of China*), the land administration authority of the local government of the relevant city or municipality shall enter into a land grant contract with the land user for the grant of land use right. The land user shall pay the land premium provided for by the land grant contract. After payment in full of the land premium, the land user shall register with the land administration authority and obtain a land use right certificate evidencing the acquisition of the land use right. According to《中華人民共和國城鄉規劃法》(Urban and Rural Planning Law of the People's Republic of China*),《城市國有土地使用權出讓轉讓規劃管理辦法》(Administrative Measures on Planning of Grant and Transfer of Urban State-owned Land Use Rights) promulgated by the Ministry of Housing and Urban-Rural Development ("**MHURD**") on 4 December 1992 and effective on 1 January 1993 and《關於加強國有土地使用權出讓規劃管理工作的通知》(Notice of MHURD about Strengthening the Planning Administration of Grant of State-owned Land Use Rights) promulgated by MHURD and effective on 26 December 2002, after signing an assignment contract, the land user shall apply for an opinion on the construction project's site selection (if the land was obtained through government allocation) and a construction land planning permit from the city or county urban-rural planning authority with the assignment contract. After obtaining a construction land planning permit, the land user shall organize the necessary planning and design work according to the planning and design requirements, and apply for a construction work planning permit from the relevant urban-rural planning authority with the relevant approval documents.

10. Labor laws

Pursuant to《中華人民共和國勞動合同法》(Labor Contract Law of the People's Republic of China*) (the "**Labor Contract Law**") effective on 1 January 2008, labor contracts shall be concluded in writing if employment relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers on time.

According to《中華人民共和國勞動法》(Labor Law of the People's Republic of China*) promulgated on 5 July 1994 and effective on 1 January 1995, enterprises and institutions shall establish and perfect their workplace safety and sanitation systems, strictly abide by national rules and standards on workplace safety, provide laborers with education on labor safety and sanitation systems in the PRC. Labor safety and sanitation facilities shall comply with national standards. Enterprises and Institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with national regulations and the relevant articles of labor protection.

11. Taxation

A. Enterprise income tax

According to《企業所得稅法》(Enterprise Income Tax Law) and《中華人民共和國企業所得稅法實施條例》(Implementation Regulations of the Enterprise Income Tax Law of the People's Republic of China*) which were enacted on 6 December 2007 and effective on 1 January 2008 (collectively the "**Income Tax Law**"), the enterprise income tax for both domestic and foreign-invested enterprises is unified at 25%. For enterprises established before 16 March 2007 and entitled to preferential income tax treatments under tax-related laws and administrative regulations, the Income Tax Law provides for a five-year transitional period, during which the applicable enterprise income tax rate shall be converted to the unified rate of 25% gradually.

B. Value added tax

In accordance with《中華人民共和國增值稅暫行條例》(Provisional Regulations Concerning Value Added Tax of the People's Republic of China*) promulgated by the State Council and effective on 1 January 2009 and《中華人民共和國增值稅暫行條例實施細則》(Rules on Implementation of the Provisional Regulations Concerning Value Added Tax of the People's Republic of China*), goods sold in or imported into the PRC and processing, repair and replacement services provided within the PRC are subject to value added tax.

C. Resources tax

Pursuant to《資源稅暫行條例》(Provisional Regulation of Resources Tax) and《礦產資源補償費徵收管理規定》(Rules Administering Levy of Mine Resource Compensation Fees), the coal industry is subject to resources taxes and resources compensation fees. Since 2004, the Ministry of Finance and the State Administration of Taxation of the PRC have issued a series of notices on the adjustments to coal resources tax.

12. Foreign exchange

Pursuant to《中華人民共和國外匯管理條例》(Foreign Currency Administration Rules of the People's Republic of China*) promulgated by the State Council in 1997 and various regulations issued by the State Administration of Foreign Exchange ("**SAFE**"), RMB is convertible into other currencies for the purpose of payment of current account items, such as trade-related receipts and payments, interest and dividend. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of payment of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office. Domestic entities are permitted to retain their current exchange earnings according to their operational needs.

13. Regulations Relating to the Coal Mining Operations in Shanxi

The government and coal administration authorities in Shanxi have promulgated and implemented, among others, the following major documents, laws and regulations in relation to the coal mining industry since the consolidation of resources in 2008:

《煤礦安全避險六大系統規章制度彙編》(Collection of Provisions and Systems of Six Major Coal Mine Safety and Hazard Prevention Systems*);《山西省煤礦建設施工管理標準》(Standards on Coal Mine Construction Work Commencement Administration of Shanxi Province*);《關於進一步加强煤礦防治水工作的若干規定》(Rules on Further Strengthening Water Drainage Works at Coal Mines*) issued by the Shanxi Provincial Government;《關於進一步强化煤礦安全生產工作的規定》(Rules on Further Strengthening Production Safety at Coal Mines*) issued by the Shanxi Provincial Government;《山西省煤炭工業廳關於印發《山西省煤礦辦礦企業標準》的通知》(Notice of the Coal Industry Office of Shanxi Province about the Publication of the Standards of Enterprises Operating Coal Mines in Shanxi Province*); 山西省煤炭工業廳 (Coal Industry Office of Shanxi Province*);《山西省煤炭工業廳關於印發《山西省煤礦現代化礦井標準》的通知》(Notice of the Coal Industry Office of Shanxi Province about the Publication of the Standards of Modernized Coal Mines in Shanxi Province*);《煤礦安全生產培訓管理辦法及配套實施細則》(Administrative Measures on Coal Mine Production Safety Training and Auxiliary Implementation Rules*) issued by the Coal Industry Office of Shanxi Province;《煤礦建設安全規定》(Rules on Coal Mine Construction Safety*) issued by the Coal Industry Office of Shanxi Province;《審批事項首辦負責制度(試行)》(Accountability System for Initial Handling Persons of Approval Applications (Trial)*) issued by the Coal Industry Office of Shanxi Province;《關於辦理《煤礦建設項目聯合試運轉》審批的規定(試行)》(Rules on Approval of Combined Trial Operations of Coal Mine Construction Projects (Trial)*) issued by the Coal Industry Office of Shanxi Province;《關於《礦井瓦斯等級和二氧化碳湧出量鑒定報告》審批的規定(試行)》(Rules on Approval of Assessment Report on Gas Level and Amount of Carbon Dioxide Emission of Coal Mines (Trial) *) issued by the Coal Industry Office of Shanxi Province;《關於審查辦理《新建、改擴建煤礦礦井地質報告》和《生產礦井地質報告》審批的規定(試行)》(Rules on Review and Approval of Geological Reports on Construction, Reconstruction and Expansion of Coal Mines and Geological Reports on Production Coal Mines (Trial)*) issued by the Coal Industry Office of Shanxi Province;《關於辦理《煤礦生產能力核定》審批的規定(試行)》(Rules on Approval of Coal Mine Production Capacity Audit (Trial)*) issued by the Coal Industry Office of Shanxi Province;《關於辦理《合法煤炭銷售票》審批的規定(試行)》(Rules on Approval of Certificates of Legal Coal Sales (Trial) *) issued by the Coal Industry Office of Shanxi Province; and《關於辦理《煤礦及選煤廠初步設計及開工》審批的規定(試行)》(Rules on Approval of Initial Design and Commencement of Coal Mines and Coal Processing Plants Construction (Trial)*) issued by the Coal Industry Office of Shanxi Province.

In addition, two notices, namely《太原市煤炭工業局關於2012年太原市煤礦全員培訓及其他從業人員資格培訓安排的通知》(並煤培發[2012] 43號)(Notice of the Coal Industry Bureau of Taiyuan City about Qualification Training Arrangements for All Employees and Other Operators of Coal Mines in Taiyuan City in 2012 (Bingmeipeifa [2012] No. 43)*) on 8 February 2012 and《太原市煤炭工業局關於下達2012年煤礦企業一般安全生產管理人員班組長及特種作業人員安全培訓計劃的通知》(並煤培發[2012] 44號)(Notice of the Coal Industry Bureau of Taiyuan City about the Issuance of Safety Training Arrangements for Heads of General Production Safety Controllers and Special Operators of Coal Mining Enterprises in 2012 (Bingmeipeifa [2012] No. 44)*) on 8 February 2012, were issued by 太原市煤炭工業局 (Coal Industry Bureau of Taiyuan City*) in 2012 in relation to the training arrangements for employees of coal mining enterprises. The Lexing Group has made arrangements for its relevant employees to receive training in stages in accordance with the aforementioned requirements.

IV. RISKS RELATING TO OPERATING IN THE PRC (E.G. THE POLITICAL AND ECONOMIC CONDITION IN THE PRC)

Substantially all the assets of the Lexing Group are located in the PRC and all the Lexing Group's incomes are generated in the PRC. Accordingly, the results of operations, financial positions and prospects of the Lexing Group are to a significant extent subject to a number of risks relating to conducting business in the PRC.

1. Changes in economic, political and social conditions as well as governmental policies in the PRC could affect the Lexing Group's results of operations and financial position.

The economy of the PRC differs from the economies of most developed countries in many respects, including the structure of the economy, level of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures to emphasize the utilization of market forces in economic development. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

The PRC has been one of the world's fastest growing economies as measured by GDP in recent years. However, the PRC may not be able to sustain such a growth rate. In order to maintain the sustainable growth of the economy, the PRC government from time to time implements various macroeconomic and other policies and measures, including suppressive or expansionary policies and measures at times of or in anticipation of changes in the economic condition in the PRC. Since 2008, there has been a slowdown in the growth of the PRC economy primarily as a result of the global financial crisis and the deterioration in the global economy. In an effort to stimulate the growth of the economy, the PRC government has implemented and may continue to implement various monetary and other economic measures to expand investments in infrastructure projects, increase liquidity in the credit markets and encourage employment. However, there is no assurance that such monetary and economic measures will succeed in the future.

In the future, the Lexing Group may not continue to benefit from all, or any, of the economic reform measures, or the monetary or other economic measures adopted by the PRC government in response to the slowdown of the economy. In addition, the Lexing Group cannot predict whether changes in the PRC's political, economic or social conditions, laws, regulations or policies will have any adverse effect on its current or future business, results of operations or financial position.

2. Any outbreak of widespread contagious diseases may have a material adverse effect on the Lexing Group's business operations, financial position and results of operations.

The outbreak, or potential outbreak, of any severe contagious disease (such as severe acute respiratory syndrome, avian influenza or H1N1 influenza) in the PRC could materially and adversely affect the overall business sentiment and environment in the PRC, particularly if such outbreak is inadequately controlled. This, in turn, could materially and adversely affect the domestic consumption, labor supply and, possibly, overall GDP growth of the PRC. As the Lexing Group's revenue will be derived from its operations in the PRC, any labor shortages due to contraction or slowdown in the growth of the domestic consumption in the PRC could materially and adversely affect the Lexing Group's business, financial position and results of operations. In addition, if any of the Lexing Group's employees are affected by any severe contagious disease, it could adversely affect or disrupt those areas in which the Lexing Group has operations and materially and adversely affect its financial position and results of operations as the Lexing Group may be required to close its operations to prevent the spread of the disease. The spread of any severe contagious disease in the PRC may also affect the operations of the Lexing Group's customers and suppliers, which could materially and adversely affect its business, financial position and results of operations following Completion.

3. The Lexing Group's PRC subsidiaries are subject to restrictions on the payment of dividends to Lexing under the PRC law, which can adversely affect the Lexing's ability to pay its expenses and other liabilities and conduct its business.

Under PRC laws, dividends may only be paid out of distributable profits. Distributable profits with regard to subsidiaries of the Lexing Group incorporated in the PRC means their profits after tax as determined under the Generally Accepted Accounting Principles of the PRC less any recovery of accumulated losses and allocations to statutory funds that they are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under the Generally Accepted Accounting Principles of the PRC differs in many aspects from the calculation under the International Financial Reporting Standards. As a result, a subsidiary of the Lexing Group incorporated in the PRC may not be able to pay any dividend in a given year to the Lexing if it does not have distributable profits as determined under the Generally Accepted Accounting Principles of the PRC, even if it has profits for that year as determined under the International Financial Reporting Standards. This may significantly affect Lexing's ability to pay its expenses and other liabilities and conduct its business. In addition, since the Lexing Group derives substantially all of its profits from its subsidiaries, the Lexing Group may not have sufficient distributable profits to pay dividends to Lexing following Completion, even if there is such an amount shown in its accounts prepared under the International Financial Reporting Standards. The Lexing Group's subsidiaries in the PRC are also required to set aside a portion of their profits after tax according to PRC accounting standards and regulations to fund certain reserve funds.

Under the PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC enterprise income tax at the rate of 10% is applicable to dividends payable by Chinese enterprises to "non-resident enterprises" (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax treaty that the PRC has entered into. As Lexing are considered to be "non-resident enterprises", any dividend that we or any such subsidiary receive from the PRC subsidiaries shall be subject to PRC taxation at the 10% rate (or lower treaty rate).

Under《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*) (the "**Tax Arrangement**") which took effect on 1 January 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise. Otherwise, the dividend withholding tax rate is 10%. According to《國家稅務總局關於執行稅收協定股息條款有關問題的通知》(Notice of the State Administration of Taxation on Issues relating to the Administration of the Dividend Provision in Tax Treaties*) (the "**Notice 81**") promulgated on 20 February 2009, the corporate recipients of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. On 24 August, 2009, the State Administration of Taxation issued《非居民享受稅收協定待遇管理辦法(試行)》(Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation)*) (the "**Administrative Measures**"), which requires that non-resident enterprises obtain approval for the enjoyment of relevant treatment under tax treaties from the competent tax authority. Pursuant to the Tax Arrangement, Notice 81 and the Administrative Measures, a payment of dividends by the relevant PRC subsidiaries to HK OEPC may be subject to a PRC withholding tax at a rate of 5%, if the provisions of Notice 81 and the Administrative Measures are satisfied and HK OEPC is not considered to be PRC resident enterprise for tax purposes; otherwise, the dividend withholding tax rate is 10%. As the PRC Enterprise Income Tax Law and the implementation rules have only been in effect since 1 January 2008, it is uncertain as to how these laws and regulations would be implemented by the relevant PRC tax authorities. Following Completion, if dividend payments from the relevant PRC subsidiaries to offshore subsidiaries are subject to PRC withholding tax, the financial position, results of operations of Lexing Group may be adversely affected. In the future, the turnover of Lexing Group may be denominated in RMB, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility. Upon Completion, the Lexing Group will require foreign currency to pay dividends to Shareholders. However, following the commencement of coal sales, it is expected that the substantial majority of the turnover of Lexing Group will be denominated in RMB. Under PRC foreign exchange rules and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions. There can be no assurance that the Lexing Group will be able to meet all of our foreign currency obligations or to remit profits out of the PRC following Completion.

Prior to 1994, RMB experienced a significant net devaluation against most major currencies and there was significant volatility in the market exchange rate during certain periods. Since 1994, RMB to US$ exchange rate has largely stabilized. On 21 July 2005, the People's Bank of China ("**PBOC**") announced that the exchange rate of US$ to RMB would be adjusted from US$1 to RMB8.27 to US$1 to RMB8.11 and it ceased to peg RMB to US$. Instead, RMB is now pegged to a basket of currencies, the components of which are adjusted based on changes in market demand and supply under a set of systematic principles. On 23 September 2005, the PRC government widened the daily trading band for RMB against non-US$ currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. From 21 July 2005 to 30 December 2009, according to PBOC's official website, the value of RMB appreciated by approximately 18.7% against US$. On 20 June 2010, PBOC announced that it intends to further reform RMB exchange rate regime by increasing the exchange rate flexibility of RMB. RMB may be revalued further against US$ or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of RMB against US$ or other currencies, any of which could give rise to uncertainties in the financial position and results of operations of the Lexing Group following Completion. Any appreciation of RMB may subject the Lexing Group to increased competition from imports and any devaluation of RMB may adversely affect the value of the net assets, earnings and declared dividends in foreign currency terms, as well as the ability of the Lexing Group to service any foreign currency obligations.

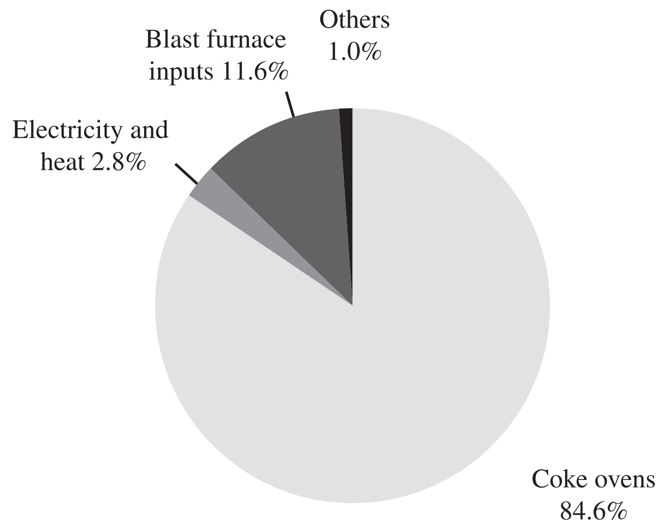
I. INTRODUCTION TO COAL

Coal is a common and widely distributed carbon-based energy natural resource, mined by both open-cut and underground mining methods. Due to deep coal resources, majority of coal mines in the PRC are underground whereas the open-cut coal mines are mainly located in Inner Mongolia and Xinjiang.

Typically, there are two main types of coals produced, namely coking coal and thermal coal. The markets for coking coal and thermal coal operate relatively independently of each other. The volatile constituents of coal, including water, coal-gas and coal-tar, are driven off by baking in an airless oven at temperatures as high as 1,000°C so that the fixed carbon and residual ash are fused together. Raw (or "**run of mine**") coal production is typically prepared or "washed" to reduce waste and other constituents such as ash. Washed coal is typically consumed as a final product in the end-use, e.g. raw coking coal is typically washed prior to consumption in the production of coke. There is no global standard by which coking coals are graded and classified. Chinese classification of coal however is based on a different system. Chinese coal classification developed in the late 1950s covering coal types from lignite to anthracite is set out in the table below. This classification has been designated as one of the PRC's National Standards, GB5751-1986.

Terminology in English	Coal Class Type	Terminology in Chinese	Volatile Matter (% air dried)	Chinese Caking Index (G)	Chinese Plasticity Index (Y)
Meagre Coal	PM	貧煤 Pin Mei	>10 – 20	<5	n/a
Meagre Lean Coal	PS	貧瘦煤 Pin Shou Mei	>10 – 20	>5 – 20	n/a
Lean Coal	SM	瘦煤 Shou Mei	>10 – 20	>20 – 65	n/a
Primary Coking Coal	JM	焦煤 Jiao Mei	>10 – 28	>50 – 65	<25
Fat Coal	FM	肥煤 Fei Mei	>10 – 37	>85	>25
1/3 Coking Coal	1/3 JM	1/3 焦煤 1/3 Jiao Mei	>28 – 37	>65	<25
Gas Fat Coal	QF	氣肥煤 Qi Fei Mei	>37	>85	>25
Gas Coal	QM	氣煤 Qi Mei	>28 – 37	>35 – 65	<25
1/2 Middle Sticky Coal	1/2 ZN	1/2 中粘煤 1/2 Zhong Nian Mei	>20 – 37	>30 – 50	n/a
Weak-Sticky Coal	RN	弱粘煤 Ruo Nian Mei	>20 – 37	>5 – 30	n/a

Coking coal is mainly reserved in areas with complicated geological structures. It is used as an input for the production of coke, being consumed in blast furnaces in the production of crude steel in coke ovens. The following chart illustrates the coking coal consumption by end-use for 2010.



Source: Fenwei

II. OVERVIEW OF THE PRC'S COAL INDUSTRY

The PRC is both the world's biggest producer of coal and the world's largest coal consumer. According to the PRC Statistics Yearbook and the information provided by Fenwei, the PRC had coal ensured reserves of 332,610 million tonnes as of the end of 2011, representing a slight decrease of approximately 0.3% from 333,480 million tonnes as of the end of 2006. As a result of coal resources consolidation implemented in the PRC since 2008, the total assets of the coal mining industries increased by approximately 26.9% although the estimated number of coal mining and washing companies decreased by 17.7% from 9,243 in 2010 to 7,611 in 2011. The following chart illustrates the number of coal mining and washing companies in the PRC from 2006 to 2011.

	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Estimated number of coal mining and washing companies	6,797	7,066	8,109	9,213	9,243	7,611

Source: National Bureau of Statistics of the PRC, Fenwei

III. THE PRC'S COKING COAL INDUSTRY

1. Supply

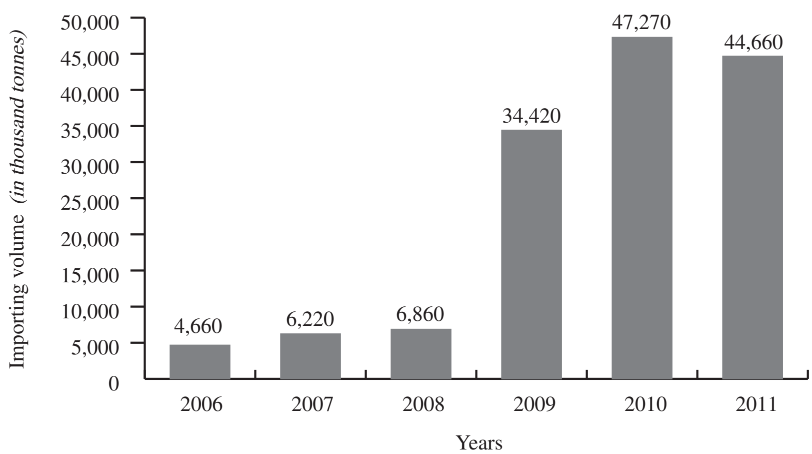
According to China Energy Sector.com (中國能源資訊網), coking coal resources in the PRC could be mined for 430 years, based on the 33% recovery rate and output of 1 billion tonnes in 2010. The following chart illustrates the production volume of coking coal in the PRC by provinces from 2006 to 2011.

Provinces	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2011 Domestic production share**
	million tonnes	*million tonnes*	*million tonnes*	*million tonnes*	*million tonnes*	*million tonnes*	*(%)*
Shanxi	310	314	325	308	402	453	34.5
Shandong	126	127	120	127	136	147	11.2
Anhui	76	86	112	120	126	137	10.4
Heilongjiang	83	81	76	76	77	84	6.4
Henan	64	68	76	82	72	78	5.9
Guizhou	46	47	49	61	68	74	5.6
Inner Mongolia	19	31	36	37	59	66	5.0
Hebei	50	51	50	51	52	57	4.3
Yunan	28	36	41	43	43	47	3.6
Sichuan	38	37	30	28	26	29	2.2
Other provinces	122	114	121	115	128	144	10.9
Top-5 total	**659**	**676**	**709**	**713**	**813**	**899**	**68.4**
Top-10 total	**840**	**877**	**916**	**933**	**1,061**	**1,170**	**89.1**
The PRC	**962**	**991**	**1,037**	**1,048**	**1,189**	**1,314**	

Source: Fenwei

As illustrated in the above chart, the coking coal production in the PRC increased from 962 million tonnes in 2006 to 1,314 million tonnes in 2011, representing a compound annual growth rate ("**CAGR**") of approximately 6.4%. Such increase in production of coking coal was mainly due to rapid growth in demand from production of crude steel. Out of the total 1,314 million tonnes in 2011, approximately 453 million tonnes or 34.5% of which was produced in Shanxi whereas the distribution of coking coal production among other provinces were rather dispersed.

Considering the depletion of coking coal reserves and the relatively high use of coking coal in the Chinese blast furnaces, there is a growing concern that there may be a lack of domestic coking coal supply in the long-term. In recent years, the PRC has imported coking coal from various countries to fulfill its tight domestic demand. The following chart illustrates the volume of importing coking coal to the PRC from 2006 to 2011.



Source: Fenwei

As illustrated in the above chart, the volume of importing coking coal to the PRC increased from approximately 4.7 million tonnes in 2006 to approximately 44.7 million tonnes in 2011, representing CAGR of approximately 57.2%. According to Fenwei, the top-five importing countries were Mongolia, Australia, U.S.A., Russia and Canada, accounting for approximately 93.2% of the total importing volume in 2011. Given the increasing demand of coking coal as a result of the PRC's economy expansion, this increasing trend is expected to continue. According to Fenwei, the the PRC's importing coking coal volume as at the end of September 2012 was approximately 36.6 million tonnes.

2. Demand

Demand for coking coal is directly correlated with the production of blast furnace crude steel as coke, a derivative product of coking coal. The following table illustrates the coking coal demand and crude steel production in the PRC from 2006 to 2012.

	2006	2007	2008	2009	2010	2011	2012 Forecast	CAGR *(from 2006 to 2011)*
Coking coal demand *(in million tonnes)*	387	447	440	469	527	578	608	8.4%
Crude steel production *(in million tonnes)*	419	489	500	568	627	683	717	10.3%

Source: Fenwei

As illustrated in the table above, production of crude steel in the PRC has increased at a CAGR of approximately 10.3% from 2006 to 2011 due to rapid growth of the Chinese economy, in particular to the RMB4 trillion infrastructure stimulating policy implemented in 2009 which substantially increase the demand of crude steel. The increase in production of crude steel in the PRC has supported an expansion in coking coal demand from 387 million tonnes in 2006 to 578 million tonnes in 2011, representing a CAGR of approximately 8.8%. Taking into consideration the PRC's government's massive planned investment in infrastructure which is expected to drive steel output, and its policy of phasing out small-capacity blast furnaces and building up new larger capacity blast furnaces, the demand of coking coal is expected to increase to 608 million tonnes in 2012 according to Fenwei.

IV. SHANXI'S COKING COAL INDUSTRY

1. Supply

According to Fenwei, Shanxi has the largest coal ensured reserves and production volume in the PRC. As at the end of 2011, the coal ensured reserves in Shanxi was 62,000 million tonnes which represents 18.6% of total coal ensured reserves in the PRC, mainly located in the regions of Gujiao and Taiyuan cities. Only 453 million tonnes of coking coal has been produced in Shanxi in 2011. The following table illustrates the production volume of coking coal in Shanxi from 2006 to 2011:

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**CAGR** *(from 2006 to 2011)*
Production volume of coking coal *(in million tonnes)*	310	314	325	308	402	453	7.9%

Source: Fenwei

According to Fenwei, the decrease in production volume from 325 million tonnes in 2008 to 308 million tonnes in 2009 was due to the implementation of coal resources consolidation programme in Shanxi. As more production plants have since then commenced operations after years of construction, the production volume was increased to 453 million tonnes in 2011.

As of the end of 2008, there was approximately 2,600 mines located in Shanxi of which, more than 80% had annual production capacity of less than 300,000 tonnes. These mines were mainly owned by small-sized mining companies with outdated mining technologies, resulting at a lower coal retreating rate and unsafe operations. In view of the aforesaid, the People's Government of Shanxi Province issued a document headed《山西省人民政府關於加快推進煤礦企業兼併重組的實施意見》("**Opinion of the People's Government of Shanxi Province on the implementation of accelerating mergers and reorganisations of coal enterprises**"*) on 2 September 2008, requiring coal mines in Shanxi Province to undergo a series of mergers and reorganisations under the direction of the State Council of the PRC. Coal mines in Shanxi Province were required to undergo safety assessments and undertake necessary reconstruction and improvement works before they are allowed to resume mining operations. Coal mines which are not able to meet the required standard of safety and minimum production capacity are closed until the necessary reconstruction and improvement works have been undertaken. As a result of such coal resources consolidation policy implemented by the Shanxi Provincial Government, small scale coal mines are merged and grouped into sizeable mining enterprises to enhance the overall production efficiency and safety standards.

According to the 2010 national economy and social development statistical bulletin of Shanxi Province, the number of coal mines reduced from 2,600 in 2008 to 1,053 in 2010, representing a decrease of approximately 59.5%. In addition, mining operators shrunk from 2,200 to 130 due to the consolidation of coal resources in Shanxi. As a result, the annual output of current coal mines is more than 900,000 tonnes, and those which produced less than 300,000 tonnes have been washed out. Those that have not been washed out and still remain are solely mechanical mines. According to Fenwei, out of the total remaining 1,053 mines, there were four coal mining companies with annual production capacity of 100 million tonnes and three coal mining companies with annual production capacity of 50 million tonnes. Following the completion of coal resource consolidation in 2011, the supply of coking coal in Shanxi is estimated to be approximately 476 million tonnes in 2012.

2. Demand

Demand for coking coal in Shanxi is largely affected by the development of the steel industry. The following table illustrates the coking coal demand and crude steel production in Shanxi from 2006 to 2012.

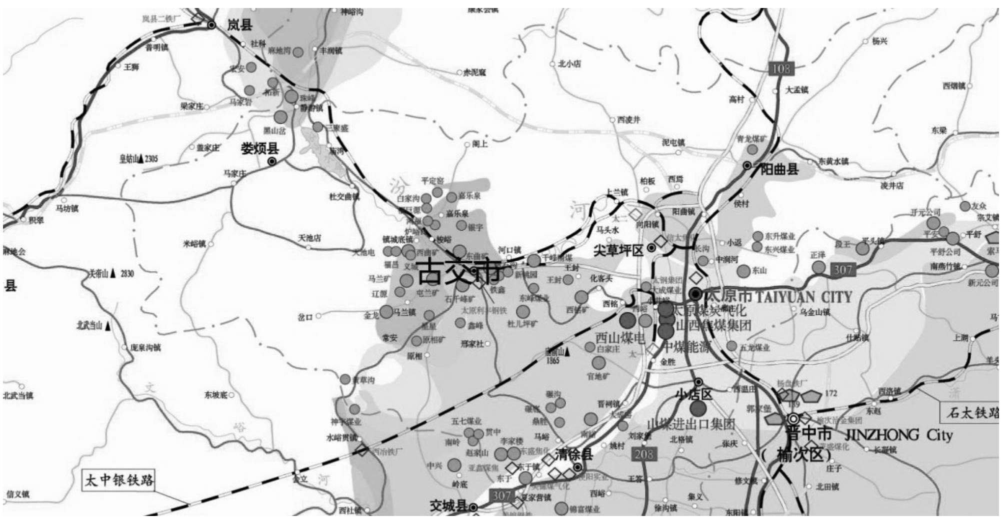
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012F**	**CAGR** *(from 2006 to 2011)*
Coking coal demand (in million tonnes)	117	131	111	103	114	122	128	0.8%
Crude steel production *(in million tonnes)*	19	25	23	26	30	35	40	13.0%

Source: Fenwei

As illustrated in the table above, the demand of coking coal in Shanxi increased from 117 million tonnes in 2006 to 128 million tonnes in 2011, mainly caused by the increasing demand from the steel industry in Shanxi which grew at CAGR of approximately 13.0% from 2006 to 2011. According to Fenwei, the Shanxi steel industry was dominated by three steel manufacturers contributing a total steel production volume of approximately 16 million tonnes or 45.1% of total production volume in Shanxi as of the end of 2011. The Shanxi steel industry is expected to flourish from 2013 to 2015 as more steel manufacturers are expanding their production capacities.

3. Transportation network

Coal transport in Shanxi relies highly on railways. The railway network connects Shijiazhuang and Taiyuan; Beijing and Yuanping; Beijing and Baotou; Datong and Manyuan, Taiyuan and Jiaozuo. The province has completed seven double-track electric railways extending to such major ports as Qinghuandao, Qingdao, Yantai and Lianyungang. In addition, the Shuozhou – Huanghua Railway links Shenchi County in Shanxi with Huanghua Port in Hebei and it is the second largest railway for coal transportation from west to east in the PRC. The following chart illustrates the coal transportation network in Gujiao and Taiyuan cities, the major coal mining cities in Shanxi:



With Taiyuan as the hub, the highways in Shanxi form a road network linking all the counties in the Province. Major highway namely Dayun connects the cities to south and north of the province. The Taiyuan-Jiuguan Expressway joins the Beijing-Shijiazhuang expressway and connects Beijing-Tianjin-Tanggu expressway and Beijing-Shenzhen expressway, leads to Beijing and the region of Bohai Sea rim directly.

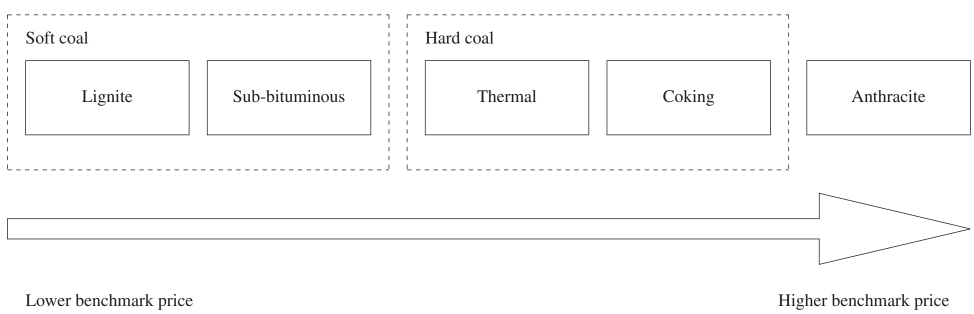
According to the competent person's report of the Coal Mines as set out in Appendix VI to this circular, the Coal Mines, located approximately 15km away from Gujiao City, have convenient railway and highway transportation. The Gujiao-Chakou Highway passes the northern portion of the Bolong mine area. Roads also connect to the major towns in the region. The rail spur line for 馬蘭礦(Malan Mine*) ("**Malan Mine**"), connecting to Taiyuan, is approximately 2 km from Bolong.

Pursuant to the development plan on the country transportation system during the "Twelfth Five-Year Plan"（十二五發展規劃）, the demand for transporting coal by rail in the PRC is expected to reach 2.6 billion tonnes by 2015, but it requires transportation capacity of 2.8 billion tonnes to 3 billion tonnes given imbalance of railway, ports production and consumption. In view of coal rail capacity bottlenecks, the PRC will strive to expand rail lines from Shanxi, Shaanxi and western Inner Mongolia to Caofeidian Port, from central and southern Shanxi to the Shandong coastal ports, etc, and build new lines from Ordos and Shaanxi to central the PRC like Hubei, Hunan and Jingxi.

4. Pricing

Coal is classified as a bulk commodity and is commonly traded by contract. The following chart illustrates a diagrammatic scale of the prices of various types of coal.

Benchmark coal prices



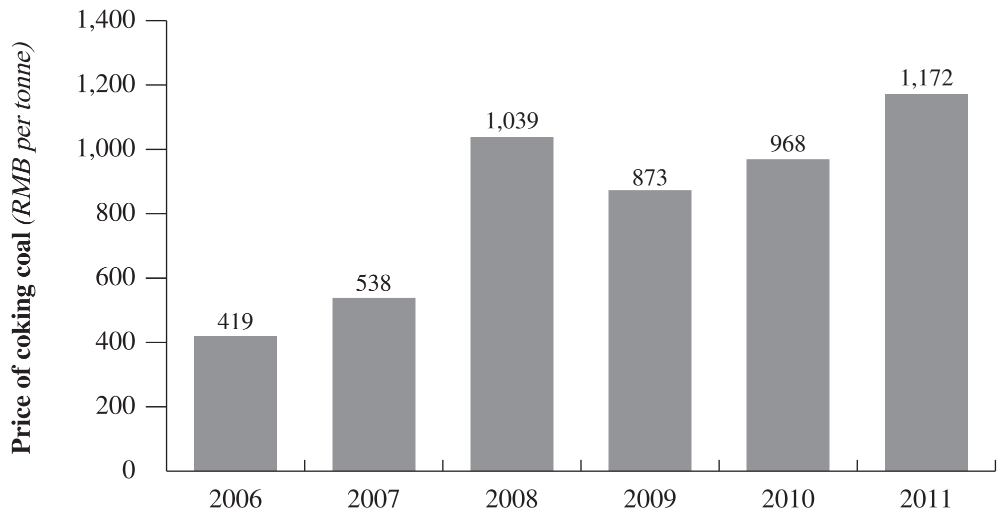
According to Fenwei, prices for all coking coal types in the PRC are expected to grow in the long run having taken into consideration of the followings:

– current shortage of coking coal supply, particularly premium and high-quality coking coal;

– increasing demand of coking coal for production of steel in the PRC as a result of stable expansion in Chinese economy; and

– greater pricing power of coking coal producers resulting from industry consolidation through mergers and acquisitions.

Coal pricing in Shanxi generally tracks that of the national prices. The local coking coal spot price has increased significantly since the start of 2002 and is somewhat insulated from the national and international markets given the region's degree of self-sufficiency. The following chart illustrates the price trend of coking coal in Shanxi 2006 to 2011:



In early 2007, the Shanxi Coking Enterprise Alliance ("**SCEA**") was formed by a number of State-owned and privately-owned coking coal enterprises in the northern provinces of the PRC. The SCEA comprises 212 coking enterprises, including 81 in Shanxi province, 55 in Shandong province, 75 in Hebei province and one in Shaanxi province. The SCEA's function is to regulate coking coal and coke production and thereby manage coke prices in a coordinated effort among the member enterprises with a focus on upstream and downstream producers.

5. Major coking coal market participants

According to Fenwei, Shanxi Coking Coal Group is the largest coking coal producer in Shanxi with current coking coal production capacity of 46.2 million tonnes per annum, representing approximately 10.2% of total coking coal production capacity in Shanxi. Going forward, Shanxi Coking Coal Group also has the largest planned coking coal production capacity in Shanxi. By 2015, the Lexing Group is expected to have production capacity of coking coal of 4.1 million tonnes, facing competition from other coking coal producers in Shanxi, Shaanxi and Inner Mongolia.

6. PRC Government Policy Towards the Coal Industry

Under the direction of the State Council of the PRC, provinces including Shanxi, Inner Mongolia, Hunan and Shaanxi that contribute to majority production of coal in the PRC would undergo series of mergers and acquisitions with an aim to phase out small-sized companies equipped with outdated mining technology. By 2015, the total number of coal mining companies would be limited to 4,000 and average annual production capacity of more than 1.0 million tonnes.

Pursuant to the "Twelfth Five-Year Plan in Coal Industry"(十二五煤炭發展規劃) implemented by the National Energy Board in the PRC, it is proposed that the investment in Shanxi coal industry will amount to RMB800 billion in the coming five years, representing approximately ten times from the "Eleventh Five-Year Plan in Coal Industry"(十一五煤炭發展規劃). The Shanxi Development and Reform Commission introduced that nine state-owned enterprises have already confirmed their investments of RMB115,700 million in six coal mining projects in Shanxi according to CNMHG(中國煤化工網) released in September 2012.

Further, pursuant to the "Steel Industry Development Policy"(鋼鐵產業發展政策) implemented by the PRC government, blast furnace with less than 1,000m^3 should be phased out in the steel industry, the new blast furnace to be constructed must be large blast furnace by using coke which in turn would increase the demand of coke. As an initiative to encourage high-quality coking coal and anthracite production as well as development of various coal derivatives, the resources tax levy imposed by the PRC government will be changed from quantity of coal to price of coal, likely to increase the price of coal.

I. CORPORATE HISTORY OF THE LEXING GROUP

Lexing

Lexing was incorporated in the BVI on 9 April 2010 and at its incorporation it was wholly-owned by Mr. Yan Ming, who is independent to City Bloom and its ultimate beneficial owners. On 26 August 2010, Mr. Yan Ming as vendor and China OEPC Limited as purchaser entered into a share transfer agreement in relation to the sale and purchase of the entire issued share capital of Lexing at a consideration of HK$210,000,000. The transfer was properly and legally completed on 8 October 2010 and the consideration was fully settled by China OEPC Limited on 29 October 2010. The consideration represented approximately 49% of the then paid up and registered capital of Shanxi Coal. As at 8 October 2010 and up to the Latest Practicable Date, China OEPC Limited has been indirectly wholly-owned by Mr. Zhang.

On 18 March 2011, China OEPC Limited as transferor and City Bloom as transferee executed an instrument of transfer in relation to the transfer of the entire issued share capital of Lexing at a consideration of US$1. The transfer was properly and legally completed and the consideration was fully settled by City Bloom on 18 March 2011. Since then, Lexing is a wholly-owned subsidiary of City Bloom and the holding company of the subsidiaries of the Lexing Group. Its principal assets are its investment in an indirect 49% equity interest in Shanxi Coal, which holds interests in its principal operating entities, namely Bolong, Liaoyuan, Jinxin, Fuchang and Xinfeng.

The difference between the investment of Mr. Zhang in the Lexing Group and the consideration of the Acquisition could be attributed to the progress of development of the Coal Mines since 2010. At the time when Mr. Zhang, via China OEPC Limited, acquired the Lexing Group, the operation of the Coal Mines has already been in suspension due to the implementation of coal resources consolidation programme in Shanxi, the business licenses of the certain PRC Mine Companies and some other required licenses have not been obtained, and the corresponding independent technical review under the JORC Code has not yet been commenced. According to the competent person's report on the Coal Mines dated 21 November 2012, the aggregate estimated marketable reserve of the Coal Mines is 43.36 million tonnes under JORC Code. The Directors consider that Mr. Zhang took on the risk and financed (i) the reconstruction and improvement work of the Coal Mines which are essential for the resumption; and (ii) the cost for the exploration of the Coal Mines. After taking into account the above factors and the discount of approximately 11.3% to the appraised value of the equity interest in the Lexing Group, the Directors consider that the consideration for the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

HK OEPC

HK OEPC was incorporated in Hong Kong on 16 February 2009. At its incorporation, the issued share capital of HK OEPC was HK$2.00 divided into two shares of HK$1.00 each, each of which was held by each of Mr. Li Chengyi and Ms. Shan Hong, both independent to City Bloom and its ultimate beneficial owners. On 8 July 2010, each of Mr. Li Chengyi and Ms. Shan Hong executed an instrument of transfer to transfer their respective shares in HK OEPC to Lexing at the consideration of HK$1 each. Such transfer was properly and legally completed and the respective considerations were fully settled by Lexing on 8 July 2010. Since then and up to the Latest Practicable Date, HK OEPC has been a direct wholly-owned subsidiary of Lexing.

Jiangxi Wantai

Jiangxi Wantai is a wholly foreign-owned enterprise established in the PRC on 24 June 2010, with an operation period of 20 years therefrom. Its business scope includes, among other things, coal mining operation (with permit valid until 3 November 2013), machinery wholesaling and trading, provision of consultancy services for energy projects, development and promotion of green energy and battery products, and energy recycling. The principal assets of Jiangxi Wantai are its 100% shareholdings in each of Jiangxi Hengchuang and Jiangxi Hengpuwei. The initial registered capital of Jiangxi Wantai amounted to RMB113,000,000, which would be contributed as to RMB79,100,000 by Mr. Li Xuwan and as to RMB3,390,000 by Mr. Cheng Ailin, representing approximately 70% and 30% of the then registered capital of Jiangxi Wantai. Both Mr. Li Xuwan and Mr. Cheng Ailin are independent to City Bloom and its ultimate beneficial owners. As at 14 July 2010, the registered capital was fully-paid up by Mr. Li Xuwan and Mr. Cheng Ailin.

On 24 July 2010, HK OEPC entered into an equity transfer agreement with each of Mr. Li Xuwan and Mr. Cheng Ailin pursuant to which Mr. Li Xuwan and Mr. Cheng Ailin agreed to transfer their respective 70% and 30% equity interest in Jiangxi Wantai to HK OEPC at the consideration of RMB79,264,640 and RMB33,970,560 respectively. Such transfer was properly and legally completed on 2 August 2010 and the consideration of such transfer was fully settled on 9 August 2010.

Jiangxi Hengchuang

Jiangxi Hengchuang was established by Mr. Zhang Bingwang and Mr. Kang Dangsheng in the PRC on 9 June 2010 with an operation period of 10 years therefrom. Its business scope includes, among other things, sale of energy equipment, investment in, planning, research and development and promotion of energy related projects, and investment management and consultancy services. The principal assets of Jiangxi Hengchuang are its 45% interests in each of Shanxi Ruiying and Taiyuan Zhituo and its 55% interest in Shanxi Changtong. At its establishment, its registered capital amounted to RMB10,000,000, which was contributed and fully paid-up as to RMB8,500,000 by Mr. Zhang Bingwang and as to RMB1,500,000 by Mr. Kang Dangsheng as at 7 June 2010, representing approximately 85% and 15% of the then registered capital of Jiangxi Hengchuang. Both Mr. Zhang Bingwang and Mr. Kang Dangsheng were independent to City Bloom and its ultimate beneficial owners.

On 25 June 2010, Jiangxi Wantai entered into an equity transfer agreement with each of Mr. Zhang Bingwang and Mr. Kang Dangsheng pursuant to which Mr. Zhang Bingwang and Mr. Kang Dangsheng agreed to transfer their respective 85% and 15% equity interest in Jiangxi Hengchuang to Jiangxi Wantai at the consideration of RMB8,585,000 and RMB1,515,000 respectively. Such transfer was properly and legally completed on 25 June 2010 and the respective considerations were fully settled on 12 July 2012. During July 2010, the registered capital of Jiangxi Hengchuang was increased by two stages to RMB60,300,000 as at 21 July 2010.

Jiangxi Hengpuwei

Jiangxi Hengpuwei was established by Mr. Kang Dangsheng and Mr. Zhang Bingwang in the PRC on 9 June 2010 with an operation period of 10 years therefrom. Its business scope includes, among other things, sale of energy equipment, investment in energy related projects, and investment management and consultancy. The principal assets of Jiangxi Hengpuwei are its 45% interest in Shanxi Changtong and a 55% interest in each of Shanxi Ruiying and Taiyuan Zhituo. At its establishment, its registered capital amounted to RMB10,000,000, which was contributed and fully paid-up as to RMB8,500,000 by Mr. Kang Dangsheng and as to RMB1,500,000 by Mr. Zhang Bingwang as at 7 June 2010, representing approximately 85% and 15% of the then registered capital of Jiangxi Hengpuwei.

On 25 June 2010, Jiangxi Wantai entered into an equity transfer agreement with each of Mr. Kang Dangsheng and Mr. Zhang Bingwang pursuant to which Mr. Kang Dangsheng and Mr. Zhang Bingwang agreed to transfer their respective 85% and 15% equity interest in Jiangxi Hengpuwei to Jiangxi Wantai at the consideration of RMB8,585,000 and RMB1,515,000 respectively. Such transfers were properly and legally completed on 25 June 2010 and the respective considerations were fully settled on 12 July 2010. As at 5 July 2010, the registered capital of Jiangxi Hengpuwei was increased to RMB51,350,000.

Shanxi Ruiying

Shanxi Ruiying was established by Mr. Zhang Jianqiang, who is a relative of Mr. Zhang, and 山西新華信投資有限公司 (Shanxi Xinhuaxin Investment Company Limited*) ("**Shanxi Xinhuaxin**"), both are independent to City Bloom and its ultimate beneficial owners, in the PRC on 18 January 2008. The operation period of Shanxi Ruiying is from 18 January 2008 to 30 December 2017. Its business scope includes, among other things, corporate project investment consultancy. The principal asset of Shanxi Ruiying is its 26% interest in Shanxi Coal. At its establishment, its registered capital amounted to RMB10,000,000, which would be contributed as to RMB1,000,000 by Mr. Zhang Jianqiang and as to RMB9,000,000 by Shanxi Xinhuaxin, representing approximately 10% and 90% of the then registered capital of Shanxi Ruiying. As at 22 June 2009, the registered capital was fully-paid up by Mr. Zhang Jianqiang and Shanxi Xinhuaxin.

Since its establishment, there were several transfers of equity interest in Shanxi Ruiying and in around June 2010, Shanxi Ruiying was owned as to 20% by 山西星潤煤焦有限公司 (Shanxi Xingrun Meijiao Company Limited*) ("**Shanxi Xingrun**"), an independent third party to City Bloom and its ultimate beneficial owners, and 80% by Shanxi Xinhuaxin. On 12 June 2010, Shanxi Xingrun entered into an equity transfer agreement with Jiangxi Hengpuwei, pursuant to which Shanxi Xingrun agreed to transfer 20% equity interest in Shanxi Ruiying to Jiangxi Hengpuwei at a consideration of RMB2,040,000. On the same date, Shanxi Xinhuaxin also entered into an equity transfer agreement with each of Jiangxi Hengpuwei and Jiangxi Hengchuang, pursuant to which Shanxi Xinhuaxin agreed to transfer the 35% and 45% of the equity interest in Shanxi Ruiying to Jiangxi Hengpuwei and Jiangxi Hengchuang respectively at a consideration of RMB3,570,000 and RMB4,590,000. The above transfers were properly and legally completed on 23 June 2010 and the respective considerations were fully settled on 21 June 2010. Since then, the registered capital of Shanxi Ruiying was owned as to 55% by Jiangxi Hengpuwei and as to 45% by Jiangxi Hengchuang.

Taiyuan Zhituo

Taiyuan Zhituo was established by Ms. Li Yanfang, who is independent to City Bloom and its ultimate beneficial owners, and Mr. Zhang Jianqiang, who is a relative of Mr. Zhang, in the PRC on 18 August 2009. Its operation period is from 18 August 2009 to 11 August 2019. Its business scope includes consultancy services for investment. The principal asset of Taiyuan Zhituo is its 8% equity interest in Shanxi Coal. At its establishment, its registered capital amounted to RMB1,100,000, which was contributed and fully paid-up as to RMB880,000 by Ms. Li Yanfang and as to RMB220,000 by Mr. Zhang Jianqiang as at 30 July 2009, representing approximately 80% and 20% of the then registered capital of Taiyuan Zhituo.

Since its establishment, there were several transfers of equity interest in Taiyuan Zhituo and in around December 2009, Taiyuan Zhituo was owned as to 30% by Ms. Li Yanfang, as to 50% by Mr. Yan Ming and as to 20% by Mr. Zhang Jianqiang. Ms. Li Yanfang and Mr. Yan Ming are independent to City Bloom and its ultimate beneficial owners. On 11 June 2010, each of Ms. Li Yanfang and Mr. Zhang Jianqiang entered into an equity transfer agreement with Jiangxi Hengchuang, pursuant to which Ms. Li Yanfang and Mr. Zhang Jianqiang agreed to transfer their respective 30% and 15% equity interests in Taiyuan Zhitao to Jiangxi Hengchuang at the consideration of RMB345,000 and RMB172,500. On the same date, each of Mr. Yan Ming and Mr. Zhang Jianqiang also entered into an equity transfer agreement with Jiangxi Hengpuwei, pursuant to which Mr. Yan Ming and Mr. Zhang Jianqiang agreed to transfer their respective 50% and 5% equity interests in Taiyuan Zhituo to Jiangxi Hengpuwei at a consideration of RMB575,000 and RMB57,500. The above transfers were properly and legally completed on 12 June 2010 and the respective considerations were fully settled on 21 June 2010.

Shanxi Changtong

Shanxi Changtong was established by 昌通國際投資股份有限公司 (Changtong International Investment Company Limited*) ("**Changtong International**"), owned as to 90% by Mr. Zhang and as to 10% by Ms. Hao Ting, the spouse of Mr. Zhang, and Ms. Hao Ting in the PRC on 6 October 2008 with an operation period of 10 years therefrom. Its business scope includes, among other things, development and management of energy projects, and sale of equipment and machinery for mining operations. The principal asset of Shanxi Changtong is its 15% interest in Shanxi Coal. At its establishment, its registered capital amounted to RMB100,000,000, which was contributed and fully paid-up as to RMB90,000,000 by Changtong International and as to RMB10,000,000 by Ms. Hao Ting as at 21 July 2009, representing approximately 90% and 10% of the then registered capital of Shanxi Changtong.

On 12 June 2010, each of Changtong International and Ms. Hao Ting entered into an equity transfer agreement with Jiangxi Hengchuang pursuant to which Changtong International and Ms. Hao Ting agreed to transfer their respective 45% and 10% equity interest in Shanxi Changtong to Jiangxi Hengchuang at the consideration of RMB45,000,000 and RMB10,000,000 respectively. On the same date, Changtong International and Jiangxi Hengpuwei entered into an equity transfer agreement pursuant to which Changtong International agreed to transfer its 45% equity interest in Shanxi Changtong to Jiangxi Hengpuwei at the consideration of RMB45,000,000. Such transfers were properly and legally completed on 22 June 2010 and the respective considerations were fully settled on 7 July 2010. Since then, Shanxi Ruiying has been owned as to 45% by Jiangxi Hengpuwei and as to 55% by Jiangxi Hengchuang.

Shanxi Coal

Shanxi Coal was established in the PRC with the name 山西能源產業集團煤層氣開發有限公司 (Shanxi Energy Industries Group Coal Mine Methane Development Company Limited*) on 18 April 2008. Based on its articles of association dated 8 April 2008, the initial registered capital of Shanxi Coal of RMB6,000,000 would be contributed as to RMB2,460,000 by 山西能源產業集團有限責任公司 (Shanxi Energy Industries Group Limited*) ("**Shanxi Energy**"), as to RMB2,400,000 by 龍門產業有限公司 (Longmen Industries Company Limited*) ("**Longmen Industries**") and as to RMB1,140,000 by 山西森潤實業有限公司 (Shanxi Senrun Industries Company Limited*) ("**Shanxi Senrun**"), representing approximately 41%, 40% and 19% of the then registered capital of Shanxi Coal. On 30 June 2008, the registered capital of Shanxi Coal was fully-paid up in the respective proportion by Shanxi Energy, Longmen Industries and Shanxi Senrun. Shanxi Energy, Longmen Industries and Shanxi Senrun were independent to City Bloom and its ultimate beneficial owners.

On 27 March 2009, Longmen Industries and Shanxi Changtong entered into an equity transfer agreement pursuant to which Longmen Industries agreed to transfer its 40% equity interest in Shanxi Coal to Shanxi Changtong at the consideration of RMB2,400,000. On the same date, Shanxi Senrun and 北京世紀朝輝商貿有限公司 (Beijing Century Chaohui Trading Company Limited*) ("**Beijing Century**"), a company independent to City Bloom and its ultimate beneficial owners, entered into another equity transfer agreement pursuant to which Shanxi Senrun agreed to transfer its 19% equity interest in Shanxi Coal to Beijing Century at the consideration of RMB1,140,000. Such transfer was completed on 30 March 2009 and the consideration was fully settled on 27 March 2009. On 30 March 2009, the name of Shanxi Coal was changed to 山西能源產業集團礦業投資開發有限公司 (Shanxi Energy Industries Group Investment and Development Company Limited*).

On 13 April 2009, the registered capital was increased to RMB200,000,000, which would be contributed by Shanxi Energy as to RMB79,540,000, by Shanxi Changtong as to RMB77,600,000 and by Beijing Century as to RMB36,860,000, representing approximately 41%, 40% and 19% of the then entire registered capital of Shanxi Coal.

On 7 July 2009, Shanxi Changtong and Shanxi Ruiying entered into an equity transfer agreement pursuant to which Shanxi Changtong agreed to transfer its 40% equity interest in Shanxi Coal to Shanxi Ruiying at the consideration of RMB80,000,000. Such transfer was completed on 7 July 2009 and the consideration was fully settled on 31 July 2009.

On 24 August 2009, Beijing Century entered into an equity transfer agreement with each of Shanxi Changtong and Shanxi Energy pursuant to which Beijing Century agreed to transfer its 9% and 10% equity in Shanxi Coal to Shanxi Changtong and Shanxi Energy respectively at the respective considerations of RMB18,000,000 and RMB20,000,000. Such transfer was completed on 26 August 2009 and the consideration was fully settled on 31 August 2009. Pursuant to the shareholder's resolution of Shanxi Coal dated 24 August 2009, the registered capital increased from RMB200,000,000 to RMB370,000,000, which would be contributed by Shanxi Energy as to RMB86,700,000, by Shanxi Ruiying as to RMB68,000,000 and by Shanxi Changtong as to RMB15,300,000, representing approximately 51%, 40% and 9% of the then entire registered capital of Shanxi Coal.

Pursuant to a shareholders' resolution of Shanxi Coal dated 19 October 2009, the name of Shanxi Coal was changed to 山西煤炭運銷集團能源投資開發有限公司 (Shanxi Coal Transportation and Sales Group Investment and Development Co., Ltd.*). On 20 October 2009, Shanxi Energy and Shanxi Coal Transportation entered into an equity transfer agreement pursuant to which Shanxi Energy agreed to transfer its 41% equity in Shanxi Coal to Shanxi Coal Transportation at the consideration of RMB151,700,000. On the same date, Shanxi Ruiying entered into an equity transfer agreement with each of Shanxi Changtong and Taiyuan Zhituo pursuant to which Shanxi Ruiying agreed to transfer its 6% and 8% equity in Shanxi Coal to Shanxi Changtong and Taiyuan Zhituo respectively at the respective considerations of RMB22,200,000 and RMB29,600,000. Such transfer was completed on 16 November 2010 and the consideration was fully settled on 22 November 2010. After such transfer, Shanxi Coal has been owned as to 41% by Shanxi Coal Transportation, as to 10% by Shanxi Energy, as to 26% by Shanxi Ruiying, as to 8% by Taiyuan Zhituo and 15% by Shanxi Changtong and the shareholding interest remained unchanged as at the Latest Practicable Date. The PRC Owners are entities under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

The business scope of Shanxi Coal includes the investment in, development and management of and advising on mineral and coal mining business, sale of equipment and machinery for mining operations, construction of gas station and ancillary facilities, and coal gas application and related projects. The operation period of Shanxi Coal commences from 18 April 2008 and ends on 15 April 2014.

As at the Latest Practicable Date, the mining assets held by Shanxi Coal comprises (i) 100% interest in Liaoyuan; (ii) 100% interest in Jinxin; (iii) 100% interest in Xinfeng; (iv) 100% interest in Bolong; and (v) 69.4% interest in Fuchang.

II. CORPORATE HISTORY OF THE PRC MINE COMPANIES

Pursuant to a document headed《山西省人民政府關於加快推進煤礦企業兼併重組的實施意見》(Opinion of the People's Government of Shanxi Province on the implementation of accelerating mergers and reorganisations of coal enterprises*) issued by the People's Government of Shanxi Province on 2 September 2008, coal mines in Shanxi Province have been undergoing a series of mergers and reorganisations under the direction of the State Council of the PRC. Small scale coal mines are merged and grouped into sizeable mining enterprises to enhance the overall production efficiency and safety standards. Pursuant to a document entitled《山西省人民政府關於進一步加快推進煤礦企業兼併重組整合有關問題的通知》(Notice of the People's Government of Shanxi Province on further accelerating merger, reorganisation and integration of coal enterprises*) issued by the People's Government of Shanxi Province on 15 April 2009, Shanxi Coal Transportation was one of the authorised entities to undertake the mergers and reorganisations. Pursuant to《關於授權山西煤炭運銷集團太原有限公司等14家子公司作為煤礦企業兼併重組整合主體的請示》 (The Reply on Application Submitted by Shanxi Coal Transportation and Sales Group (Taiyuan) Co., Ltd. and Several Other Subsidiaries to Act as the Purchasers for the Merger and Reorganisation Project of Certain Coal Enterprises*), Shanxi Coal Transportation authorises Shanxi Coal to undertake the mergers and reorganisations. Such authorisation has been approved by Shanxi Land and Resources Office and 山西省工商局 (Shanxi Administration for Industry and Commerce) and confirmed by 山西省煤礦企業兼併重組整合工作領導組辦公室 (The Coal Enterprises Merger, Reorganisation and Integration Office of the People's Government of Shanxi Province*). Pursuant to the PRC legal opinion issued by the PRC legal advisers of the Company, Shanxi Coal was one of the qualified entities confirmed by the relevant government authorities in Shanxi Province to undertake the merger and reorganisation of coal mines in Shanxi Province ("**Shanxi Mergers and Reorganisations**").

Liaoyuan

Liaoyuan was established in the PRC on 11 June 1999 as a limited liability company. Based on the business license of Liaoyuan dated 20 January 2013, Liaoyuan was restructured as a limited liability company and its registered capital amounted to RMB2,000,000, which would be contributed as to RMB1,250,000 by Mr. Wu Haiming and as to RMB780,000 by Ms. You Yuehua, both being independent to City Bloom and its ultimate beneficial owners, representing approximately 62.5% and 37.5% of the then registered capital of Liaoyuan.

As part of the Shanxi Mergers and Reorganisations and pursuant to several reorganisation agreements entered into between Liaoyuan and Shanxi Coal and equity transfer agreements entered into between Mr. Wu Haiming, Ms. You Yuehua and Shanxi Coal during the period from around August 2009 to December 2010, the entire equity interest in Liaoyuan was transferred from Mr. Wu Haiming and Ms. You Yuehua to Shanxi Coal at an aggregate consideration of RMB350,000,000. Such transfer was properly and legally completed on 21 June 2011.

Jinxin

Jinxin was established in the PRC on 23 April 2001 as a collectively-owned entity controlled by a village committee in Gujiao City. Pursuant to an agreement dated 14 July 2008 and entered into between such village committee, Mr. Kang Changming who is independent to City Bloom and its ultimate beneficial owners, and Mr. Zhang Sihuo (the brother of Mr. Zhang), Jinxin was restructured as a limited liability company and its net assets of RMB25,046,000 and RMB25,040,000 held by Jinxin were transferred to Mr. Kang Changming and Mr. Zhang Sihuo respectively. As at 14 July 2008, such net assets were injected into Jinxin and its registered capital amounted to RMB50,080,000, which was contributed as to RMB25,040,000 by Mr. Kang Changming and as to RMB25,040,000 by Mr. Zhang Sihuo, representing 50% and 50% of the then registered capital of Jinxin.

As part of the Shanxi Mergers and Reorganisations and pursuant to several reorganisation agreements entered into between Jinxin and Shanxi Coal and an equity transfer agreement entered into between Mr. Kang Changming, Mr. Zhang Sihuo and Shanxi Coal during the period from around June 2010 to July 2011, the entire equity interest in Jinxin was transferred from Mr. Kang Changming and Mr. Zhang Sihuo to Shanxi Coal at an aggregate consideration of RMB200,000,000. Such transfer was properly and legally completed on 8 August 2011.

Xinfeng

Xinfeng was established on 16 February 2009 in the PRC as a limited liability Company. As part of the Shanxi Mergers and Reorganisations, (i) a net asset transfer agreement ("**Xinfeng Asset Transfer Agreement I**") was entered into on 9 June 2011 between Shanxi Coal, 古交市煤焦總公司 (Gujiao City Coke Company Limited*) ("**Gujiao Coal**") and 古交市鑫峰煤業有限公司 (Gujiao City Xinfeng Coal Company Limited*) ("**Gujiao Xinfeng**") pursuant to which, among others, (a) Gujiao Coal and Gujiao Xinfeng (holding net assets of 古交市武家坡煤礦 (Gujiao City Wujiapo Coal Mine*) ("**Wujiapo Mine**") of approximately RMB4.51 million and RMB89.47 million respectively, which in aggregate constituted the total net assets of Wujiapo Mine as at the date of the Xinfeng Asset Transfer Agreement I) agreed to transfer 100% and 48.53% of the respective net assets of the Wujiapo Mine held by them to Shanxi Coal at the consideration of approximately RMB4.51 million and RMB43.42 million respectively; and (b) Shanxi Coal and Gujiao Xinfeng shall hold 51% and 49% of the equity interest in Xinfeng respectively following their capital contribution to Xinfeng with the net assets of the Wujiapo Mine of approximately RMB47.83 million and RMB46.05 million respectively; (ii) another net asset transfer agreement ("**Xinfeng Asset Transfer Agreement II**") was entered into on 10 June 2011 between Shanxi Coal and Gujiao Xinfeng pursuant to which, among others, (a) Gujiao Xinfeng agreed to transfer the remaining net assets of the Wujiapo Mine of approximately RMB46.05 million to Shanxi Coal at the consideration of approximately RMB46.05 million; and (b) Shanxi Coal shall hold 100% of the equity interest in Xinfeng following its capital contribution to Xinfeng with the total net assets of the Wujiapo Mine of approximately RMB93.98 million; and (iii) a supplemental agreement ("**Xinfeng Asset Transfer Supplemental Agreement**") to the Xinfeng Asset Transfer Agreement II was entered into on 10 June 2011 between Shanxi Coal and Gujiao Xinfeng pursuant to which, among others, Shanxi Coal agreed to pay an additional consideration of approximately RMB158.53 million to Gujiao Xinfeng for the transfer of net assets of the Wujiapo Mine under Xinfeng Asset Transfer Agreement II. Pursuant to the agreements set out above, the assets of the coal mines constituting the Xinfeng Mine were injected into Xinfeng.

An updated business license of Xinfeng was issued on 19 March 2013.

Bolong

Bolong was established in the PRC on 6 October 1993 as a limited liability company. As part of the Shanxi Mergers and Reorganisations, (i) a reorganisation agreement ("**Yingli Reorganisation Agreement**") was entered into on 26 August 2009 between Shanxi Coal and 古交市馬蘭鎮營立煤礦 (Gujiao City Malan Town Yingli Coal Mine*) ("**Gujiao Yingli**") in relation to the transfer of the total assets of Gujiao Yingli to Shanxi Coal; and (ii) another reorganisation agreement ("**Gougou Reorganisation Agreement**") was entered into on 26 August 2009 between Shanxi Coal and 古交後溝煤礦有限公司 (Gujiao Hougou Coal Mine Company Limited*) ("**Gujiao Hougou**") in relation to the transfer of the total assets of Gujiao Hougou to Shanxi Coal. On 1 July 2012, a supplemental agreement ("**Bolong Supplemental Agreement**") to the Yingli Reorganisation Agreement and the Gougou Reorganisation Agreement was entered into between Shanxi Coal, Gujiao Yingli, 山西開昌貿易有限公司 (Shanxi Kaichang Trading Company Limited*), Gujiao Hougou and Mr. Li Haitian pursuant to which the reorganisation under such reorganisation agreements was modified to (i) the total assets of Gujiao Yingli and Gujiao Hougou shall be transferred to Bolong after its establishment instead of Shanxi Coal; (ii) the consideration for the transfer of the total assets of Gujiao Yingli and Gujiao Hougou (being approximately RMB70.8 million and approximately RMB11.2 million respectively) shall be payable by Bolong; and (iii) the parties (except Shanxi Coal) shall not hold any equity interest in Bolong pursuant to the transfers of total assets of Gujiao Yingli and Gujiao Hougou. Pursuant to several agreements entered into between several coal mines constituting the Bolong Mine and Shanxi Coal (including the agreements set out above), the assets of such coal mines were injected into Bolong, a limited liability company with a registered capital of RMB23,924,200, all of which was contributed by Shanxi Coal.

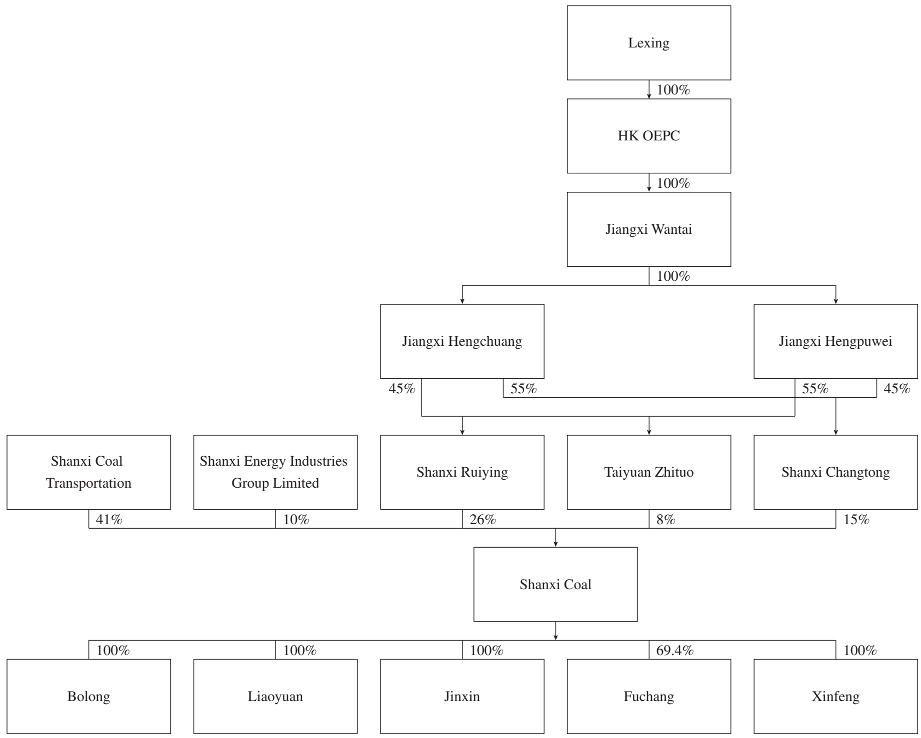
An updated business license of Balong was issued on 1 February 2013.

Fuchang

Fuchang was established in the PRC on 15 July 2007 as a limited liability company. As part of the Shanxi Mergers and Reorganisations, (i) a reorganisation agreement ("**Changsheng Reorganisation Agreement**") was entered into on 26 August 2009 between Shanxi Coal and 山西古交昌盛煤礦有限公司 (Shanxi Gujiao Changsheng Coal Mine Company Limited*) ("**Gujiao Changsheng**") in relation to, among others, the transfer of the total assets and mining rights of Gujiao Changsheng; (ii) another reorganisation agreement ("**Malan Reorganisation Agreement**") was entered into on 26 August 2009 between Shanxi Coal and 古交市馬蘭鎮辦煤礦 (Gujiao City Malan Town Coal Mine) ("**Gujiao Malan**") in relation to, among others, the transfer of the total assets and mining rights of Gujiao Malan; and (iii) an equity transfer agreement ("**Changsheng Transfer Agreement**") was entered into on 15 July 2012 between 古交市銀昌煤焦有限公司 (Gujiao Yinchang Coke Company Limited*) ("**Gujiao Yinchang**"), Shanxi Coal and Mr. Wu Fuhai pursuant to which Gujiao Yinchang transferred its 69.4% equity interest in Gujiao Changsheng to Shanxi Coal and its 30.6% equity interest in Gujiao Changsheng to Mr. Wu Fuhai. On 16 July 2012, a supplemental agreement ("**Fuchang Supplemental Agreement**") to the Changsheng Reorganisation Agreement and the Malan Reorganisation Agreement was entered into between Shanxi Coal, Gujiao Changsheng, Gujiao Malan, Gujiao Yinchang and Mr. Wu Fuhai, pursuant to which the reorganisation under such reorganisation agreements was modified to the following: (i) Fuchang was agreed to be established by changing the name of Gujiao Changsheng to Fuchang; (ii) Gujiao Yinchang agreed to transfer 69.4% and 30.6% of the equity interest in Gujiao Changsheng to Shanxi Coal and Mr. Wu Fuhai respectively at the total consideration of approximately RMB64.2 million payable by Shanxi Coal and Mr. Wu Fuhai in accordance with their proposed shareholding in Gujiao Changsheng; and (iii) Gujiao Malan agreed to transfer 100% of its total assets and mining rights to Fuchang. Pursuant to the Fuchang Supplemental Agreement, the parties agreed that (i) 30.6% of the total consideration payable by Mr. Wu Fuhai for the transfer of equity interest in Gujiao Changsheng shall be paid by Shanxi Coal on his behalf; (ii) 49% of the total consideration payable by Shanxi Coal for the transfer of the total assets of Gujiao Malan, whose sole beneficial owner was Mr. Wu Fuhai, shall be satisfied by the payment of consideration set out in (i) above; and (iii) accordingly 51% of the total consideration (amounting to approximately RMB49.4 million) for the transfer of the total assets of Gujiao Malan shall remain payable by Shanxi Coal. Pursuant to several agreements entered into between several coal mines constituting the Fuchang Mine and Shanxi Coal (including the agreements set out above), the assets of such coal mines were injected into Fuchang, a limited liability company with a registered capital of RMB2,000,000 as at 29 September 2012, which was contributed as to RMB1,388,000 by Shanxi Coal and as to RMB612,000 by Mr. Wu Fuhai representing approximately 69.4% and 30.6% of the then registered capital of Fuchang.

An updated business license of Fuchang was issued on 8 March 2013.

After completion of the transfers as disclosed in this section, the group structure of the Lexing Group as at the Latest Practicable Date is set out below:



I. OVERVIEW

The Lexing Group is principally engaged in the exploration and exploitation of coal products including coking coal in the PRC. Shanxi Coal is one of the subsidiaries of the Lexing Group established in the PRC on 18 April 2008 for the consolidation of five underground coal mining operations from former smaller mining operators, producing coking coals in Shanxi Province. Pursuant to a document entitled《山西省人民政府關於進一步加快推進煤礦企業兼併重組整合有關問題的通知》("Notice of the People's Government of Shanxi Province on further accelerating merger, reorganization and integration of coal enterprises") issued by the People's Government of Shanxi Province on 15 April 2009, Shanxi Coal was one of the authorized entities to undertake the mergers and reorganizations. Shanxi Coal is currently owned as to an aggregate of 49% by three indirect wholly-owned subsidiaries of Lexing, namely Shanxi Ruiying, Shanxi Changtong and Taiyuan Zhituo, and as to the remaining 51% by the PRC Owners. The PRC Owners are entities under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

The mining assets held by Shanxi Coal comprise (i) 100% interest in Liaoyuan; (ii) 100% interest in Jinxin; (iii) 100% interest in Xinfeng; (iv) 100% interest in Bolong; and (v) 69.4% interest in Fuchang.

Liaoyuan Mine, Jinxin Mine, Xinfeng Mine, Bolong Mine and Fuchang Mine are located in Gujiao City in Shanxi Province and are currently in the process of reconstruction to consolidate operations. Coals within the Coal Mines are mainly fat coals and coking coal. According to the competent person's report on the Coal Mines, the Lexing Group's mining rights areas contain a total of approximately 87.85 million tonnes of JORC-compliant measured, indicated and inferred coal resources and 43.36 million tonnes of JORC-compliant proved and probable marketable reserves as of 30 September 2012.

The resulted fat coals and coking coals during the reconstruction and improvement process are being sold to 古交市宏祥煤業有限公司 (Gui Jiao City Hongxiang Coal Company Limited*) at the selling price of RMB900 per tonne (excluding tax) which represents the prevailing coal price without processing. All the reconstruction and improvement work is expected to be completed by the end of May 2013, followed by three months of test runs. Formal operations of all of the Coal Mines are projected to start by September 2013 at the latest.

The Lexing Group adopted the underground mining for the exploration of coking coal. The Coal Mines were granted with the mining right which will be expired in the fourth quarter of 2014 to the first quarter of 2015. As advised by the PRC legal counsel, Shanxi Jianzheng Lawyer Office, the maximum holding period for mining right permits is 30 years and the owner of the mining rights has priority to renew or extend its mining rights if mineable reserves remain at the expiration of the mining right period and there is no material legal impediment to apply for the extension of the mining right permits.

II. COMPETITIVE STRENGTHS OF THE LEXING GROUP

The Directors believe that the Lexing Group possesses the following competitive strengths:

High-quality coking coal assets with abundant resources

Coal Mines are all located in Gujiao City in Shanxi Province. The seams are numbered in descending order from No.2 through No.9. The upper seams (No.2 through No.4) are in the Shanxi Formation of Permian Age. The lower coal seams (No.6 through No.9) are contained in the underlying Taiyuan Formation of Carboniferous Age. According to the competent person's report on the Coal Mines, the seams in Taiyuan Formation of Carboniferous Age (Nos.6 through 9) are slightly higher in sulfur than the upper seams. According to John T. Boyd Company, the coal quality of the Coal Mines are generally accepted by the local coking plant. The Coal Mines had 23.82 million tonnes and 19.54 million tonnes of JORC-compliant proved marketable reserves and JORC-compliant probable marketable reserves as of 30 September 2012, respectively.

Strategic location with convenient access to regional transportation networks

The Coal Mines are strategically located in Gujiao City in Shanxi Province. Gujiao is renowned as the PRC largest production site for coking coals. The PRC government regarded Gujiao City as the major production site for coking coals since 1988. With its long development history, Gujiao City is well equipped with the coal processing facilities and the rail infrastructure. The coals from the Coal Mines can be conveniently transported to the coal processing plants nearby within Gujiao City by truck. The Lexing Group believes that the low transportation costs from the Coal Mines to customers will appeal to customers and enhance the competitiveness of its coking coal relative to other more remotely located producers or producers in other provinces.

In addition, the location of the Coal Mines is close to local major highways, which can be easily accessed by the trucks. The mine railway nearby Malan Mine is within the distance of approximately 2km from the Coal Mines. This railway is connected to Taiyuan which is the important transportation hub in the PRC and the coking coals of the Coal Mines can be transported conveniently to all locations in the PRC with a reasonable transportation costs.

Experienced production and management team

The directors and senior management of the Lexing Group have extensive industry knowledge and experience as well as many years of work experience in operating mines in Shanxi. Mr. Zhang, a proposed executive Director, has been engaged in the mining industry for over 20 years. Mr. Zhang served as mine manager and general manager for certain mines in Shanxi. Mr. Zhang Xu, a proposed executive Director, served as the general manager of the Fulong Group and the general manager for Shanxi Coal since 2009. He had the experience for the merger and reorganisation of 15 coal mines in Shanxi with aggregate coal reserve of over 200 million tons and annual production capacity of 5 million tons. In addition, the mine manager of each of the Coal Mines is with qualification certificate of the mine manager and safety qualification certificate of the mine manager. The Lexing Group's management team possesses the leadership capabilities and qualifications required to sustain the business and ensure its continued success.

Qualification as a regional consolidator for mines in Shanxi

As advised by Shanxi Jianzheng Lawyer Office, the PRC legal adviser of the Lexing Group, Shanxi Coal was one of the eight entities delegated by the relevant government authorities in Shanxi Province to undertake the merger and reorganization of coal mines in Shanxi Province. With this qualification, the Lexing Group can expand its coal reserves through selective acquisitions in Shanxi. The management believes that this qualification can enable the Lexing Group to maximize the shareholder's value and ensure its continued success. As confirmed by City Bloom, Shanxi Coal has intention to acquire potential coal mines in future to enlarge its annual production capacity but it has not identified any specific target mines as at the Latest Practicable Date.

High mechanization with low capital expenditures

The Lexing Group has adopted longwall mining. The roadheaders used by the Lexing Group are domestically manufactured with experience from the Chinese mining industry. With longwall headgate road development, the roadway advance rate for the Coal Mines ranging from 10m/day to 17m/day for two-shift basis. According to the competent person's report on the Coal Mines, the longwall development generally uses roadheader technology, which represents a higher mechanization level widely adopted by other coal mines in the PRC. Moreover, John T. Boyd Company considers that, at the designed capacities of the mines, domestic longwall equipment appears capable of satisfying the output and operational requirements at relatively lower capital expenditures compared with imported equipment.

III. STRATEGIES

The Lexing Group intends to pursue the following business strategies following the Completion:

Realize near-term value through the development of the Coal Mines

The Lexing Group seeks to generate near-term value for its shareholders by completing the development of the Coal Mines on time, within budget, at or exceeding the quantity of coking coal planned. The Lexing Group seeks to fulfill the production capacity at 2.72 tonnes and 4.11 tonnes in 2013 and 2014 respectively, assuming the necessary production permits and approvals are obtained, to enable its shareholders to realize further near-term value.

	Projected Raw Coal Output *(million tonnes)*				
	2013	**2014**	**2015**	**2016**	**2017**
Bolong	0.79	1.36	1.22	1.27	1.15
Fuchang	0.58	0.62	0.68	0.68	0.68
Jinxin	0.52	0.50	0.47	0.48	0.45
Liaoyuan	0.27	0.64	0.68	0.64	0.64
Xinfeng	0.56	0.99	1.02	0.91	0.88
	2.72	4.11	4.07	3.98	3.80

The Lexing Group engaged various contractors to carry out the reconstruction and improvement works on each of the Coal Mines. Such works and services were mainly related to civil engineering, safety construction and environmental protection engineering, including conducting geophysical surveys, drilling, pit-bottom work, roadway development, equipment installation, underground water pumping facilities and testing, etc. For details of the reconstruction works at the Coal Mines, please refer to paragraph 4.2 headed "Mine Services" of Appendix VI to this circular. The Lexing Group has engaged 溫州興安礦山建設有限公司 (Wenzhou Xingan Coal Construction Co., Ltd*) ("**Wenzhou Xingan**") and 中煤河北煤炭建設第四工程處 (PRC Coal Hebei No.4 Engineering Division*) ("**Hebei No.4 Division**") to carry out the reconstruction works on the Xinfeng Mine and Jinxin Mine respectively. Wenzhou Xingan (holding a level-A qualification ("**Level-A Qualification**") of general contracting in mine construction projects) and Hebei No.4 Division (holding ISO9001 qualification) are responsible for all reconstruction projects including main, service and ventilation shafts of the Xinfeng Mine and Jinxin Mine respectively. 溫州銳峰礦山建設有限公司 (Wenzhou Ruifeng Coal Construction Co., Ltd*), holding the ISO9001 and ISO14001 qualifications, is responsible for the reconstruction and improvement work for the Bolong Mine. 山西焦煤西山金信建築有限公司 (Shanxi Xishan Jinxin Construction Co. Ltd.*), holding the Level-A Qualification, is responsible for the reconstruction and improvement work for the Fuchang Mine. 重慶川九建設有限責任公司 (Chongqing Chuanjiu Construction Co. Ltd.*), holding the Level-A Qualification, is responsible for the reconstruction and improvement work for the Liaoyuan Mine. Under the contracts entered into between the Lexing Group and its major contractors, the contractors shall be responsible for the cost of materials and tools for construction as included in the consideration (subject to adjustment in accordance with relevant rules and laws if it exceeds the budgeted amount), accommodation and safety needs of their workers. The contractors shall also provide a monthly, quarterly and/or annual progress report(s) to the Lexing Group in respect of the reconstruction works. Completion of the reconstruction works at each stage is subject to the satisfaction of the inspection result by the Lexing Group and an independently engaged consultancy firm. In the event of any delay in reconstruction due to substandard quality work, the contractors shall pay a certain sum of penalty fee to the Lexing Group according to the terms of the contract entered into with respective contractor. Selection of contractors is typically through a bidding process to ensure that all contracts are entered into on competitive terms. In respect of certain major reconstruction work at the Coal Mines, the Lexing Group engaged 山西省煤炭建設監理有限公司 (Shanxi Coal Construction Management Co., Ltd.*) to provide supervision and related services during the reconstruction of the Coal Mines. All of the above companies hold a level-qualification of supervision in mine construction projects and have supervised many medium-to large-scale mine construction projects in the PRC. By engaging experienced contractors in the PRC, especially in Shanxi Province, the Lexing Group has managed to ensure that the reconstruction work on the Coal Mines has been on schedule as at the Latest Practicable Date. In addition to the reconstruction work, the Lexing Group also purchased mining machinery and equipments and ancillary materials, including explosives from several suppliers at competitive market prices. The suppliers shall be responsible for installation and testing of the mining machinery and equipments on site.

The projected capital spending of the Coal Mines is estimated to be approximately RMB991.8 million. As at November 2012, the Lexing Group has already paid for approximately RMB662.6 million in accordance with terms of respective contracts with contractors and suppliers. Some of the payments were paid upon completion, while others were paid in stages of the provision of their services (in certain cases, an amount of approximately 5% of the total contract sum were retained by the Lexing Group as a guarantee for performance of any rectification work by the contractor if any defect is identified. Such retention money will be released to the contractor upon maturity of the retention period as stipulated in the contract, which will be a maximum of one year).

Strengthen customer relationship and broaden customer base

The abundance in the proved and probable coal resources of the Lexing Group and its close proximity to customers in Shanxi has allowed it to enter into memorandum of understanding for sale of coking coals to four customers in the region, namely 古交市宏祥煤業有限公司 (Gui Jiao City Hongxiang Coal Company Limited*), 河北鑫躍焦化有限公司 (Hebei Xinyue Coking Coal Company Limited), 古交市三江煤業有限公司 (Gui Jiao City San Jiang Coking Coal Company Limited*) and 古交市太陽神煤炭實業有限公司 (Gui Jiao Shi Taiyangshen Coking Coal Company Limited*), respectively. For principal terms of the memorandum of understanding, please refer to the paragraph headed "Customers" in this section. The Lexing Group believes that it can develop and strengthen these relationships in order to stabilize and grow its revenue by establishing itself as reliable producer that can provide a stable supply of high-quality coking coal. The Lexing Group believes that a close relationship with its customers could allow it to better anticipate the timing of these customers' orders or certain specific requests so that it may more sufficiently meet their needs.

Meanwhile the Lexing Group also believes that it can minimize sales risks by growing its customer base. As it implements its expansion plans, the Lexing Group will seek to attract other customers in the coal processing plants, steel, chemical, foundry, non-ferrous metal smelting and civil industries.

By cultivating strong relationships with its long-term sales contract customers and also building up a broad customer base through its supply of a high quality coking coal, the Lexing Group intends to achieve flexibility to adjust its sales strategies to meet varying market demand by different types of customers for coking coal.

Acquire coal mines in Shanxi to increase the production capacities

Shanxi Coal was one of the eight entities delegated by the relevant government authorities in Shanxi Province to undertake the merger and reorganization of coal mines in Shanxi Province and is therefore authorised acquire the potential mine sites to enlarge its annual production capacity. The Lexing Group believes that such acquisitions would result in low-cost expansion of the Lexing Group's coal resources and boost its production capacity. With the management's expensive experience in Shanxi Coal, the Lexing Group believes that its directors and senior management will be able to identify acquisitions with significant marketable coal resources and reserves.

Focus on construction and production safety, environmental protection and maintaining good relations with the local government and community

The Lexing Group has sought to address safety issues and has devoted resources to comply with relevant mining safety laws in the PRC. The Lexing Group also intends to utilize fully mechanized mining methods to minimize mining accidents and promote safety of its employees once production commences. In additions, the Lexing Group has adopted a specialized fire defense and control system at each of the Coal Mines which will put in place by the respective contractors for each of the Coal Mines. It has adopted measures including reducing float dust as much as possible by using water sprays in the development of longwall face areas and limiting ventilation air velocities to minimize fugitive dust pick-up.

The Lexing Group has also planned measures to maintain the environmental integrity of the mine sites including soil conservation plans, which the competent person's report on the Coal Mines has found to be satisfactory. The Lexing Group has constructed the surface protection sites, such as villages, roads, and industrial sites, are protected by maintaining protection pillars in the underground workings. Surface cracks are remediated to reduce rainwater and soil erosion, and prevent permeation of surface water. It has also consolidated soil and water conservation during reconstruction. According to the competent person's report prepared by Mr. Ronald L. Lewis of John T. Boyd Company, the technical experts are satisfied with the Lexing Group's budget of approximately RMB34.2 million for capital spending on environmental protection measures at the Coal Mines and that is within the typical range for the mine project.

Furthermore, the Lexing Group intends to employ local residents. The Lexing Group believes that fostering a cooperative relationship with local government and residents and investing in the local communities create trust that will add to the stability of the Lexing Group's operation.

IV. INFORMATION ABOUT COAL MINES

Liaoyuan

Liaoyuan is the holder of a mining license issued by the Shanxi Land and Resources Office on 20 December 2009 in respect of the Liaoyuan Mine covering an area of approximately 1.9844 km^2. The mining license was renewed and is valid for the period from 16 December 2012 to 16 December 2014 with annual production capacity of 600,000 tonnes of coal products including coking coal. Liaoyuan has obtained all the required licenses and approvals for the improvement works and commenced the reconstruction and improvement works at the Liaoyuan Mine on 27 December 2010. The required completion date of the improvement works has been extended to 30 April 2013. Under the mining license, the Lexing Group is permitted to produce 0.6 million tonnes per annum of coal through underground mining at the Liaoyuan Mine.

According to competent person's report on the Coal Mines issued by John T. Boyd Company, the Liaoyuan mining rights area contains (i) coal resources of approximately 18.02 million tonnes consisting of measured, indicated and inferred resources; and (ii) marketable coal reserves consisting of approximately 4.14 million tonnes of proved reserves and approximately 3.30 million tonnes of probable reserves.

A summary of the major seams in the Liaoyuan Mine is as follows:

Liaoyuan				
		Coal Seam		
Coal Quality Characteristics	**Basis***	**No. 6**	**No. 8**	**No. 9**
Moisture *(%)*	ad	0.76	0.66	0.66
Ash *(%)*	d	29.58	18.01	25.67
Sulfur (total) *(%)*	d	2.21	2.58	1.46
Phosphor	d	0.015	0.043	0.012
Volatile Matter *(%)*	daf	27.07	23.21	23.93
Y *(mm)*		10 – 27	21 – 41	25 – 44
Caking Index, G		51 – 66	82 – 96	91 – 102
Chinese Coal Classification		JM	FM	FM

* *Please refer to "Glossary and Definitions" as set out in Appendix VI to this circular for details.*

Set out below are the construction plan and the estimated capital expenditure outlay for the Liaoyuan Mine during the period from the fourth quarter of 2012 to the commencement of commercial production and until the fourth quarter of 2014:

	2012	**2013**				**2014**			
Construction schedule	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Construction									
Test Run									
Full Production									
Capital expenditure projections *(RMB' million)*	95.01	95.05				8.79			

As at the Latest Practicable Date, mining activities have not yet commenced at the Liaoyuan Mine. As indicated in the construction plan above, the Lexing Group expects to complete construction of Liaoyuan Mine before 30 April 2013. The Lexing Group estimated that the total capital expenditure outlay during the period from the first quarter of 2013 to the commencement of commercial production for the Liaoyuan Mine would amount to RMB84.95 million and the total capital expenditure outlay after full production until the fourth quarter of 2014 is approximately RMB18.89 million. Set out below is the quarterly production schedule of the Liaoyuan Mine from test run through the attainment of its full production:

Projected ROM Output *(million tonnes)* 2013	2014
0.27	0.64

The Lexing Group projects that the operating costs for the Liaoyuan Mine will be approximately RMB180.2 per tonne upon its full production in 2013.

Jinxin

Jinxin is the holder of a mining license issued by the Shanxi Land and Resources Office on 2 September 2010 in respect of the Jinxin Mine covering an area of approximately 0.9524 km^2. The renewed license is valid for the period from 8 January 2013 to 8 January 2015 with annual production capacity of 450,000 tonnes for coal products including coking coal. Jinxin has obtained all the required licenses and approvals for the improvement works and commenced the improvement works at the Jinxin Mine on 13 July 2011. As confirmed by City Bloom, the reconstruction and improvement works for Jinxin have been completed as at the Latest Practicable Date. Under the mining license, the Lexing Group is permitted to produce 0.45 million tonnes per annum of coal through underground mining at the Jinxin Mine.

According to competent person's report on the Coal Mines issued by John T. Boyd Company, the Jinxin mining rights area contains (i) coal resources of approximately 7.34 million tonnes consisting of measured, indicated and inferred resources; and (ii) marketable coal reserves consisting of approximately 1.05 million tonnes of proved reserves and approximately 2.32 million tonnes of probable reserves.

A summary of the major seams in the Jinxin Mine is as follows:

		Jinxin					
		Coal Seam					
Coal Quality Characteristics	**Basis***	**No. 03**	**No. 2+3**	**No. 4**	**No. 7**	**No. 8**	**No. 9**
Moisture *(%)*	ad	–	0.46	0.44	0.54	0.33	0.34
Ash *(%)*	d	24.00	14.00	26.00	16.09	14.00	20.00
Sulfur (total) *(%)*	d	0.60	1.00	0.40	1.00	2.00	1.20
Volatile Matter *(%)*	daf	24.00	23.00	22.00	23.84	19.00	21.00
Calorific Value *(Kcal/kg)*	Gr.v.d.	8,190	8,340	8,050	8,300	8,530	8,160
Chinese Coal Classification		JM	JM	JM	JM	JM	JM

* *Please refer to "Glossary and Definitions" as set out in Appendix VI to this circular for details.*

Set out below are the construction plan and the estimated capital expenditure outlay for the Jinxin Mine during the period from the fourth quarter of 2012 to the commencement of commercial production and until the fourth quarter of 2014:

	2012	**2013**				**2014**			
Construction schedule	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Construction									
Test Run									
Full Production									
Capital expenditure projections *(RMB' million)*	108.99	28.04				8.04			

As at the Latest Practicable Date, mining activities have not yet commenced at the Jinxin Mine. The Lexing Group has estimated that the total capital expenditure outlay during the period from the first quarter of 2013 to the commencement of commercial production for the Jinxin Mine would amount to RMB16.40 million and the total capital expenditure outlay after full production until the fourth quarter of 2014 is approximately RMB19.68 million. Set out below is the quarterly production schedule of the Jinxin Mine from test run through the attainment of its full production:

Projected ROM Output *(million tonnes)*	
2013	**2014**
0.52	0.50

The Lexing Group projects that the operating costs for the Jinxin Mine will be approximately RMB188.1 per tonne upon its full production in 2013.

Xinfeng

Xinfeng is the holder of a mining licenses issued by the Shanxi Land and Resources Office on 26 December 2009 in respect of the Xinfeng Mine covering an area of approximately 2.1966 km^2. The license was renewed and is valid for the period from 25 December 2012 to 25 December 2014 with annual production capacity of 900,000 tonnes of coal products including coking coal. Xinfeng has obtained all the required licenses and approvals for the improvement works. The required completion date of the improvement works is 29 May 2012. The expected completion date is currently 31 May 2013 and Xinfeng is currently applying for the extension of the allowed period of its improvement work. Mining production at Xinfeng Mine will commence after the aforesaid improvement works have been completed and certified by the relevant authorities. Under the mining license, the Lexing Group is permitted to produce 0.9 million tonnes per annum of coal through underground mining at the Xinfeng Mine.

According to competent person's report on the Coal Mines issued by John T. Boyd Company, the Xinfeng mining rights area contains (i) coal resources of approximately 12.98 million tonnes consisting of measured, indicated and inferred resources; and (ii) marketable coal reserves consisting of approximately 3.79 million tonnes of proved reserves and approximately 3.07 million tonnes of probable reserves.

A summary of the major seams in the Xinfeng Mine is as follows:

Xinfeng						
		Coal Seam				
Coal Quality Characteristics	**Basis***	**No. 02**	**No. 2**	**No. 4**	**No. 8**	**No. 9**
Moisture *(%)*	ad	0.81	0.85	0.83	0.78	1.02
Ash *(%)*	d	24.44	17.95	26.77	31.02	23.32
Sulfur (total) *(%)*	d	0.60	1.25	0.59	1.37	3.11
Volatile Matter *(%)*	daf	25.41	21.78	22.77	29.44	18.57
Calorific Value *(Kcal/kg)*	Gr.v.d.	5,970	6,960	–	–	–
Y *(mm)*		29	17	11	37	–
Caking Index, G		90	66	–	–	–
Chinese Coal Classification		FM	JM, FM, PM	JM, FM, SM, WY	FM	FM, PM

* *Please refer to "Glossary and Definitions" as set out in Appendix VI to this circular for details.*

Set out below are the construction plan and the estimated capital expenditure outlay for the Xinfeng Mine during the period from the fourth quarter of 2012 to the commencement of commercial production and until the fourth quarter of 2014:

	2012	2013				2014			
Construction schedule	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Construction									
Test Run									
Full Production									
Capital expenditure projections *(RMB' million)*	136.68	89.38				9.63			

As at the Latest Practicable Date, mining activities have not yet commenced at the Xinfeng Mine. As indicated in the construction plan above, the Lexing Group expects to complete construction of Xinfeng Mine before 31 May 2013. The Lexing Group has estimated that the total capital expenditure outlay during the period from the first quarter of 2013 to the commencement of commercial production for the Xinfeng Mine would amount to RMB80.32 million and the total capital expenditure outlay after full production until the fourth quarter of 2014 is approximately RMB18.69 million. Set out below is the quarterly production schedule of the Xinfeng Mine from test run through the attainment of its full production:

Projected ROM Output *(million tonnes)*	
2013	**2014**
0.56	0.99

The Lexing Group projects that the operating costs for the Xinfeng Mine will be approximately RMB177.8 per tonne upon its full production in 2013.

Bolong

Bolong is the holder of a mining license issued by the Shanxi Land and Resource Office on 5 January 2010 in respect of the Bolong Mine covering an area of approximately 5.995 km^2. The license was renewed with an area of approximately 5.986 km^2 and is valid for the period from 31 December 2012 to 31 December 2014 with annual production capacity of 1,200,000 tonnes of coal products including coking coal. Bolong has obtained all the required licenses and approvals for the improvement works and commenced the improvement works at the Bolong Mine on 29 December 2010. The required completion date of the reconstruction and improvement works is 29 October 2012. The expected completion date is currently 31 May 2013 and Bolong is currently applying for the extension will for the allowed period of the improvement work. Under the mining license, the Lexing Group is permitted to produce 1.2 million tonnes per annum of coal through underground mining at the Bolong Mine.

According to competent person's report on the Coal Mines issued by John T. Boyd Company, the Bolong mining rights area contains (i) coal resources of approximately 39.10 million tonnes consisting of measured, indicated and inferred resources; and (ii) marketable coal reserves consisting of approximately 10.61 million tonnes of proved reserves and approximately 9.86 million tonnes of probable reserves.

A summary of the major seams in the Bolong Mine is as follows:

		Bolong				
		Coal Seam				
Coal Quality Characteristics	**Basis***	**No. 02**	**No. 2**	**No. 4**	**No. 8**	**No. 9**
Moisture *(%)*	ad	0.75	0.93	0.82	0.93	0.89
Ash *(%)*	d	21.46	20.03	29.28	20.29	26.87
Sulfur (total) *(%)*	d	0.53	1.54	0.49	2.71	1.30
Volatile Matter *(%)*	daf	30.67	29.20	29.17	26.14	25.09
Calorific Value *(Kcal/kg)*	Gr.v.d.	7,590	8,200	8,110	8,540	8,230
Chinese Coal Classification		FM, JM	FM, JM	FM, JM	FM, JM	FM, JM

* *Please refer to "Glossary and Definitions" as set out in Appendix VI to this circular for details.*

Set out below are the construction plan and the estimated capital expenditure outlay for the Bolong Mine during the period from the fourth quarter of 2012 to the commencement of commercial production and until the fourth quarter of 2014:

	2012	**2013**				**2014**			
Construction schedule	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Construction									
Test Run									
Full Production									
Capital expenditure projections *(RMB' million)*	204.11	154.52				19.02			

As at the Latest Practicable Date, mining activities have not yet commenced at the Bolong Mine. As indicated in the construction plan above, the Lexing Group expects to complete construction of Bolong Mine before 31 May 2013. The Lexing Group has estimated that the total capital expenditure outlay during the period from the first quarter of 2013 to the commencement of commercial production for the Bolong Mine would amount to RMB132.99 million and the total capital expenditure outlay after full production until the fourth quarter of 2014 is approximately RMB40.55 million. Set out below is the quarterly production schedule of the Bolong Mine from test run through the attainment of its full production:

Projected ROM Output *(million tonnes)*	
2013	**2014**
0.79	1.36

The Lexing Group projects that the operating costs for the Bolong Mine will be approximately RMB203.9 per tonne upon its full production in 2013.

Fuchang

Fuchang is the holder of a mining license issued by the Shanxi Land and Resources Office on 25 April 2011 in respect of the Fuchang Mine covering an area of approximately 1.8006 km^2. The license is valid for the period from 8 January 2013 to 8 January 2015 with annual production capacity of 600,000 tonnes of coal products including coking coal. Fuchang has obtained all the required licenses and approvals for the improvement works and commenced the improvement works at the Fuchang Mine on 6 December 2011. The required completion date of the reconstruction and improvement works is 6 March 2013 and as confirmed by City Bloom, the reconstruction and improvement works for Fuchang have been completed as at the Latest Practicable Date. Under the mining license, the Lexing Group is permitted to produce 0.6 million tonnes per annum of coal through underground mining at the Fuchang Mine.

According to competent person's report on the Coal Mines issued by John T. Boyd Company, the Fuchang mining rights area contains (i) coal resources of approximately 10.41 million tonnes consisting of measured, indicated and inferred resources; and (ii) marketable coal reserves consisting of approximately 4.23 million tonnes of proved reserves and approximately 0.99 million tonnes of probable reserves.

A summary of the major seams in the Fuchang Mine is as follows:

		Fuchang				
		Coal Seam				
Coal Quality Characteristics	**Basis***	**No. 02**	**No. 02**	**No. 4**	**No. 8**	**No. 9**
Moisture *(%)*	ad	0.85	0.84	0.78	0.64	0.81
Ash *(%)*	d	26.53	36.95	27.82	17.69	27.17
Sulfur (total) *(%)*	d	0.40	0.83	2.10	2.80	0.95
Volatile Matter *(%)*	daf	30.32	32.40	27.25	26.59	27.21
Calorific Value *(Kcal/kg)*	Gr.v.d.	–	–	–	7,300	–
Chinese Coal Classification		FM	FM	FM	FM, JM	FM, JM

* *Please refer to "Glossary and Definitions" as set out in Appendix VI to this circular for details.*

Set out below are the construction plan and the estimated capital expenditure outlay for the Fuchang Mine during the period from the fourth quarter of 2012 to the commencement of commercial production and until the fourth quarter of 2014:

	2012	**2013**				**2014**			
Construction schedule	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Construction									
Test Run									
Full Production									
Capital expenditure projections *(RMB' million)*	101.11	43.04				5.14			

As at the Latest Practicable Date, mining activities have not yet commenced at the Fuchang Mine. The Lexing Group has estimated that the total capital expenditure outlay during the period from the first quarter of 2013 to the commencement of commercial production for the Fuchang Mine would amount to RMB31.20 million and the total capital expenditure outlay after full production until the fourth quarter of 2014 is approximately RMB16.98 million. Set out below is the quarterly production schedule of the Fuchang Mine from test run through the attainment of its full production:

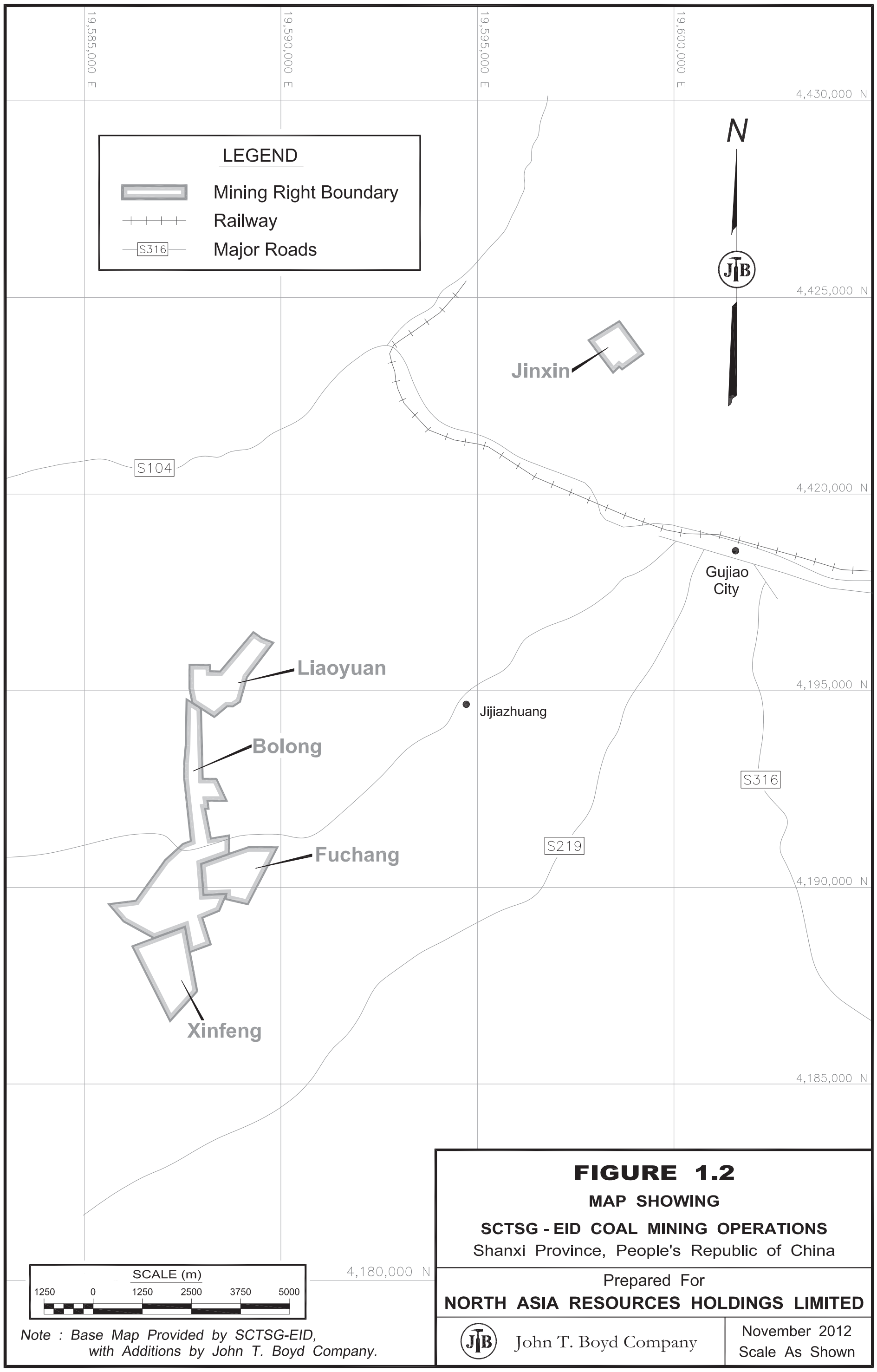
Projected ROM Output *(million tonnes)*	
2013	**2014**
0.58	0.62

The Lexing Group projects that the operating costs for the Fuchang Mine will be approximately RMB211.7 per tonne upon its full production in 2013.

As advised by the directors of the Lexing Group, the PRC Mine Companies generally commence the renewal application around one month before the expiry date of the mining licenses the earliest. The PRC Mine Companies will apply for renewal of the mining licenses at the appropriate time. Taking into account of the prior renewal of the mining licenses of the PRC Mine Companies, the directors of the Lexing Group do not foresee any obstacles in the renewal of the mining licenses upon their respective expiry. Mining production of the Coal Mines will commence after the aforesaid improvement works have been completed and certified by the relevant authorities.

The locations of the Coal Mines are shown on the map below:

1-9



As at the Latest Practicable Date, the entire equity interest of each of the PRC Mine Companies was owned by Shanxi Coal except for Fuchang which was 69.4% owned by Shanxi Coal. Shanxi Coal is a 49% owned indirect subsidiary of Lexing. The following table sets forth the reserve data for each of Coal Mines:

	Bolong	Fuchang	Jinxin	Liaoyuan	Xinfeng
Reserve data:					
Total proved and probable coal reserves (million tonnes as at 30 September 2012)	20.47	5.22	3.37	7.44	6.86

V. MERGERS AND REORGANIZATIONS OF COAL MINES IN SHANXI

Coal mines in Shanxi Provinces have been undergoing a series of mergers and reorganization under the direction of State Council of the PRC. It was intended to eliminate those mines which could not meet the safety and the minimum production capacity requirements. Coals mines which are not able to meet the required standard of safety and minimum production capacity are closed until the necessary reconstruction and improvement works have been undertaken.

Pursuant to a document headed《山西省人民政府關於加快推進煤礦企業兼併重組的實施意見》(“Opinion of the People’s Government of Shanxi Province on the implementation of accelerating mergers and reorganization of coal enterprises”) issued by the People’s Government of Shanxi Province on 2 September 2008, small scales coal mines are merged and grouped into sizeable mining enterprise to enhance the overall production efficiency and safety standards.

Pursuant to a document entitled《山西省人民政府關於進一步加快推進煤礦企業兼併重組整合有關問題的通知》(“Notice of the People’s Government of Shanxi Province on further accelerating merger, reorganization and integration of coal enterprises”) issued by the People’s Government of Shanxi Province on 15 April 2009, Shanxi Coal was one of the authorized entities to undertake the mergers and reorganizations. Such authorization has been approved by Shanxi Land and Resources Office and 山西省工商局 (Shanxi Administration for Industry and Commerce) and confirmed by 山西省煤礦企業兼併重組整合工作領導組辦公室 (The Coal Enterprises Merger, Reorganization and Integration Office of the People’s Government of Shanxi Province*).

The management of City Bloom originally expected that commercial operation of the Coal Mines will commence by the end of first half of 2012. However, pursuant to the additional requirements under certain notices issued by 山西省煤炭工業廳 (the Coal Industry Office of the Shanxi Province*) and 太原市煤炭工業局 (Coal Industry Bureau of Taiyuan City*) in February 2012 in relation to production safety in coal mines, with effect from February 2012, employees in the coal mining industry (including basic shaft construction workers) were required to undergo new mandatory trainings regarding the management of coal mines, which lasted for 20 days to two months in general. Until they completed certain sessions of such trainings, employees in the coal mining industry were not allowed to work in coal mines and the construction workers were not allowed to carry out construction work in coal mines. Accordingly, the workers of the Coal Mines had been undertaking such sessions of training since February 2012 to the fourth quarter of 2012 in batches and, due to the resulting reduction in workforce available during such period, the expected completion dates of the reconstruction and improvement works of the Coal Mines were delayed.

Further, the operation and the reconstruction and improvement works of the Coal Mines were interrupted by a number of extra inspections by the government authorities in the PRC regarding the safety measures of the coal mining sites from the end of 2011 to April 2012. During such inspections, the relevant government authorities had given recommendations as to the improvement and compliance with the government's standards. The nature and scope of such recommendations include, (i) for Liaoyuan Mine, maintenance of main inclined shaft facilities, renovation of the return air shaft, testing of ventilation system, payment of social insurances and the housing provident funds, establishment of the double circuit power supply programme and its measures; (ii) for Jinxin Mine, improvement works on the main inclined shaft and auxiliary inclined shaft and installation of new ground facilities; (iii) for Xinfeng Mine, maintenance and installation of main inclined shaft facilities, maintenance of return air shaft, testing and installation of equipments in the winch room and the transportation line of mine shafts, renovation of the car park underneath the mine shaft, clearance of major passages, renovation and clearance of the mine openings and reservoirs and maintenance of passages between coal bunkers; (iv) for Bolong Mine, improvement works on the main inclined shaft and return air shaft, safety testing of the auxiliary inclined shaft and the testing on the ventilation system and communication system within the mining facilities; and (v) for Fuchang Mine, maintenance of the main inclined shaft, return air shaft and ventilation system and payment of occupational injury and accidents insurances. All of the above recommendations and improvement works as required thereunder have been followed and completed, except for the payment of occupational injury and accidents insurances to workers of Fuchang Mine which will be settled after obtaining the relevant business license.

Operations of the Coal Mines would be halted until such government's recommendations were followed and complied with and the relevant government authorities approved the operations of the Coal Mines. Hence, the reconstruction and improvement works of the Coal Mines were further delayed. As at the Latest Practicable Date, all additional works as recommended by the government have been completed and the payment of occupational injury and accidents insurances to workers of Fuchang Mine have been settled. All ongoing training attended by the employees of all the Coal Mines were completed at the end of 2012, but the respective certificates for the training has yet to be distributed to the employees of the Coal Mines. As advised by the management of the Lexing Group, the normal operation of the Coal Mines can be commenced as set out the timetable below once the respective certificates mentioned above have been distributed.

All the reconstruction and improvement works is expected to be completed by the end of May 2013. The schedule of the improvement works and operation of the respective mines are set out below:

	Expected completion date of the reconstruction and improvement works	**Expected date of commencement of commercial operation**
Liaoyuan Mine	30 April 2013	1 August 2013
Jinxin Mine	Completed	1 June 2013
Xinfeng Mine	31 May 2013	1 September 2013
Bolong Mine	31 May 2013	1 September 2013
Fuchang Mine	Completed	1 May 2013

As advised by the management of City Bloom, as at the Latest Practicable Date, no further requirements has been imposed on the Coal Mines by the relevant PRC authorities and the expected completion dates of the reconstruction and improvement works, and thus the expected dates of commercial production, of the respective Coal Mines are not expected to be further delayed.

VI. LICENSES AND/OR PERMITS REQUIRED FOR COMMERCIAL PRODUCTION OF THE COAL MINES

Coal mining enterprises in the PRC need to obtain for the commercial production of each coal mine, among other things, (i) 企業兼併重組整合方案的批覆 (approval for the company reorganization proposal); (ii) 企業名稱變更核准通知書 (change of company name approval notice); (iii) 整合礦井地質報告審批 (approval for the mine geological report); (iv) mining license; (v) 礦井整合項目初步設計審批 (approval for the preliminary project design plan regarding the mine reorganisation); (vi) 礦井整合項目初步設計安全審批 (safety approval for the preliminary project design plan regarding the mine reorganisation); (vii) 項目建設工程開工批覆 (approval for the commencement of construction works); (viii) 礦長資格證 (qualification certificate of the mine manager); (ix) 礦長安全資格證 (safety qualification certificate of the mine manager); (x) business license; (xi) 煤礦建設項目整體竣工驗收文件 (acceptance certificate as to overall project completion) (the "**Acceptance Certificate**"); (xii) 環境影響報告之批文 (approval of environmental impact report) which requires, among others, the obtaining of 關於核定礦井兼併重組整合項目污染物排放總量的函 (letter on the determination of the maximum pollutants discharge amount regarding the mine reorganisation); (xiii) 煤炭安全生產許可證 (work safety license); and (xiv) 煤炭生產許可證 (coal production permit).

The following table set forth a summary of the mining licenses held by the PRC Mine Companies as at the Latest Practicable Date and other licenses and permits to be obtained for commercial production:

Mine	Area *(km²)*	Annual capacity *(tonne)*	Registered holder	Mining license expiration date	License(s)/permits to be obtained for commercial production
Liaoyuan Mine	1.9844	600,000	Liaoyuan	16 December 2014	(i) Acceptance Certificate; (ii) Work safety license; and (iii) Coal production permit
Jinxin Mine	0.9524	450,000	Jinxin	8 January 2015	(i) Acceptance Certificate; (ii) Work safety license; and (iii) Coal production permit
Xinfeng Mine	2.1966	900,000	Xinfeng	25 December 2014	(i) Acceptance Certificate; (ii) Work safety license; and (iii) Coal production permit
Bolong Mine	5.986	1,200,000	Bolong	31 December 2014	(i) Acceptance Certificate; (ii) Work safety license; and (iii) Coal production permit
Fuchang Mine	1.8006	600,000	Fuchang	8 January 2015	(i) Acceptance Certificate; (ii) Work safety license; and (iii) Coal production permit

Among those licenses and/or permits which have not been obtained by the PRC Mine Companies as disclosed in the above table:

i) improvement works on the environmental protection, project safety, fire safety and coal production systems of the Coal Mines are being conducted and the Acceptance Certificates will be applied for after such improvement works have been completed, which are expected to be obtained in the second quarter of 2013;

ii) the work safety licenses of the Coal Mines will be applied for after the technical reconstruction works on the relevant coal mine have been completed and approved by the relevant government authorities, which are expected to be obtained in around the first half of 2013; and

iii) the coal production permits of the Coal Mines will be applied for after all other licenses and/or permits required for commercial production are obtained, which are expected to be obtained in around the second half of 2013.

Pursuant to《中華人民共和國礦產資源法實施細則》(Implementation Rules of the Mineral Resources Law of the People's Republic of China*), the mining licenses held by the PRC Mine Companies allow their respective license holders, among others, (i) to conduct mining activities within the term and the area designated by the mining license; (ii) to undertake technical reconstruction works on the relevant mining site and, upon obtaining government approval on such reconstruction works when completed, to apply for the coal production permit, the work safety license and other licenses required for the production and sale of coal products; (iii) to sell mineral products (except for those minerals which the State Council of the PRC has prescribed for a unified purchase by the designated units only); (iv) to construct production facilities and living facilities within the licensed area; and (v) to obtain the land use rights which are required for production facilities.

At the same time, the holders of such mining licenses are subject to, among others, the following obligations:

(i) to conduct mining activities and utilise the mineral resources within reasonable limits;

(ii) to pay the mining right use fees, the resources tax and the mineral resources compensation fees;

(iii) to comply with the laws and regulations regarding the labour safety for production, water and soil conservancy, land recovery and environmental protection; and

(iv) to be subject to the supervision from the competent authorities in charge of geology and mineral resources and the other relevant competent authorities, and to file the mineral reserve forms and mineral resources development and utilisation statistics reports in accordance with the relevant regulations.

With respect to the rights of the use of the land and/or buildings regarding the subject mining sites of the Coal Mines, each of the PRC Mine Companies will either purchase or lease such mining sites from their respective current owners. Based on Article 30 of the《中華人民共和國礦產資源法實施細則》(Implementation Rules on the Mineral Resources Law of the People's Republic of China*), the PRC Mining Companies owned with a valid mining right permit themselves the legal right to construct mining related production facilities and living facilities on the property under which the Coal Mine is located and to obtain land use rights in respect of the parcel(s) of land for the purposes of such facilities.

On 16 April 2012, the Lexing Group obtained the approval from Shanxi Land and Resources Office for permitting the planning area of approximately 34.1532 hectares by the PRC Mining Companies out of the total 28 mining companies in Gujiao City. The PRC legal advisers to the Lexing Group has confirmed that pursuant to Article 57 of 《中華人民共和國土地管理法》(Land Administration Law of the People's Republic of China*), the Lexing Group can enter into a lease agreement with the collective economic entity which owns the collectively-owned land. For details, please refer to the "Risk Factors" section to this circular. Further, having considered (i) the time and costs involved in seeking conversion and transfer of the relevant lands into State-owned land; (ii) the limited benefits of seeking such conversion and transfer as the PRC Mine Companies will only use the relevant parcels of land to facilitate their mining operations and have no current intention to use them after the expiry of the mining rights; and (iii) the mining rights of the PRC Mine Companies allowing each of them to use the land by way of leases, it is not necessary to convert the collectively-owned land into construction land, which applies to the circumstances involving a permanent conversion of agricultural land into construction land.

Based on Article 30 of the《中華人民共和國礦產資源法實施細則》(Implementation Rules on the Mineral Resources Law of the People's Republic of China*), the PRC legal advisers to the Lexing Group confirms that there are no legal risks under the PRC laws that the Lexing Group will be unable to renew the abovementioned lease agreements upon expiration as (i) the Lexing Group will be entitled and the collective economic entities owning the leased land will be obliged to renew or extend the lease agreements; subject to determination of rental payments, which the PRC laws do not specify or provide any guidance on, (ii) if the collective economic entities demand unreasonably high rental payments, the Lexing Group is not obliged to accept such demand but are entitled to seek arbitration or court proceedings to determine reasonable rental payments which will be binding on the collective economic entities, (iii) notwithstanding that no grant or renewal of the leases could legally occur until rental amounts are determined (by mutual agreement or otherwise), the collective economic entities cannot legally prevent the Lexing Group from using the land during the period prior to determination of the rental amounts, but will only have a claim against the Lexing Group for the rental amounts for such period, and (iv) the collective economic entities cannot legally prevent the Lexing Group from using the land but will only have a claim against the Lexing Group for the rental amounts that would have been payable if the leases had not been defective. The Lexing Group expects that Shanxi Land and Resources Office, by virtue of the approval given on 16 April 2012, and other government departments would be involved in any proceedings so that the Lexing Group and the relevant collective economic entity(ies) will be able to reach an agreement. Based on the Lexing Group's understanding after having made all due enquires with the office of Shanxi Land and Resources Office and following the industry practice, the Lexing Group expects that Shanxi Land and Resources Office will provide all necessary assistance to the Lexing Group in entering into the lease agreements.

According to the Measures for the Registration of Mining of Mineral Resources promulgated by the State Council, where residual reserves remain after the term of a mining right permit expires, the holder of such mining right permit has a legal right to apply for an additional term. The maximum holding period for mining right permits is 30 years. As advised by its PRC legal adviser, Shanxi Jianzheng Lawyer Office, there is no legal impediment for the Lexing Group to renew the mining right. Based on the past experience of the directors of the Lexing Group, it is believed that under the current legal requirements there are no foreseeable major obstacles in renewing the mining rights when any of them expires.

As at the Latest Practicable Date, save as disclosed in the sections headed "Risk factors", "Legal and regulatory requirements" and "Business model of the Lexing Group" of this circular and Appendix IX to this circular, there are (i) no legal claims or proceedings that may affect the rights of the Lexing Group to explore or mine; and (ii) no information that are required to be disclosed under Rule 18.05(6) of the Listing Rules.

VII. RESERVE AND RESOURCES OF THE COAL MINES

The following table sets forth the breakdown of the reserves and resources information of the Coal Mines as extracted from the competent person's report dated 21 November 2012 prepared by Mr. Ronald L. Lewis of John T. Boyd Company in accordance with the requirements under Chapter 18 of the Listing Rules:

	In-place resource *(million tonnes)*				Recoverable reserves *(million tonnes)*			Marketable reserves *(million tonnes)*		
Mine	**Measured**	**Indicated**	**Inferred**	**Total**	**Proved**	**Probable**	**Total**	**Proved**	**Probable**	**Total**
Bolong	19.17	19.93	–	39.10	11.45	10.59	22.04	10.61	9.86	20.47
Fuchang	8.10	2.31	–	10.41	4.62	1.06	5.68	4.23	0.99	5.22
Jinxin	1.97	4.92	0.45	7.34	1.11	2.44	3.55	1.05	2.32	3.37
Liaoyuan	8.97	6.52	2.53	18.02	4.42	3.49	7.91	4.14	3.30	7.44
Xinfeng	6.39	6.59	–	12.98	4.09	3.32	7.41	3.79	3.07	6.86
Total	44.60	40.27	2.98	87.85	25.69	20.90	46.59	23.83	19.54	43.36

According to the competent person's report, different categories of reserves/resources are defined as follows: (i) the "in-place resources" are the coal resources in the ground, in situ and un-mined condition; (ii) the "recoverable reserves" are proved and probable reserves prior to the adjustment for preparation plant yield and are referred to the portion of the coal seam that can be recovered with the mining techniques specified in the feasibility or design study; and (iii) the "marketable reserves" are the saleable coal products derived from the recoverable reserves after taking into account the mining and processing losses, where applicable.

VIII. KEY FINANCIAL INFORMATION OF THE LEXING GROUP

Set out below is the summary of the key audited combined financial information of the Lexing Group for (i) the period from 9 April 2010 (date of incorporation) to 31 December 2010; (ii) the year ended 31 December 2011; and (iii) nine months ended 30 September 2012:

	From 9 April 2010 (date of incorporation) to 31 December 2010)		For the year ended 31 December 2011		Nine months ended 30 September 2012	
	RMB' million	*Equivalent to approximately HK$ 'million*	*RMB' million*	*Equivalent to approximately HK$ 'million*	*RMB' million*	*Equivalent to approximately HK$ 'million*
Turnover	–	–	8.7	10.7	21.8	26.9
(Loss)/Profit before tax	(64.5)	(79.6)	(217.8)	(268.9)	(169.5)	(209.3)
(Loss)/Profit after taxation attributable to owners of Lexing	(28.2)	(34.8)	(107.1)	(132.2)	(82.1)	(101.4)

As at 30 September 2012, the Lexing Group recorded unaudited net liabilities of approximately RMB614.7 million (equivalent to approximately HK$758.9 million). The above financial information was prepared using the Hong Kong Financial Reporting Standards.

IX. MINING OPERATIONS

The Lexing Group will engage in underground mining at the Coal Mines. The mining operations involve four main processes: mine development, extracting, coal transportation and coal processing and reclamation.

Coal Development

When constructing an underground mine, the Lexing Group use inclines to reach the coal seams. These tunnels are created by drilling with roadheaders and blasting, either in the host rock or the coal seam, and are used for the underground access and haulage of coal. The Lexing Group also uses tunneling to construct new longwall mining work faces after it finishes constructing the underground mine to ensure continuous mining operations.

Extracting

The Lexing Group currently uses the longwall mining method at all of Coal Mines. Longwall mining is a fully mechanized underground mining method in which the mining face is supported by a hydraulic shield while the coal is excavated by a shearer and then transported to the surface by conveyors. When mining of the longwall panel has been completed, the longwall system is moved to a new mining area. The longwall mining method can achieve high production volumes, high recovery rates, and high levels of safety and reliability as compared to the traditional mining method.

Coal transportation

The Lexing Group then conveys the coal it extract from the Coal Mines to ground storage through conveyors systems. The coal will then be transported to the processing plant by trucks. The Lexing Group does not have its own coal preparation plant and targets to acquire Taiyangshen Coal Processing Co., Ltd which is located 8 km northwest of Gujiao City and has a processing capacity of 3.0 million tonnes per annum using dense media technology. Due to the limited capacity of this company, part of the coal produced by the Coal Mines will be sold on raw basis after the coal is hand-picked.

Reclamation

Under the PRC laws, the Lexing Group is required to reclaim and restore mining sites to its prior condition after concluding its mining operations. Reclamation activity typically involves the removal of buildings, equipment, machinery and other physical remnants of mining; the restoration of land features in mined-out areas, dumping sites and other mining areas; and the contouring, covering and re-vegetation of waste rock piles and other disturbed areas.

As advised by City Bloom, the Lexing Group does not anticipate any major technical issues on the operation of the Coal Mines.

X. PRODUCTS

The Coal Mines have not commenced any mining operation at the Latest Practicable Date. The coals within Coal Mines are low to medium sulfur, medium to high volatile coking coals which will be sold to local processing plant that will be further processed for the iron production. During the reconstruction and the improvement work, the resulted coking coals are being sold to 古交市宏祥煤業有限公司 (Gui Jiao City Hongxiang Coal Company Limited*). During the nine months ended 30 September 2012, the Lexing Group recorded a revenue of approximately RMB21.8 million from trading of 22,500 tonnes of coals.

The following table sets forth the main chemical properties of the coals in the Coal Mines:

Coke quality specifications	**Value**
Moisture content *(%)*	< 1.0
Ash content *(%)*	< 25.0
Volatile matter content *(%)*	< 30
Sulfur content *(%)*	< 2.5

XI. RAW MATERIALS, ENERGY AND WATER SUPPLY

The Lexing Group expects that it will source the primary raw material of its coking coal operations, raw coal, from the Coal Mines and use electricity and water in its operations. Power for the Coal Mines is provided by electricity plant located approximately within 2 km from Coal Mines. The Coal Mines use the water from highland nearby as their main water supply source.

Construction of the backup electricity and water supply systems at the Coal Mines has been completed so that the Coal Mines will have reliable access to electricity and water for their operations. A water treatment plant is also designed to recycle waste water produced by the Lexing Group.

The Lexing Group's mining and production activities require the purchase of many types of machinery and equipment, including but not limited to coal extraction machines, haulage equipment, power supply equipment, air ventilation machines, drainage systems, air compression machines, fire safety equipment, gas control systems and safety control equipment. All of the machinery and equipment for mining and production is sourced from reputable third-party suppliers in the PRC, most of which are national, large-scale enterprises that are leaders in their respective markets.

XII. TRANSPORTATION

The Lexing Group primarily uses the railway system near the Malan Mine to deliver the coal to the customers. This railway is connected to Taiyuan City which is an important transportation hub in the PRC and the coking coals of the Coal Mines can be transported conveniently to all locations in the PRC with a reasonable transportation cost.

XIII. CUSTOMERS

The Coal Mines have not commenced the commercial operation. The improvement and reconstruction process produced the raw coking coals and 1,975 tonnes of such raw coking coals are being sold to 古交市宏祥煤業有限公司 (Gui Jiao City Hongxiang Coal Company Limited*) at the selling price of RMB900 per tonne (excluding tax) which represents the prevailing coal price without processing.

As at the Latest Practicable Date, the Lexing Group has signed the memorandum of understanding with the following customers for the orders of coking coals by December 2013:

	Ordered coals *(in tonnes)*
河北鑫躍焦化有限公司 (Hebei Xinyue Coking Coal Company Limited*)	1.40 million
古交市三江煤業有限公司 (Gui Jiao City San Jiang Coking Coal Company Limited*)	0.90 million
古交市宏祥煤業有限公司 (Gui Jiao City Hongxiang Coal Company Limited*)	0.75 million
古交市太陽神煤炭實業有限公司 (Gui Jiao City Taiyangshen Coking Coal Company Limited*)	0.70 million

Under respective memorandum of understanding, the selling price of coking coals to these customers shall be one per cent less than the prevailing market price. Details of other principal terms, including the exact unit price of coking coal, method of payment and payment term, are subject to signing of formal supply contracts between parties.

XIV. ENVIRONMENTAL PROTECTION

The Coal Mines are subject to the PRC environmental protection laws and regulations which currently impose fees for the discharge of waste substances, require the payment of fines for serious pollution and provide for the discretion of the PRC government to close any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage. All of the facilities are in compliance with the requirements of the relevant environmental protection and reclamation laws and regulations. The Lexing Group has not been subject to any penalties for breach of environmental laws or regulations.

The Lexing Group has adopted a number of environmentally responsible practices in the operations to minimize the damage of the operations to the environment. Surface cracks are remediated to reduce rainwater and soil erosion, and prevent permeation of surface water. In order to minimize disturbance due to fugitive dust and noise from the mine site, trees and shrubs are planted along the border between the mine construction site and villages.

The environmental protection management organizations will be established with specially assigned personnel from the mine management teams, tasked with the responsibility of enacting necessary environmental management systems for the mines. The planned capital expenditures for environmental protection for the Coal Mines are approximately RMB34.2 million.

XV. WORK SAFETY

The PRC government places significant regulatory requirements on coal mines with respect to employee safety. The Lexing Group regards occupational safety as one of the most important responsibilities and have implemented a number of measures to ensure compliance with the stringent regulatory requirements.

The Lexing Group has adopted the safety procedures according to the State Coal Mine Safety Guideline. The customary safety practices such as coal dust suppression, spillage control, and adequate roof and rib support were also in place to ensure employee safety and avoid accidents. As at the Latest Practicable Date, as confirmed by the Directors, there is no accident occurring that would cause the injuries to the employees.

XVI. INSURANCE

The Coal Mines are under construction, the relevant construction contractors are currently responsible for the insurance arrangements in relation to the projects. Upon completion of the construction, the Lexing Group intends to purchase and maintain insurance for the Coal Mines in accordance with PRC rules and regulations if required.

The Lexing Group does not currently maintain fire, liability or other property insurance for the property, equipment or inventory in its coal operations. The Lexing Group does not maintain business interruption insurance or third-party liability insurance for personal injury or environmental damages arising from accidents on its properties or relating to its operations either. The Lexing Group has maintained, and intends to continue to maintain, in accordance with relevant regulations, occupational injury, medical, unemployment, maternity and retirement insurance for its formal employees.

The Lexing Group will continue to review and assess its risks and make necessary adjustments to its insurance practices in line with its needs and industry practice in the PRC.

XVII. PROPERTIES

As of the Latest Practicable Date, the Lexing Group leased seven properties from several independent third parties as office space. Such leases contain an aggregate gross floor area of 4,260 square meters. Below is a brief summary of lease terms pursuant to the relevant lease contracts:

Lessee	Location	Gross floor area	Rental amount	Lease term	Payment term
Shanxi Coal	Gujiao City, Shanxi Province	3,000 square meters	RMB2.55 million in aggregate	From 18 July 2011 to 17 July 2014	(i) RMB0.3 million as initial deposit payable upon signing of the lease agreement; (ii) RMB0.5 million payable before 18 July 2011; (iii) RMB0.85 million payable before 18 July 2012; and (iv) RMB0.9 million payable before 18 July 2013.
Shanxi Changtong	Taiyuan City, Shanxi Province	600 square meters	RMB657,000 per annum during the lease term	From 1 January 2013 to 31 December 2015	(i) Initial deposit equivalent to two month's rental amount payable on the first business day after the signing of lease agreement; and (ii) Quarterly rental payment with first payment due on the third business day after the signing of the lease agreement.

Lessee	Location	Gross floor area	Rental amount	Lease term	Payment term
Shanxi Ruiying	Taiyuan City, Shanxi Province	300 square meters	RMB328,500 per annum during the lease term	From 1 January 2013 to 31 December 2015	(i) Initial deposit equivalent to two months' rental amount payable on the first business day after the signing of the lease agreement; and (ii) Quarterly rental payment with first payment due on the third business day after the signing of the lease agreement.
Taiyuan Zhituo	Taiyuan City, Shanxi Province	200 square meters	RMB219,000 per annum during the lease term	From 1 January 2013 to 31 December 2015	(i) Initial deposit equivalent to two months' rental amount payable on the first business day after the signing of the lease agreement; and (ii) Quarterly rental payment with first payment payable on the third business day after the signing of the lease agreement.
Jiangxi Hengpuwei	Nanchang City, Jiangxi Province	100 square meters	RMB800 per month during the lease term	From 2 June 2012 to 1 June 2013	(i) Initial deposit equivalent to three months' rental amount; and (ii) Monthly payment on or before the thirtieth day of each month.
Jiangxi Wantai	Nanchang City, Jiangxi Province	30 square meters	RMB600 per month during the lease term	From 22 June 2012 to 21 June 2013	(i) Initial deposit equivalent to three months' rental amount; and (ii) Monthly rent payable on or before the thirtieth day of each month.
Jiangxi Hengchuang	Nanchang City, Jiangxi Province	30 square meters	RMB600 per month during the lease term	From 2 June 2012 to 1 June 2013	(i) Initial deposit equivalent to three months' rental amount; and (ii) Monthly rent payable on or before the thirtieth day of each month.

The consideration payable by the Lexing Group under each of the lease agreements set out above was reached at after arm's length negotiations between the parties to the respective agreement with reference to, among others, the market rent of comparable office premises in the surrounding areas of the relevant premise.

With respect to the rights of the use of land and/or buildings regarding the subject mining sites of the Coal Mines, each of the PRC Mine Companies will either purchase or lease such mining sites from their respective current owners. Based on Article 30 of the《中華人民共和國礦產資源法實施細則》(Implementation Rules on the Mineral Resources Law of the People's Republic of China*), the PRC Mine Companies owned with a valid mining right permit themselves the legal right to construct mining related production facilities and living facilities on the property under which the Coal Mines are located and to obtain land use rights in respect of the parcels of land for the purposes of such facilities.

On 16 April 2012, the Lexing Group obtained the approval from Shanxi Land and Resources Office for permitting the planning area of approximately 34.1532 hectares by the PRC Mining Companies out of the total 28 mining companies in Gujiao City. The PRC legal advisers to the Lexing Group has confirmed that pursuant to Article 57 of 《中華人民共和國土地管理法》the (Land Administration Law of the People's Republic of China*), the Lexing Group can enter into a lease agreement with the collective economic entity which owns the collectively-owned land. For details, please refer to the "Risk Factors" section to this circular. Further, having considered (i) the time and costs involved in seeking conversion and transfer of the relevant lands into State-owned land; (ii) the limited benefits of seeking such conversion and transfer as the PRC Mine Companies will only use the relevant parcels of land to facilitate their mining operations and have no current intention to use them after the expiry of the mining rights; and (iii) the mining rights of the PRC Mine Companies allowing them to use the land by way of leases, it is not necessary to convert the collectively-owned land into construction land, which applies to the circumstances involving a permanent conversion of agricultural land into construction land.

Based on Article 30 of the《中華人民共和國礦產資源法實施細則》(Implementation Rules on the Mineral Resources Law of the People's Republic of China*), the PRC legal advisers to the Lexing Group confirms that there are no legal risks under the PRC laws that the Lexing Group will be unable to renew the abovementioned lease agreements upon expiration as (i) the Lexing Group will be entitled and the collective economic entities owning the leased land will be obliged to renew or extend the lease agreements; subject to determination of rental payments, which the PRC laws do not specify or provide any guidance on, (ii) if the collective economic entities demand unreasonably high rental payments, the Lexing Group is not obliged to accept such demand but are entitled to seek arbitration or court proceedings to determine reasonable rental payments which will be binding on the collective economic entities, (iii) notwithstanding that no grant or renewal of the leases could legally occur until rental amounts are determined (by mutual agreement or otherwise), the collective economic entities cannot legally prevent the Lexing Group from using the land during the period prior to determination of the rental amounts, but will only have a claim against the Lexing Group for the rental amounts for such period, and (iv) the collective economic entities cannot legally prevent the Lexing Group from using the land but will only have a claim against the Lexing Group for the rental amounts that would have been payable if the leases had not been defective. The Lexing Group expects that Shanxi Land and Resources Office, by virtue of the approval given on 16 April 2012, and other government departments would be involved in any proceedings so that the Lexing Group and the relevant collective economic entity(ies) will be able to reach an agreement. The Lexing Group expects that Shanxi Land and Resources Office will provide all necessary assistance to the Lexing Group in entering into the lease agreements.

The biographical details of the directors and senior management of the Lexing Group as at the Latest Practicable Date are set out below:

I. DIRECTORS OF THE LEXING GROUP

Mr. Zhang Sanhuo（張三貨） is a director of Lexing and Shanxi Coal. His biographical details are set out under the paragraph headed "Proposed Directors" in the Letter from the Board in this circular.

Mr. Zhang Xu（張旭） is a director of Shanxi Coal. His biographical details are set out under the paragraph headed "Proposed Directors" in the Letter from the Board in this circular.

Mr. Lei Pingfu（雷平富）, aged 58, is a director of Shanxi Coal. Mr. Lei graduated from 中共山西省委黨校 (Shanxi Provincial Committee Party School of Communist Party of China*) ("**Shanxi CPC School**") in September 1996 majoring in economic management. From 1996 to 2000, he acted as the director of 古交市地質礦產局 (Gujiao Bureau of Geology and Mining*). He subsequently worked as the director of 古交市煤炭工業管理局 (Gujiao Coal Industry Management Bureau*) ("**Gujiao Coal Bureau**") from 2001 to 2002, the director of 古交市安全生產監督管理局 (Gujiao Administration of Work Safety*) from 2002 to 2004 and the director of 古交市水務局 (Gujiao City Water Bureau*) from 2005 to 2008. Since December 2011, Mr. Lei has worked as the general manager of Shanxi Coal.

Ms. Huang Qian（黃倩）, aged 46, is a director of Shanxi Coal. Ms. Huang graduated from the Shanxi Finance Univeristy in 1987 majoring in accounting and from 中南財經政法大學 (Zhongnan University of Economics and Law*) in 2007 majoring in business management. She was the accountant of 西山煤電集團有限公司 (Xishan Coal and Electricity Power Group Company Limited*) ("**Xishan Coal**") from 1984 to 1987, the general manager assistant, chief financial officer and head of procurement of the western regional office of 北京華聯綜合超市股份有限公司 (Beijing Hualian Hypermarket Co., Ltd.*) from 1999 to 2005 and chief financial officer of 昌通國際投資集團股份有限公司 (Changtong International Investment Group Co., Ltd.*) from 2005 to 2009. Ms. Huang joined Shanxi Coal as deputy general manager and Chief Financial Officer in 2009 and is responsible for financial matters and management of Shanxi Coal.

Mr. Sun Wenjin（孫穩進）, aged 50, is a director of Shanxi Coal. Mr. Sun graduated with a bachelor's degree in Japanese Language from 山西大學 (Shanxi University*) in September 1984. Since June 2006, he acted as the chairman of Shanxi Senrun. He has also served as the chairman of 山西星潤煤焦有限公司 (Shanxi Xingrun Coking Coal Company Limited*) since April 2008 and a director of Shanxi Coal since October 2010.

Mr. Li Dezhi (李德志), aged 51, is a director of Shanxi Coal. Mr. Li graduated from 太原理工大學 (Taiyuan University of Technology*) ("**Taiyuan Technology University**") in July 2001 majoring in mine electrics and mechanics. From August 1992 to August 1999, he served concurrently as the mine manager of 山西霍州礦務局南下莊礦 (Shanxi Huozhou Mining Administration Nanxiazhuang Mine*) and the head of its mine electrics and mechanics department. He acted as the deputy mining electrics and mechanics manager of 山西霍州白龍礦 (Shanxi Huozhou Bailong Mine*) ("**Bailong Mine**") and the first deputy director of 山西霍州白龍礦洗煤廠 (Shanxi Huozhou Bailong Mine Coal Preparation Plant*) ("**Bailong Coal Plant**") from September 1999 to November 2003, the director of the Bailong Coal Plant from November 2003 to August 2007, the mine manager of 山西呂梁山煤電有限公司木瓜礦 (Shanxi Luliangshan Coal Industry and Electric Power Co., Ltd. Mugua Mine*) from August 2007 to January 2009 and the general manager of 山西呂梁能化公司 (Shanxi Luliang Energy and Chemical Industry Co., Ltd.*) and the mine manager of 山西呂梁廢塔礦 (Shanxi Luliang Feita Mine*) from January 2009 to August 2009. He subsequently acted as a manager of 晉中煤業有限公司 (Jinzhong Coal Industry Co., Ltd.*) ("**Jinzhong Coal**") from August 2009 to January 2012, during which he also acted as the deputy chief engineer of the production safety department of Shanxi Coal Transportation from August 2009 to December 2009 and the deputy general manager of its Jincheng branch office from December 2009 to January 2012. From January 2012, he has served as the chairman of Shanxi Coal.

Mr. Gao Xinying (高新穎), aged 49, is a director of Shanxi Coal. Mr. Gao graduated from the Shanxi CPC School in July 2010 majoring in legal studies. From August 1984 to April 1997, he acted as a Chinese Communist Party branch secretary of 清徐縣煤炭運銷公司 (Qingxu Coal Transportation and Sales Company*) and concurrently as the vice chairman of the labour union of such company from May 1989 to April 1997. He served as the chairman of the labour union of such company from September 2000 to March 2003, the deputy general manger of such company from April 2003 to February 2004 and the manager and the Chinese Communist Party branch secretary of 山西煤炭運銷集團太原清徐有限公司 (Shanxi Coal Transportation and Sales Group Taiyuan Qingxu Company Limited*) concurrently from February 2004 to August 2010.

Mr. Li Yan (李彥), aged 41, is a director of Shanxi Coal. Mr. Li graduated from the Shanxi Finance University in July 1999 majoring in accountancy. Since December 2007, he has served as the deputy general manager of 山西煤炭運銷集團太原有限公司 (Shanxi Coal Transportation and Sales Group Taiyuan Company Limited*) ("**Shanxi Coal Taiyuan**"). He concurrently acted as the general manager of 山西煤炭運銷集團古交有限公司 (Shanxi Coal Transportation and Sales Group Gujiao Company Limited*) from July 2008 to November 2009, the chairman of 山西煤炭運銷集團拓新煤業有限公司 (Shanxi Coal Transportation and Sales Group Tuoxin Coal Industry Company Limited*) and 山西恒源達經貿有限公司 (Shanxi Hengyuanda Economic and Trading Co., Ltd.*) from November 2009 to September 2010. Since September 2010, he has acted as vice chairman of 太原天然氣有限公司 (Taiyuan Natural Gas Company Limited*), the general manager of 太原美運天然氣有限公司 (Taiyuan Meiyuen Natural Gas Company Limited*) and a director of 太原同舟能源有限公司 (Taiyuan Tongzhou Energy Company Limited*).

Ms. Kong Xingqin (孔慶琴), aged 47, is a director of Shanxi Coal. Ms. Kong graduated from 中共中央黨校 (Central Party School of the Communist Party of China*) in July 2010 majoring in legal studies. She worked as the director of the clearing department of 太原煤炭交易市場 (Taiyuan Coal Trading Market*) of Shanxi Coal Transportation from January 1997 to November 2001 and the chief accountant of such market from November 2001 to April 2012. Since May 2012, she has served as the deputy director of the audit department of Shanxi Coal Transportation.

II. SENIOR MANAGEMENT OF THE LEXING GROUP

Mr. Hao Xiaofeng (郝曉峰), aged 47, is the chief engineer of Shanxi Coal Taiyuan and Shanxi Coal. Mr. Hao graduated from 中國礦業大學 (China University of Mining and Technology*) (formerly known as 中國礦業學院 (China Institute of Mining and Technology*)) specialising in mine construction in July 1986 and obtained a master's degree in business administration from the same university in July 2000. Mr. Hao has over 24 years of experience in the mining industry. Mr. Hao worked as a technician at 西山礦務局 (Xishan Mining Administration*) from July 1986 to May 1990 and an engineer at the Malan Mine of Xishan Coal from June 1990 to July 1997, and was the senior engineer, administrative manager, head of the safety department and senior engineer of such mine during the period from April 1998 to September 2009. Since October 2009, Mr. Hao has acted as the chief engineer of Shanxi Coal Taiyuan.

Mr. Guo Baoxiong（郭寶雄）, aged 48, is the mining engineer of Shanxi Coal. Mr. Guo graduated from 中共中央黨校函授學院 (Correspondence Institute of the Party School of the Central Committee of the Communist Party of China*) in July 2000 specialising in economic management and the Taiyuan Technology University in July 2012 specialising in coal mining. He served as the deputy mine production manager of 山西霍州礦務局李雅莊煤礦 (Shanxi Huozhou Mining Administration Liyazhuang Coal Mine*) and the Bailong Mine from November 1998 to February 2004, a manager and chief coordination director of 霍州煤電集團 (Huozhou Coal Electricity Group*) and 李雅莊煤礦 (Liyazhuang Coal Mine*) of such company and the mine manager of 文明煤礦 (Wenming Coal Mine*) of such company from February 2008 to May 2010. Since May 2010, he has acted as the deputy manager of Jinzhong Coal.

Mr. Huang Jiazheng（黃家正）, aged 54, is a senior engineer of Shanxi Coal. Mr. Huang graduated from 淮北礦務局職工大學 (University for Employees of Huaibei Mining Administration*) in August 1985 specialising in electrical engineering. He served as the deputy procurement director of 淮北礦務局楊莊煤礦 (Huaibei Mining Administration Yangzhuang Coal Mine*) ("**Yangzhuang Mine**") from 1993 to 1994, the director of a mining area of Yangzhuang Mine from 1995 to 1996, the director of 楊莊礦綜採、採預、維修、機電公司 (Yangzhuang Mine Mechanised Mining, Maintenance and Electrical Engineering Company*) from 1997 to 2006, a deputy production manager of 白羊嶺煤礦 (Baiyang Mine*) of 國投昔陽能源有限責任公司 (SDIC Xiyang Energy Co., Ltd.) ("**SDIC Xiyang**") from April 2007 to January 2011, director of electrics and mechanics of SDIC Xiyang from February 2011 to March 2012. Since April 2012, he has acted as the deputy general manager of Shanxi Coal.

Mr. Sun Shichang（孫世昌）, aged 48, is the deputy general manager of Shanxi Coal. Mr. Sun graduated from 中央農業廣播電視學校 (Central Broadcasting School of Agriculture*) specialising in economic management in July 2004. He served as a manager of 古交煤運公司 (Gujiao Coal Transportation Company*) from 2004 to 2009, the deputy manager of such company from May 2009 to May 2011. Since May 2011, he has acted as the deputy general manager of Shanxi Coal.

Mr. Zhang Baoyin（張寶銀）, aged 60, is a senior engineer of Shanxi Coal. Mr. Zhang Baoyin graduated from 北京鋼鐵學院 (Beijing Institute of Iron and Steel Technology*) specialising in mining in 1985. He served as the mine manager of 古交屯川煤礦 (Gujiao Tuenchuan Mine*) ("**Tuenchuan Mine**") from March 1996 to October 1999, the deputy director of 古交安全生產委員會辦公室 (Gujiao Work Safety Committee Office*) from June 2002 to September 2005 and the chief engineer of 山西古交焦煤集團 (Shanxi Gujiao Coking Group Co., Ltd.*) from September 2005 to December 2011. Since December 2011, he has acted as the deputy general manager on production safety of Shanxi Coal.

Mr. Chen Baohong (陳寶紅), aged 42, is the deputy general manager of Shanxi Coal. Mr. Chen graduated from 西山職工大學 (Xishan University of Workers*) specialising in mining in August 1989. He served as the director of the stoping area of 山西焦煤西山官地礦 (Shanxi Coking Coal Xishan Guandi Mine*) from 2004 to 2006, the director of two mining areas of such mine from 2006 to 2011. Since 2011, he served as the deputy general manager (production and infrastructure) of Shanxi Coal.

Mr. Ma Mingwei (馬明維), aged 47, is the mine manager of Bolong Mine. Mr. Ma graduated from 西山礦務局職工大學 (University of Workers of Xishan Mining Administration*) specialising in underground mining in July 1989. He served as the production manager of 西曲二礦 (Second Xiqu Mine*) of Xishan Mining Administration from 2005 to 2008, the mine manager of 文水縣靛頭礦 (Wenshui Town Diantou Mine*) from 2008 to 2010, the mine manager of Jinxin Mine from 2010 to 2011 and the mine manager of Xinfeng Mine from 2011 to 2012. Since February 2012, he has served as mine manager of Bolong Mine.

Mr. Liu Zhiping (劉志平), aged 52, is the mine manager of Fuchang Mine. Mr. Liu graduated from 西安冶金建築學院 (Xian University of Architecture and Technology*) specialising in mining in December 1981. He served as the mine construction engineer of 山西古交礦建工程處 (Shanxi Gujiao Mine Construction Office*) from 1983 to 1990, the executive engineer of 馬蘭礦總工程師辦公室 (Malan Mine Chief Engineer's Office*) from 1990 to 2010, the chief engineer of Bolong Mine from 2010 to 2012, the mine manager of Xinfeng Mine from January to August 2012. Since August 2012, he has served as mine manager of Fuchang Mine.

Mr. Jiao Guisheng (焦貴生), aged 48, is the mine manager of Xinfeng Mine. Mr. Zhao graduated from 山西礦業學院 (Shanxi Institute of Mining*) specialising in mining engineering in September 1984. He served as the production director and the chief engineer of 古交金業集團原相煤礦 (Gujiao Gold Group Yuanxiang Coal Mine*) from 2000 to 2005, the mine manager and the chief engineer of 孝義德順煤業有限公司 (Xiaoyi Deshun Coal Mining Company Limited*) from 2005 to 2009 and the mine manager of 介休旺源煤業有限公司 (Jiexiu Wangyuan Coal Mining Company Limited*) from 2009 to 2010. He subsequently acted as the deputy chief engineer and the production infrastructure director of Shanxi Coal from July 2010 to April 2011, the mine manager of Liaoyuan Mine from May to September 2011, chief engineer and the production infrastructure director of Shanxi Coal from September 2011 to January 2012 and the mine manager of Fuchang Mine from February to August 2012. Since September 2012, he has served as the mine manager of Xinfeng Mine.

Mr. Xue Lawang (薛臘旺), aged 52, is the mine manager of Liaoyuan Mine. Mr. Xue graduated from 山西煤炭職業技術學院 (Shanxi Vocational and Technical College of Coal*) ("**Shanxi Coal College**") specialising in mining in December 2010. He served as the mine manager of 古交大山煤礦 (Gujiao Dashan Coal Mine*) from 1987 to 1997, the mine manager of 古交胡家嘴煤礦 (Gujiao Hujiaozui Coal Mine*) from 1997 to 2011, the operational deputy mine manager of Bolong Mine from 2011 to 2012. Since May 2012, he has served as the mine manager of Liaoyuan Mine.

Mr. Yan Zhenwang (閆振旺), aged 50, is the mine manager of Jinxin Mine. Mr. Yan graduated from the Shanxi Coal College specialising in mining engineering in September 2009 and the Taiyuan Technology University specialising in coal mine exploration in September 2010. He served as the safety deputy mine manager of 白家溝聯辦礦 (Baijiagou Associated Mine*) from 1986 to 1991, the mine manager of 陵足溝煤礦 (Lingzugou Coal Mine*) from 1992 to 2000, the main representative of 白家溝煤礦 (Baijiagou Coal Mine*) from 2001 to 2009, the deputy general manager of 山西古交焦煤集團有限公司 (Gujiao Coke Group*) from 2010 to 2011 and its safety control director from 2010 to 2012. Since May 2012, he has acted as the mine manager of Jinxin Mine.

III. EMPLOYEES

As at the 31 December 2012, the Lexing Group had 888 full-time employees. Set out below is a breakdown of the number of the Lexing Group's full-time employees by function:

Departments	**Number of Employees**
Management	188
Production	596
Sales and marketing	28
Logistics and transportation	12
Financial and administration	64
Total	888

The Lexing Group recruits personnel from the open market and enters into employment contracts with them. The Lexing Group offers competitive remuneration packages to the employees, including salaries and bonuses to qualified employees. The Lexing Group provides on-going technical and operational training to its employees.

In the PRC, in accordance with relevant national and local labour and social welfare laws and regulations, the Lexing Group are required to pay in respect of our employees in the PRC various social security funds including basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, hospital insurance and insurance for maternity leave. Based on the relevant confirmation letters issued by the relevant authorities in charge, the directors of the Lexing Group believe that the Lexing Group have no outstanding social security funds payable by the Lexing Group in accordance with the PRC law as at the Latest Practicable Date.

The Lexing Group have not experienced any strikes, work stoppages or labour disputes which affected its operations and is believed that it has maintained good working relations with its employees.

This section sets out a summary of certain aspects of the government policies, regulations and measures concerning the Lexing Group's coal mining operations in the PRC and Shanxi.

I. MAIN REGULATORY GOVERNMENT AUTHORITIES

1. State Council

As the top executive body, it is responsible for the examination and approval of some major investment projects determined as such in 政府核准的投資項目目錄 (the Catalogue of Investment Projects Approved by the Government*) and other documents published by the PRC government.

2. National Development and Reform Commission ("NDRC")

It was established pursuant to the resolution adopted by the 10th National People's Congress in March 2003 and has taken over most of the functions previously performed by the former National Development and Planning Commission. NDRC develops and implements the main policies concerning the socio-economic development of the PRC; examines and approves investment projects exceeding specific investment amounts or in special industries, including the examination and approval of foreign invested projects; supervises the reform of state-owned enterprises; establishes industry policies and investment guidelines for the natural resource industries, such as coal, coal trading, coal–to-oil and coke production enterprises; works in conjunction with the Ministry of Commerce ("MOFCOM") to determine the aggregate national coal export quota and its allocation; and is responsible for assessing and implementing the linked pricing mechanism between coal and electric power prices.

3. Ministry of Land and Resources ("MLR")

It is authorized to issue land use rights and mining rights certificates, approve the transfer and leasing of mining rights, and review the fee of mining rights and reserve valuation.

4. MOFCOM

It works in conjunction with NDRC to determine the aggregate national coal export quota and its allocation.

5. State Administration of Coal Mine Safety ("SACMS")

It supervises the safe operation of coal mines, establishes various safety requirements, and is responsible for the implementation and enforcement of the laws and regulations concerning coal mines and their safe operation.

6. Ministry of Environmental Protection ("MEP")

It monitors and controls environmental protection works, and supervises environmental systems across the country.

II. GOVERNMENT POLICIES, REGULATIONS AND MEASURES APPLICABLE TO COAL MINING OPERATIONS IN THE PRC AND SHANXI

1. Coal industry in the PRC

The coal industry in the PRC is subject to extensive regulations by the PRC government. These regulations govern a wide range of areas including, but not limited to, investments, exploration, production, mining rights, distribution, trading, transportation and exports related to coal. In addition, coal operations are subject to fees and taxes, as well as safety and environmental protection laws and regulations.

Pursuant to 國務院關於投資體制改革的決定 (the State Council's Decision on the Institutional Reform of Investment System*) promulgated on 16 July 2004 and the Catalogue of Investment Projects Approved by the Government (2004), applications for all coal mine development projects within the state-planned mining areas are required to be submitted to NDRC for approval, while those for other general coal mining development projects shall be submitted to the competent investment regulatory authority of the local governments for approval.

Pursuant to 外商投資產業指導目錄(2011年修訂)(the Guidance Catalogue of Industries for Foreign Investment (revised in 2011)*), which was promulgated on 24 December 2011 and implemented on 30 January 2012, coal exploration and mining does not fall into the categories of industries in which foreign investment is encouraged, restricted or prohibited, while the exploration and mining of special and rare coal falls into the category of industry in which foreign investment is restricted.

2. The Coal Law, the Mineral Resources Law and related laws and regulations

In August 1996, 中華人民共和國煤炭法 (the Standing Committee of the National People's Congress promulgated the Coal Law of the PRC*) (the "Coal Law"), which became effective on 1 December 1996. The Coal Law was further revised in April 2011, which became effective on 1 July 2011. The Coal Law sets forth requirements in many areas of coal production, including, among others, exploration, the approval of new mines, the issuance of production permits, the implementation of safety standards, the trading of coal, the protection of mining areas from destructive exploitation, the protection of miners and administrative supervision.

All mineral resources in the PRC are state-owned under 中華人民共和國礦產資源法 (the current Mineral Resources Law of the PRC*) (the "Mineral Resources Law"), which was promulgated on 19 March 1986 and amended on 29 August 1996. MLR is responsible for the supervision and administration of the mining and exploration of mineral resources nationwide. The geology and mineral resources bureaus of the people's government of each province, autonomous region and municipality are responsible for the supervision and administration of the exploration, development and exploitation of mineral resources within their own jurisdictions. Enterprises engaging in the exploration and exploitation of mineral resources must obtain exploration rights or mining rights, as the case may be, which are transferable.

According to the Coal Law and the Mineral Resources Law, exploration and exploitation of coal is subject to supervision by MLR and the relevant local mineral resource authorities and coal administration departments. Upon approval, an exploration permit for each exploration area being applied for or a mining permit for each mine being applied for will be granted by MLR or the relevant local mineral resource authority responsible for supervising and inspecting exploration and exploitation of mineral resources in the jurisdiction. Annual reports are required to be filed by the holders of mining permit with the relevant administrative authorities that issued the permits. A coal producer must also obtain a production permit for each of its mines in order to begin producing and selling coal in the PRC. A coal producer is also required to obtain a mine chief qualification certificate for each of its mine chiefs. In addition, the production capacity of each coal mine is subject to annual review by NDRC or its provincial counterpart.

Pursuant to 礦產資源開採登記管理辦法 (the Procedures for the Registration of Mining of Mineral Resources*), which was promulgated and implemented on 12 February 1998, an applicant for mining right shall file an application in advance for designating the licensed area with the registration administration authority based on the approved report on geological exploration reserves. The state implements a system of acquisition for value on the mining rights.

Under the Coal Law and the Mineral Resources Law, coal producers are required to achieve certain reserve recovery rates. Pursuant to the provisions for the implementation of the Mineral Resources Law, a mine operator must follow certain procedures in closing a mine, including, among other things, submitting a mine closure geology report to the regulatory authority that originally approved the opening of the mine. Mining rights are transferable subject to the approvals of relevant geological, mineral resources and land authorities of the PRC and upon satisfaction of other conditions as stipulated under PRC laws and regulations. A holder of a mining permit has the right to and is also obligated to conduct mining activities in the area and within the time period designated in the mining permit.

3. Laws and regulations in relation to safety

The State Administration of Work Safety ("SAWS") and SACMS under the supervision of SAWS are the PRC government authorities exercising control over and supervision of the safety of coal production. In order to proceed with the construction of a coal mine project, the project's safety designs and procedures must be examined and approved by SACMS or its local offices. Upon the completion of a coal mine construction project and before the commencement of production, further inspection and approval by SACMS or its local offices of the facilities and conditions is required. SACMS also conducts regular safety inspections of coal producers pursuant to 中華人民共和國安全生產法 (the Safety Production Law), 中華人民共和國礦山安全法 (the Mining Safety Law of the PRC*) and applicable safety regulations.

Pursuant to 煤礦建設項目安全設施監察規定 (the Rules on Supervision of Coal Mine Construction Project Safety Facilities*) which was passed on 2 July 2003 and implemented on 15 August 2003, the safety assessment of a coal mine construction project covers safety pre-assessment (which is done at the feasibility study stage) and safety acceptance assessment (which is done prior to production or use). In addition, the design of safety facilities of a coal mine construction project shall be examined and approved by the coal mine safety administration prior to the commencement of construction work. Upon completion, a coal mine construction project can be put into normal production or use after going through a combined trial operation. The period of combined trial operation shall be no less than one month but no more than six months. A coal mine construction project can be put into production and use only after its safety facilities and conditions have been inspected and accepted by the coal mine safety authorities.

Under 煤礦企業安全生產許可證實施辦法 (the Implementation Measures for Coal Production Safety Permits*) which is effective from 17 May 2004, each operating coal mine is required to apply for a coal production safety permit from SACMS or its provincial counterpart.

Under 煤礦安全規程 (the Safety Regulations in Coal Mine*) which is effective from 1 January 2005, each operating coal mine is required to apply for a mine chief safety qualification certificate and a special staff operating qualification certificate from SACMS or its provincial counterpart.

4. Laws and regulations in relation to environmental protection

MEP is responsible for the overall supervision and control of environmental protection in the PRC. It formulates national standards for discharging waste materials and environmental protection and monitors the environmental protection systems in the PRC. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction. 中華人民共和國環境保護法 (The Environmental Protection Law of the PRC*) (the "Environmental Protection Law") requires all operations that produce pollutants or other hazards to take environmental protection measures and to establish an environmental protection responsibility system. Such system must include the adoption of effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. Any entity that discharges waste material must report to and register with the relevant environmental protection authority.

5. The Water Pollution Prevention Law

中華人民共和國水污染防治法 (The Water Pollution Prevention Law of the PRC*) (the "Water Pollution Prevention Law") was promulgated on 11 May 1984 and revised on 15 May 1996 and 28 February 2008. It is the legal framework for the prevention and control of water pollution in respect of terrestrial and underground water from rivers, lakes, canals, channels and reservoirs. Environmental protection authorities of local governments are vested with the functions to supervise and administer the prevention and control of water pollution, while MEP is in charge of the formulation of national water quality standards and national pollutant discharge standards. The provincial governments can supplement unstipulated items by setting local standards and file them with MEP. Any enterprise or institution that discharges water pollutants is subject to a discharge fee in accordance with relevant regulations and a fine in case of emissions in excess of the prescribed level, and has to take corrective measures for the excess within a time limit. The urban centralized water pollutant disposal institutions provide services and charge water pollutant disposal fees to maintain the normal operation of centralized sewage processing facilities. Any enterprise or institution which has paid a sewage treatment fee is not subject to the pollutant discharge fees.

6. The Atmospheric Pollution Prevention Law

中華人民共和國大氣污染防治法 (The Atmospheric Pollution Prevention Law of the PRC) (the "Atmospheric Pollution Prevention Law") was promulgated on 5 September 1987, revised on 29 August 1995 and became effective on 1 September 2000. It is used for the prevention and control of atmospheric pollution from, among other things, the burning of coal, motor-driven vehicles and vessels, exhaust gases and dust. Environmental protection administration departments of governments at or above county level are responsible for conducting unified supervision and management of the prevention and control of atmospheric pollution. Where atmospheric pollutants are discharged, the concentration of those pollutants must not exceed the standards prescribed by the State and local authorities. In addition, fees are levied by the government for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants discharged. Entities that fail to comply with the Atmospheric Pollution Prevention Law will be subject to a warning notice, a fine, the confiscation of illegal earnings and the suspension of or the closure of their operations as determined by the competent environmental protection authority. They may also be subject to potential criminal liability. Any entity that has caused an atmospheric pollution hazard shall eliminate the pollution and compensate relevant entities or individuals for the relevant loss.

7. Provisions on the Protection of the Geologic Environment of Mines

Pursuant to 礦山地質環境保護規定 (the Provisions on the Protection of the Geologic Environment of Mines*) promulgated on 2 March 2009 and effective on 1 May 2009, (a) an owner of mining right shall pay a security deposit to guarantee performance of its obligations to restore the geological environment of the relevant mines; (b) the entire amount of security deposit collected shall be placed in a special account; (c) prior to the closure of a mine, the holder of the relevant mining permit shall complete the restoration of the geological environment of the mine, apply for an inspection of the mine and submit a report regarding the restoration of the geological environment of the mine; and (d) the security deposit together with interest shall be refunded if the inspection is satisfactory, otherwise the relevant land and resources authority shall organize the restoration using the security deposit and the relevant mine owner shall be liable for any shortfall if the security deposit is insufficient.

8. Regulations in relation to the environmental protection of construction projects

On 29 November 1998, the State Council promulgated 建設項目環境保護管理條例 (the Regulations on the Administration of Construction Project Environmental Protection*) (the "Regulations on Construction Project Environmental Protection"). On 28 October 2002, the Standing Committee of the National People's Congress approved 中華人民共和國環境影響評價法 (the Law on Appraising of Environment Impact of the PRC) which became effective on 1 September 2003. According to the aforesaid regulations, the PRC government has set up a system to evaluate the environmental impact of construction projects, and classify and administer the environmental impact appraisals of construction projects in accordance with the degree of their environmental impact. Pursuant to the aforesaid Regulations on Construction Project Environmental Protection, installations for the prevention and control of pollution at a construction project shall be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to commence production or put to use until its installations for the prevention and control of pollution are examined and assessed to be up to standard by the relevant environmental protection administration department that will examine and approve the environmental impact appraisal of the applicant.

9. Laws and regulations in relation to land

Pursuant to 中華人民共和國土地管理法 (the Land Administration Law of the PRC*) promulgated on 25 June 1986, effective on 1 January 1987 and amended on 28 August 2004, state-owned land and land collectively-owned by collective economic entities may be allocated and used by units or individuals according to the law. The ownership of land and land use rights registered according to the relevant laws shall be protected by the law. Pursuant to 中華人民共和國礦產資源法實施細則 (the Implementation Rules on the Mineral Resources Law of the PRC*) promulgated and effective on 26 March 1994, a holder of a mining right shall have the right to obtain the land use rights according to the relevant PRC laws for the purposes of production and construction.

Under 中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例 (the Interim Regulations of the People's Republic of China on Assignment and Transfer of the Right to Use State-owned Land in Urban Areas*) (the "Interim Regulations on Assignment and Transfer") promulgated and enforced by the State Council on 19 May 1990, a system in relation to the assignment and transfer of state-owned land use rights is adopted. A land user shall pay land premium to the state as consideration for the grant of land use rights within a certain term, and the land user may transfer, lease or mortgage, or otherwise commercially use the land use rights within the term of use. Under 中華人民共和國城市房地產管理法 (the Interim Regulations on Assignment and Transfer and the Urban Real Estate Administration Law of the PRC*), the land administration authority of the local government of the relevant city or municipality shall enter into a land grant contract with the land user for the grant of land use right. The land user shall pay the land premium provided for by the land grant contract. After payment in full of the land premium, the land user shall register with the land administration authority and obtain a land use right certificate evidencing the acquisition of the land use right. According to 中華人民共和國城鄉規劃法 (the Urban and Rural Planning Law of the PRC*), 城市國有土地使用權出讓轉讓規劃管理辦法 (the Administrative Measures on Planning of Grant and Transfer of Urban State-owned Land Use Rights*) promulgated by the Ministry of Housing and Urban-Rural Development ("**MHURD**") on 4 December 1992 and effective on 1 January 1993 and 關於加強國有土地使用權出讓規劃管理工作的通知 (the Notice of MHURD about Strengthening the Planning Administration of Grant of State-owned Land Use Rights*) promulgated by MHURD and effective on 26 December 2002, after signing an assignment contract, the land user shall apply for an opinion on the construction project's site selection (if the land was obtained through government allocation) and a construction land planning permit from the city or county urban-rural planning authority with the assignment contract. After obtaining a construction land planning permit, the land user shall organize the necessary planning and design work according to the planning and design requirements, and apply for a construction work planning permit from the relevant urban-rural planning authority with the relevant approval documents.

10. Labor laws

Pursuant to 中華人民共和國勞動合同法 (the Labor Contract Law of the PRC*) (the "Labor Contract Law") effective on 1 January 2008, labor contracts shall be concluded in writing if employment relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers on time. According to 中華人民共和國勞動法 (the Labor Law of the PRC*) promulgated on 5 July 1994 and effective on 1 January 1995, enterprises and institutions shall establish and perfect their workplace safety and sanitation systems, strictly abide by national rules and standards on workplace safety, provide laborers with education on labor safety and sanitation systems in the PRC. Labor safety and sanitation facilities shall comply with national standards. Enterprises and Institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with national regulations and the relevant articles of labor protection.

11. Taxation

(i) Enterprise income tax

According to 企業所得稅法 (the Enterprise Income Tax Law*) and 中華人民共和國企業所得稅法實施條例 (the Implementation Regulations of the Enterprise Income Tax Law of the PRC*) which were enacted on 6 December 2007 and effective on 1 January 2008 (collectively the "Income Tax Law"), the enterprise income tax for both domestic and foreign-invested enterprises is unified at 25%. For enterprises established before 16 March 2007 and entitled to preferential income tax treatments under tax-related laws and administrative regulations, the Income Tax Law provides for a five-year transitional period, during which the applicable enterprise income tax rate shall be converted to the unified rate of 25% gradually.

(ii) Value added tax

In accordance with 中華人民共和國增值稅暫行條例 (the Provisional Regulations Concerning Value Added Tax of the PRC*) promulgated by the State Council and effective on 1 January 2009 and 中華人民共和國增值稅暫行條例實施細則 (the Rules on Implementation of the Provisional Regulations Concerning Value Added Tax of the PRC), goods sold in or imported into the PRC and processing, repair and replacement services provided within the PRC are subject to value added tax.

(iii) Resources tax

Pursuant to 資源稅暫行條例 (the Provisional Regulation of Resources Tax*) and 礦產資源補償費徵收管理規定 (the Rules Administering Levy of Mine Resource Compensation Fees*), the coal industry is subject to resources taxes and resources compensation fees. Since 2004, the Ministry of Finance and the State Administration of Taxation of the PRC have issued a series of notices on the adjustments to coal resources tax.

12. Foreign exchange

Pursuant to 中華人民共和國外匯管理條例 (the Foreign Currency Administration Rules of the PRC*) promulgated by the State Council in 1997 and various regulations issued by the State Administration of Foreign Exchange ("SAFE"), Renminbi is convertible into other currencies for the purpose of payment of current account items, such as trade-related receipts and payments, interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of payment of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office. Domestic entities are permitted to retain their current exchange earnings according to their operational needs.

13. Regulations in relation to the coal mining industry in Shanxi

The government and coal administration authorities in Shanxi have promulgated and implemented, among others, the following major documents, laws and regulations in relation to the coal mining industry since the consolidation of resources in 2008:

- 煤礦安全避險六大系統規章制度彙編 (Collection of Provisions and Systems of Six Major Coal Mine Safety and Hazard Prevention Systems*);

- 山西省煤礦建設施工管理標準 (Standards on Coal Mine Construction Work Commencement Administration of Shanxi Province*);

- 關於進一步加強煤礦防治水工作的若干規定 (Rules on Further Strengthening Water Drainage Works at Coal Mines*) issued by the Shanxi Provincial Government;

- 關於進一步強化煤礦安全生產工作的規定 (Rules on Further Strengthening Production Safety at Coal Mines*) issued by the Shanxi Provincial Government;

- 山西省煤炭工業廳關於印發《山西省煤礦辦礦企業標準》的通知 (Notice of the Coal Industry Office of Shanxi Province about the Publication of the Standards of Enterprises Operating Coal Mines in Shanxi Province*);

- Coal Industry Office of Shanxi Province;

- 山西省煤炭工業廳關於印發《山西省煤礦現代化礦井標準》的通知(Notice of the Coal Industry Office of Shanxi Province about the Publication of the Standards of Modernized Coal Mines in Shanxi Province*);

- 煤礦安全生產培訓管理辦法及配套實施細則 (Administrative Measures on Coal Mine Production Safety Training and Auxiliary Implementation Rules*) issued by the Coal Industry Office of Shanxi Province;

- 煤礦建設安全規定 (Rules on Coal Mine Construction Safety*) issued by the Coal Industry Office of Shanxi Province;

- 審批事項首辦負責制度(試行)(Accountability System for Initial Handling Persons of Approval Applications (Trial)*) issued by the Coal Industry Office of Shanxi Province;

- 關於辦理《煤礦建設項目聯合試運轉》審批的規定(試行)(Rules on Approval of Combined Trial Operations of Coal Mine Construction Projects (Trial)*) issued by the Coal Industry Office of Shanxi Province;

- 關於《礦井瓦斯等級和二氧化碳湧出量鑒定報告》審批的規定(試行) (Rules on Approval of Assessment Report on Gas Level and Amount of Carbon Dioxide Emission of Mines (Trial)*) issued by the Coal Industry Office of Shanxi Province;

- 關於審查辦理《新建、改擴建煤礦礦井地質報告》和《生產礦井地質報告》審批的規定(試行)(Rules on Review and Approval of Geological Reports on Construction, Reconstruction and Expansion of Coal Mines and Geological Reports on Production Mines (Trial)) issued by the Coal Industry Office of Shanxi Province;

- 關於辦理《煤礦生產能力核定》審批的規定(試行) (Rules on Approval of Coal Mine Production Capacity Audit (Trial)*) issued by the Coal Industry Office of Shanxi Province;

- 關於辦理《合法煤炭銷售票》審批的規定(試行) (Rules on Approval of Certificates of Legal Coal Sales (Trial)*) issued by the Coal Industry Office of Shanxi Province; and

- 關於辦理《煤礦及選煤廠初步設計及開工》審批的規定(試行) (Rules on Approval of Initial Design and Commencement of Coal Mines and Coal Processing Plants Construction (Trial)*) issued by the Coal Industry Office of Shanxi Province.

1. FINANCIAL INFORMATION OF THE GROUP

The audited financial information of the Group for each of the three years ended 31 December 2009, 2010 and 2011 respectively are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.northasiaresources.com) respectively:

– annual report of the Company for the year ended 31 December 2009 published on 28 April 2010 (pages 51 to 140);

– annual report of the Company for the year ended 31 December 2010 published on 12 April 2011 (pages 46 to 144); and

– annual report of the Company for the year ended 31 December 2011 published on 13 April 2012 (pages 41 to 136).

The unaudited financial information of the Group for the six months ended 30 June 2012 are disclosed in the interim report of the Company dated 10 September 2012 (pages 25 to 60), which are published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.northasiaresources.com) respectively.

2. INDEBTEDNESS STATEMENT

The Group

At the close of business on 31 January 2013, being the latest practicable date for the purpose of preparing the indebtedness statement, the Group had outstanding Convertible Loan Notes with principal value of approximately HK$234,000,000, unsecured other borrowing of HK$5,000,000 and capital commitment for an investment in a cooperation project which was contracted but not provided for totaling approximately HK$5,772,000.

At the close of business on 31 January 2013, being the latest practicable date for the purpose of preparing the indebtedness statement, the Group had total future minimum lease payments under non-cancellable operating lease in respect of rented premises amounting to approximately HK$2,804,000.

The Lexing Group

As at 31 January 2013, being the latest practicable date for preparation of this indebtedness statement of the Lexing Group, the Lexing Group had unsecured and unguaranteed entrust loans from non-controlling shareholder of a subsidiary of Lexing of approximately RMB1,613 million (approximately HK$1,991.4 million), and amount due to non-controlling shareholder of a subsidiary of Lexing of approximately RMB17.12 million (approximately HK$21.14 million, a related company of Lexing of approximately RMB249.92 million (approximately HK$308.54 million) and an intermediate holding company of Lexing of approximately HK$146.76 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have outstanding, at the close of business on 31 January 2013, any loan capital issued and outstanding or agreed to be issued, bank borrowings and overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases or finance lease, commitments, guarantees or other material contingent liabilities.

Saved as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding as at the close of business on 31 January 2013 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into HK$ at the approximate exchange rates prevailing at the close of business on 31 January 2013.

3. WORKING CAPITAL

After taking into account all of the followings:

(1) the existing and available financial resources available to the Enlarged Group, including but not limited to the internally generated funds, and cash and cash equivalents on hands;

(2) the expected completion of the Acquisition and the available facilities provided by the non-controlling shareholder of a subsidiary of the Lexing Group and the internal funds generated from resumption of mining operations of the Lexing Group without delay;

(3) the expected completion of the Disposal;

(4) the Subscription of Shares and CPS to capitalise the Set-Off Convertible Bonds; and

(5) the expected completion of the Proposed Alteration to extend the maturities of the Remaining US$15M Convertible Bonds to the third year after the completion of Proposed Alteration;

the Directors are of the opinion that the Enlarged Group has sufficient working capital for 125% of its present requirements, that is for at least the next twelve months from the date of this circular.

The proceed to be received in relation to the Placing amounting to US$60 million (equivalent to approximately HK$468 million) will also provide the Enlarged Group with additional funding towards its working capital.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up.

Deloitte.
德勤

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25 March 2013

The Board of Directors
North Asia Resources Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Lexing Holdings Limited ("Lexing") and its subsidiaries (hereinafter collectively referred to as the "Lexing Group") for the period from 9 April 2010 (date of incorporation) to 31 December 2010 and for the year ended 31 December 2011 and the nine months ended 30 September 2012 (the "Relevant Periods") for inclusion in the circular of North Asia Resources Holdings Limited dated 25 March 2013 (the "Circular") in relation to the very substantial acquisition relating to the acquisition of the entire equity interest in Lexing and the very substantial disposal of North Asia Resources Holdings Limited's iron mining and coal trading and logistic operations in Mongolia.

Lexing was an investment holding company incorporated in the British Virgin Islands ("BVI") with limited liability and the Lexing Group is principally engaged in exploration, mining and trading of coking coals.

All the companies comprising the Lexing Group have adopted 31 December as their financial year end date.

Particulars of Lexing's subsidiaries at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Effective interest attributable to the Lexing Group				Issued and fully paid share capital/registered capital				Principal activities
		31.12.2010	31.12.2011	30.9.2012	Date of report	31.12.2010 *RMB#*	31.12.2011 *RMB#*	30.9.2012 *RMB#*	Date of report *RMB#*	
Hong Kong OEPC Limited ("HK OEPC")(1)	Hong Kong 16 February 2009	100.0%	100.0%	100.0%	100.0%	HK$2	HK$2	HK$2	HK$2	Investment holding
江西萬泰實業有限公司 ("Jiangxi Wantai")(2)	People's Republic of China ("PRC") 24 June 2010	100.0%	100.0%	100.0%	100.0%	113,000,000	113,000,000	113,000,000	113,000,000	Investment holding and trading of coals
江西恒創能源投資有限公司 ("Jiangxi Hengchuang")(2)	PRC 9 June 2010	100.0%	100.0%	100.0%	100.0%	60,300,000	60,300,000	60,300,000	60,300,000	Investment holding
江西恒普威能源投資有限公司 ("Jiangxi Hengpuwei")(2)	PRC 9 June 2010	100.0%	100.0%	100.0%	100.0%	51,350,000	51,350,000	51,350,000	51,350,000	Investment holding

Name of subsidiary	Place and date of incorporation/ establishment	Effective interest attributable to the Lexing Group 31.12.2010	31.12.2011	30.9.2012	Date of report	Issued and fully paid share capital/registered capital 31.12.2010 *RMB*#	31.12.2011 *RMB*#	30.9.2012 *RMB*#	Date of report *RMB*#	Principal activities
山西瑞盈投資管理有限公司 ("Shanxi Ruiying")[(3)]	PRC 18 January 2008	100.0%	100.0%	100.0%	100.0%	10,000,000	10,000,000	10,000,000	10,000,000	Investment holding
山西昌通能源股份有限公司 ("Shanxi Changtong")[(3)]	PRC 6 October 2008	100.0%	100.0%	100.0%	100.0%	100,000,000	10,000,000	10,000,000	10,000,000	Investment holding
太原市智拓投資顧問有限公司 ("Taiyuen Zhitao")[(3)]	PRC 18 August 2009	100.0%	100.0%	100.0%	100.0%	1,100,000	1,100,000	1,100,000	1,100,000	Investment holding
山西煤炭運銷集團能源投資開發有限公司 ("Shanxi Coal")[(4)]	PRC 18 April 2008	49.0%	49.0%	49.0%	49.0%	3,700,000,000	3,700,000,000	3,700,000,000	3,700,000,000	Investment holding
山西煤炭運銷集團古交鉑龍煤業有限公司 ("Bolong") (formerly know as 古交市川煤礦)[(5)]	PRC 6 October 1993	46.6%	46.6%	49.0%	49.0%	7,000,000	7,000,000	7,000,000	7,000,000	Exploration, mining and trading of coking coal
山西煤炭運銷集團古交遼源煤業有限公司 ("Liaoyuan") (formerly known as 遼原煤礦有限公司)[(5)]	PRC 11 June 1999	49.0%	49.0%	49.0%	49.0%	2,000,000	2,000,000	2,000,000	2,000,000	Exploration, mining and trading of coking coal
山西煤炭運銷集團古交鑫峰煤業有限公司 ("Xinfeng") (formerly known as 古交市武家坡煤礦)[(5)]	PRC 18 March 2002	47.5%	49.0%	49.0%	49.0%	2,000,000	2,000,000	2,000,000	2,000,000	Exploration, mining and trading of coking coal
山西煤炭運銷集團古交福昌煤業有限公司 ("Fuchang") (formerly known as 山西古交昌盛煤礦有限公司)[(5)]	PRC 15 May 2007	34.0%	34.0%	34.0%	34.0%	15,000,000	15,000,000	15,000,000	15,000,000	Exploration, mining and trading of coking coal
山西煤炭運銷集團古交世紀金鑫煤業有限公司 ("Jinxin") (formerly known as 山西古交金鑫煤業有限公司)[(5)]	PRC 23 April 2001	49.0%	49.0%	49.0%	49.0%	50,080,000	50,080,000	50,080,000	50,080,000	Exploration, mining and trading of coking coal

\# *All amounts are denominated in RMB except for HK OEPC.*

Notes:

(1) HK OEPC is directly owned by Lexing.

(2) Jiangxi Hengchuang and Jiangxi Hengpuwei are the wholly-owned subsidiaries of Jiangxi Wantai, which is a wholly-owned subsidiary of HK OEPC.

(3) Shanxi Ruiying is owned by Jiangxi Hengpuwei and Jiangxi Hengchuang as to 55% and 45% respectively. Shanxi Changtong is owned by Jiangxi Hengpuwei and Jiangxi Hengchuang as to 45% and 55% respectively. Taiyuen Zhitao is owned by Jiangxi Hengpuwei and Jiangxi Hengchuang as to 55% and 45% respectively.

(4) Shanxi Coal is owned by Shanxi Ruiying, Taiyuen Zhitao and Shanxi Changtong as to 26%, 8% and 15% respectively, which are wholly-owned subsidiaries of Lexing. Therefore, Lexing indirectly held a total of 49% effective equity interest in Shanxi Coal. The remaining equity interests were held by other two shareholders not connected to the Lexing Group for 41% and 10% respectively. An aggregate of 49% effective equity interest of Shanxi Coal was acquired by the Lexing Group (the "Acquisition") on 24 July 2010.

Under the amendments made to the memorandum and articles of association of Shanxi Coal on 21 December 2009 (the "2009 Amendments"), Shanxi Ruiying, Taiyuen Zhitao and Shanxi Changtong collectively are able to appoint 5 directors out of 9 on the Board and a resolution to be passed by the Board requires a simple majority. Upon Shanxi Ruiying, Taiyuen Zhitao and Shanxi Changtong were effectively acquired by the Lexing Group on 24 July 2010, the Lexing Group is able to control the decision making of the Board through these 3 indirect wholly owned subsidiaries.

In addition, all the shareholders agreed that they will approve the plans and proposals, including operating and investment plan, financial budgeting, profit appropriation, extraction of discretionary reserve and the issuance of bonds, proposed by the board of directors. As the board decisions on the operating and financial policies of Shanxi Coal required the consent by more than half of the board of directors, the Lexing Group obtained control on Shanxi Coal. Accordingly, Shanxi Coal is accounted for as subsidiary of Lexing.

(5) Shanxi Coal directly holds 95%, 100%, 97%, 69.4% and 100% equity interest in Bolong, Liaoyuan, Xinfeng, Fuchang and Jinxin, respectively as at 31 December 2010, holds 95%, 100%, 100%, 69.4% and 100% equity interest in Bolong, Liaoyuan, Xinfeng, Fuchang and Jinxin, respectively as at 31 December 2011 and holds 100%, 100%, 100%, 69.4% and 100% equity interest in Bolong, Liaoyuan, Xinfeng, Fuchang and Jinxin, respectively as at 30 September 2012.

Other than HK OEPC which is directly owned by Lexing, all other subsidiaries are indirectly held by Lexing. In July 2010, Lexing acquired the entire equity interest in HK OEPC from Mr. Li Chengyi and Ms. Shan Hong, independent third parties. The acquisition was completed on 8 July 2010.

No audited financial statements have been prepared for Lexing since its date of incorporation as there is no statutory requirement in BVI. No statutory financial statements of Bolong, Liaoyuan, Xinfeng, Fuchang and Jinxin have been prepared for the two years ended 31 December 2011 as they are in the process to complete registration with State Administration for Industry & Commerce of the People's Republic of China.

For the purpose of this report, we have, however, reviewed the relevant transactions of Lexing, Bolong, Liaoyuan, Xinfeng, Fuchang and Jinxin for the Relevant Periods or since their respective dates of incorporation/establishment, whichever is shorter, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

The statutory financial statements of HK OEPC for the period from 16 February 2009 (date of incorporation) to 31 December 2011 were audited by Deloitte Touche Tohmatsu.

The statutory financial statements of the following subsidiaries which incorporated in the PRC for each of the two years ended 31 December 2011 or since their respective dates of establishment to 31 December 2011, whichever is shorter, were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC and were audited by the following certified public accountants registered in the PRC.

Names of subsidiaries	Financial year	Name of auditor
Jiangxi Wantai	Period from 24 June 2010 to 31 December 2010 and year ended 31 December 2011	南昌洪城會計師事務所
Jiangxi Hengchuang	Period from 9 June 2010 to 31 December 2010 and year ended 31 December 2011	南昌洪城會計師事務所
Jiangxi Hengpuwei	Period from 9 June 2010 to 31 December 2010 and year ended 31 December 2011	南昌洪城會計師事務所
Shanxi Ruiying	Year ended 31 December 2010 and 2011	太原友信會計師事務所
Shanxi Changtong	Year ended 31 December 2010 and 2011	太原友信會計師事務所
Taiyuen Zhitao	Year ended 31 December 2010 and 2011	太原友信會計師事務所
Shanxi Coal	Year ended 31 December 2010 and 2011	山西中盛審計事務所

For the purpose of this report, the sole director of Lexing has prepared the management accounts of Lexing and the consolidated financial statements of the Lexing Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectus and Reporting Accountants" as recommended by the HKICPA.

The Financial Information of the Lexing Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustment has been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of Lexing who approved their issue. The directors of the North Asia Resources Holdings Limited are responsible for the contents of the Circular in which the report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives a true and fair view of the state of affairs of the Lexing Group as at 31 December 2010, 31 December 2011 and 30 September 2012 and of the consolidated results and consolidated cash flows of the Lexing Group for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 2 of Section A to the Financial Information below which indicates that the Lexing Group had net current liabilities of RMB1,535,276,000 as at 31 December 2010, RMB770,777,000 as at 31 December 2011 and RMB1,011,031,000 as at 30 September 2012 and the Lexing Group incurred a loss attributable to owners of Lexing of RMB28,248,000 for the period from 9 April 2010 to 31 December 2010, RMB107,052,000 for the year ended 31 December 2011 and RMB82,113,000 for the nine months ended 30 September 2012. The Lexing Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Lexing Group, including advances amounting to RMB1,382,453,000 as at 30 September 2012 and an additional unutilized loan facility amounting to RMB698,000,000 provided by the non-controlling shareholder of a subsidiary as well as the internal funds generated from the Lexing Group's mining operations. If adequate finance is not available including as a result of any delay in the resumption of the Lexing Group's mining operations, the Lexing Group may be unable to meet its obligations as and when they fall due in the foreseeable future. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Lexing Group's ability to continue as a going concern.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Lexing Group for the nine months ended 30 September 2011 together with the notes thereon have been extracted from the unaudited consolidated financial statements of the Lexing Group for the same period (the "September 2011 Interim Financial Information") which were prepared by the sole director of Lexing solely for the purpose of this report. We have reviewed the September 2011 Interim Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the September 2011 Interim Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the September 2011 Interim Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the September 2011 Interim Financial Information is not prepared in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

Without qualifying our review conclusion, we draw attention to the existence of a material uncertainty which may cast significant doubt about the Lexing Group's ability to continue as a going concern as described above.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	9.4.2010 (date of incorporation) to 31.12.2010 RMB'000	1.1.2011 to 31.12.2011 RMB'000	1.1.2011 to 30.9.2011 RMB'000 (unaudited)	1.1.2012 to 30.9.2012 RMB'000
Revenue	8	–	8,703	–	21,757
Cost of sales		–	(8,547)	–	(21,353)
Gross profit		–	156	–	404
Other income	10	115	500	380	1,938
Distribution expenses		–	–	–	(329)
Other expenses	11	(50,803)	(148,925)	(93,483)	(95,049)
Finance costs	12	(13,828)	(69,563)	(48,851)	(76,447)
Loss before tax		(64,516)	(217,832)	(141,954)	(169,483)
Income tax expense	14	–	–	–	–
Loss and total comprehensive expenses for the year/period	15	(64,516)	(217,832)	(141,954)	(169,483)
Loss and total comprehensive expenses for the year/period attributable to:					
Owners of Lexing		(28,248)	(107,052)	(69,732)	(82,113)
Non-controlling interests		(36,268)	(110,780)	(72,222)	(87,370)
		(64,516)	(217,832)	(141,954)	(169,483)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		The Lexing Group		
		At 31 December		At 30 September
		2010	**2011**	**2012**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*16*	392,997	402,175	441,792
Intangible asset	*17*	1,458,766	1,458,766	1,458,766
Available-for-sale investment	*18*	5,304	5,304	–
Prepayment for acquisition of property, plant and equipment		14,916	15,387	38,192
		1,871,983	1,881,632	1,938,750
Current assets				
Inventories	*19*	71	230	427
Trade receivables	*20*	–	–	12,869
Other receivables, deposits and prepayments	*21*	20,636	50,016	63,552
Amount due from non-controlling shareholder of a subsidiary	*22*	7,190	40,365	–
Bank balances and cash	*23*	40,080	63,234	25,161
		67,977	153,845	102,009
Current liabilities				
Trade payables	*24*	–	–	1,831
Other payables and accruals	*25*	954,619	659,076	594,703
Amount due to an intermediate holding company	*26*	115,053	117,335	117,768
Amount due to non-controlling shareholder of a subsidiary	*27*	391,252	–	169,453
Amount due to a director	*28*	64	61	61
Amount due to a related company	*29*	142,265	148,150	229,224
		1,603,253	924,622	1,113,040
Net current liabilities		(1,535,276)	(770,777)	(1,011,031)
Total assets less current liabilities		336,707	1,110,855	927,719

		The Lexing Group		
		At 31 December		**At 30 September**
		2010	**2011**	**2012**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Amount due to non-controlling shareholder of a subsidiary	*27*	–	1,111,000	1,213,000
Payables for the mineral resources compensation fees	*30*	269,939	194,082	93,338
Provision for restoration, rehabilitation and environmental costs	*31*	41,481	44,368	46,646
Deferred tax liabilities	*32*	189,474	189,474	189,474
		500,894	1,538,924	1,542,458
		(164,187)	(428,069)	(614,739)
Capital and reserves				
Share capital	*33*	–	–	–
Reserves		(318,991)	(470,917)	(561,065)
Equity attributable to owners of Lexing		(318,991)	(470,917)	(561,065)
Non-controlling interests		154,804	42,848	(53,674)
Total equity		(164,187)	(428,069)	(614,739)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Lexing					
	Share capital	Other reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE LEXING GROUP						
At 9 April 2010	–	–	–	–	–	–
Loss and total comprehensive expenses for the period	–	–	(28,248)	(28,248)	(36,268)	(64,516)
Issue of share at the date of incorporation	–	–	–	–	–	–
Acquisition of subsidiaries *(note 34)*	–	–	–	–	246,060	246,060
Acquisition of additional interests in subsidiaries *(note 35)*	–	(290,743)	–	(290,743)	(54,988)	(345,731)
At 31 December 2010	–	(290,743)	(28,248)	(318,991)	154,804	(164,187)
Loss and total comprehensive expenses for the year	–	–	(107,052)	(107,052)	(110,780)	(217,832)
Acquisition of additional interest in a subsidiary *(note 35)*	–	(44,874)	–	(44,874)	(1,176)	(46,050)
At 31 December 2011	–	(335,617)	(135,300)	(470,917)	42,848	(428,069)
Loss and total comprehensive expenses for the period	–	–	(82,113)	(82,113)	(87,370)	(169,483)
Acquisition of additional interest in a subsidiary *(note 35)*	–	(8,035)	–	(8,035)	(9,152)	(17,187)
At 30 September 2012	–	(343,652)	(217,413)	(561,065)	(53,674)	(614,739)
(Unaudited)						
At 1 January 2011	–	(290,743)	(28,248)	(318,991)	154,804	(164,187)
Loss and total comprehensive expenses for the period	–	–	(69,732)	(69,732)	(72,222)	(141,954)
Acquisition of additional interest in a subsidiary *(note 35)*	–	(44,874)	–	(44,874)	(1,176)	(46,050)
At 30 September 2011	–	(335,617)	(97,980)	(433,597)	81,406	(352,191)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	NOTES	9.4.2010 (date of incorporation) to 31.12.2010 RMB'000	1.1.2011 to 31.12.2011 RMB'000	1.1.2011 to 30.9.2011 RMB'000 (unaudited)	1.1.2012 to 30.9.2012 RMB'000
OPERATING ACTIVITIES					
Loss before tax		(64,516)	(217,832)	(141,954)	(169,483)
Adjustments for:					
Finance costs		13,828	69,563	48,851	76,447
Depreciation		31,898	51,730	38,241	37,904
Gain on disposal of property, plant and equipment		–	(10)	–	–
Interest income		(113)	(490)	(380)	(161)
Operating cash flows before movements in working capital		(18,903)	(97,039)	(55,242)	(55,293)
Decrease (increase) in inventories		239	(159)	(109)	(197)
Increase in trade receivables		–	–	–	(12,869)
Decrease (increase) in other receivables, deposits and prepayments		68,276	(23,638)	(50,254)	(8,118)
Increase in trade payables		–	–	–	1,831
Increase (decrease) in other payables and accruals		145,823	(411,145)	(355,570)	(130,640)
NET CASH FROM(USED IN) OPERATING ACTIVITIES		195,435	(531,981)	(461,175)	(205,286)
INVESTING ACTIVITIES					
Interest received		113	490	380	161
Proceeds on disposal of property, plant and equipment		–	30	–	–
Addition of properties, plant and equipment		(48,426)	(40,850)	(30,979)	(91,486)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	(136,860)	–	–	–
Advance to a company classified as available-for-sale investment		(11,913)	(5,742)	(5,742)	(114)
(Advance to) repayment from non-controlling shareholder of a subsidiary		(7,190)	(33,175)	6,365	40,365
NET CASH USED IN INVESTING ACTIVITIES		(204,276)	(79,247)	(29,976)	(51,074)

	NOTES	9.4.2010 (date of incorporation) to 31.12.2010 RMB'000	1.1.2011 to 31.12.2011 RMB'000	1.1.2011 to 30.9.2011 RMB'000 (unaudited)	1.1.2012 to 30.9.2012 RMB'000
FINANCING ACTIVITIES					
Interest paid		(5,142)	(47,480)	(30,462)	(64,850)
Acquisition of additional interests in subsidiaries	35	(345,731)	(46,050)	(46,050)	(17,187)
Advance from an intermediate holding company		115,053	2,282	2,118	433
Repayment to staff		–	–	–	(52,636)
Repayment to non-controlling shareholder of a subsidiary		–	(391,252)	(391,252)	–
Advance from non-controlling shareholder of a subsidiary		207,522	1,111,000	911,000	271,453
Advance from a related company		77,155	5,885	14,835	81,074
Advance from (repayment to) a director		64	(3)	(2)	–
NET CASH FROM FINANCING ACTIVITIES		48,921	634,382	460,187	218,287
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		40,080	23,154	(30,964)	(38,073)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		–	40,080	40,080	63,234
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, representing bank balances and cash		40,080	63,234	9,116	25,161

NOTES TO THE FINANCIAL INFORMATION

1. Corporate information

Lexing is incorporated in the British Virgin Islands with limited liability on 9 April 2010. The sole director considers that its immediate holding company and ultimate holding company are City Bloom Limited and Best Growth Enterprises Limited, respectively, both are limited liability companies incorporated in the British Virgin Islands. The sole beneficial owner of Best Growth Enterprises Limited is Mr. Zhang Sanhuo ("Mr. Zhang"). The addresses of the registered office and principal place of business of Lexing are P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands and 太原市高新區長治路251號, respectively.

Lexing acts as an investment holding company. The principal activities of the subsidiaries of Lexing are the exploration, mining and trading of coking coal in Shanxi, the People's Republic of China ("PRC").

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of Lexing.

2. Basis of preparation of financial information

In preparing the Financial Information, the sole director of Lexing has given due consideration to the future liquidity of the Lexing Group. While recognising that the Lexing Group had net current liabilities of RMB1,535,276,000 as at 31 December 2010, RMB770,777,000 as at 31 December 2011 and RMB1,011,031,000 as at 30 September 2012 respectively and the Lexing Group incurred a loss attributable to owners of Lexing of RMB28,248,000 for the period from 9 April 2010 to 31 December 2010, RMB107,052,000 for the year ended 31 December 2011 and RMB82,113,000 for the nine months ended 30 September 2012 respectively, the sole director of Lexing is satisfied that the Lexing Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as 山西煤炭運銷集團有限公司 (Shanxi Coal Transportation and Sales Group Co., Ltd), a non-controlling shareholder of a subsidiary, Shanxi Coal, who has significant influence over the Lexing Group, has made advances amounting to RMB1,382,453,000 as at 30 September 2012 and provided an additional unutilized loan facility to the Lexing Group amounting to RMB698,000,000 and internal funds will be generated from the Lexing Group's mining operations to meet it's future funding needs. Accordingly, the sole director considers appropriate that the Financial Information has been prepared on a going concern basis.

3. Application of Hong Kong Financial Reporting Standards

For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the Lexing Group has consistently adopted the Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) – Int") which are effective for accounting period beginning on 1 January 2012 throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretation that are not yet effective. The Lexing Group has not early applied these standards, amendments or interpretation.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10, HKFRS 12 and HKFRS 27 (Amendments)	Investment Entities[4]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] *Effective for annual periods beginning on or after 1 January 2013*

[2] *Effective for annual periods beginning on or after 1 January 2015*

[3] *Effective for annual periods beginning on or after 1 July 2012*

[4] *Effective for annual periods beginning on or after 1 January 2014*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK (SIC)-Int 12 "Consolidation – Special Purpose Entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures" and HK (SIC)-Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments, are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The sole director of Lexing anticipates that these five standards will be adopted in the Lexing Group's consolidated financial statements for the annual period beginning 1 January 2013. The Lexing Group assessed the potential financial impact on the application of the above new and revised standards and concluded that there was no material impact on the financial position and results of the Lexing Group except for more extensive disclosures in the consolidated financial statements.

The sole director of Lexing anticipates that the application of the other new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Lexing Group.

4. Significant accounting policies

The Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Lexing Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of Lexing and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Changes in the Lexing Group's ownership interests in existing subsidiaries

Changes in the Lexing Group's ownership interests in subsidiaries that do not result in the Lexing Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Lexing Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the share of net assets acquired or disposed of and the fair value of the consideration paid or received is recognised directly in other reserve and attributed to owners of Lexing.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Lexing Group, liabilities incurred by the Lexing Group to the former owners of the acquiree and the equity interests issued by the Lexing Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment arrangements of the Lexing Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, which the effect of any changes in estimate accounted for on a prospective basis.

Properties and mining establishment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Lexing Group's accounting policy. Such properties and mining establishment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. Mining rights include the cost of acquiring mining licenses and exploration and evaluation costs, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortised using the units of production method based on the proven and probable coal mining reserves. Mining rights are written off to profit or loss if the mining property is abandoned.

Gain on losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Lexing 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 loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Lexing 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.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a 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 is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Lexing Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from non-controlling shareholder of subsidiary and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

Available-for-sale financial assets represents the available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

Financial liabilities (including trade payables, other payables, payables for the mineral resources compensation fee and amounts due to an intermediate holding company, non-controlling shareholder of a subsidiary, a director and a related company) are measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form as integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Lexing Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Lexing Group derecognises financial liability when, and only when, the Lexing Group's obligations are discharged, or cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Foreign currencies

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

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

Leasing

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

The Lexing Group as lessee

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

Provision

Provisions are recognised when the Lexing Group has a present obligation as a result of a past event, it is probable that the Lexing Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the 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 (where the effect is material).

Provisions for the Lexing Group's restoration, rehabilitation and environmental expenses are based on estimates of required expenditure to restore the sites of Lexing Group's mines in accordance with PRC rules and regulations. The Lexing Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation.

Retirement Benefit Costs

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Lexing 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 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.

The carrying amount of deferred tax assets is reviewed at the end of the 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 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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Lexing Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue Recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the conditions are satisfied:

- the Lexing Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Lexing Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Lexing Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Lexing Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Lexing Group will comply with the conditions attaching to them and that the grants will be received.

5. Key sources of estimation uncertainty

In the application of the Lexing Group's accounting policies, which are described in note 4, the sole director of Lexing is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next twelve months.

(a) Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimated useful lives due to changes in commercial and technological environment, the Lexing Group could be required to increase the amount of future depreciation charge. As at 31 December 2010, 31 December 2011 and 30 September 2012, the carrying amount of property, plant and equipment was RMB392,997,000, RMB402,175,000 and RMB441,792,000 respectively.

(b) Estimated impairment of other receivables

When there is objective evidence of impairment loss, the Lexing Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 30 September 2012, the carrying amount of other receivables was RMB19,554,000, RMB30,703,000 and RMB38,473,000 respectively.

(c) Estimated impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as set out in note 4. The recoverable amount of the cash-generating unit to which the property, plant and equipment belong, is the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Lexing Group to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2010, 31 December 2011 and 30 September 2012, the respective carrying amount of property plant and equipment was RMB392,997,000, RMB402,175,000 and RMB441,792,000 respectively.

(d) Estimated impairment of intangible assets

The carrying value of intangible assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as set out in note 4. The recoverable amount of the cash-generating units to which the intangible assets belong, is the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Lexing Group to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2010, 31 December 2011 and 30 September 2012, the carrying amount of intangible assets was RMB1,458,766,000.

(e) Provision for restoration, rehabilitation and environmental costs

The provision for restoration, rehabilitation and environmental costs has been determined by the management of the Lexing Group based on their best estimates. The management of the Lexing Group estimated this liability for final reclamation and mine closure based upon detailed forecast of the amounts and timing of future cash flows for a third party to perform work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability, such that the provision reflects the present value of the expenditures expected to be required to settle the obligation. However, the estimate of the associated expenditures may be subject to change due to new government environmental policy in the future. The provision is reviewed regularly to ensure that it properly reflects the present value of the obligation arising from the mining activities. As at 31 December 2010, 31 December 2011 and 30 September 2012, the carrying amount of provision for restoration, rehabilitation and environmental costs was RMB41,481,000, RMB44,368,000 and RMB46,646,000 respectively.

6. Capital risk management

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

The capital structure of the Lexing Group consists of debt, which mainly includes advances from an intermediate holding company, non-controlling shareholder of a subsidiary and a related company, and equity attributable to owners of Lexing, comprising issued share capital and other reserves.

The sole director of Lexing reviews the capital structure periodically. As part of this review, the sole director of Lexing assesses budgets of major projects taking into account the availability of the required financial resources. Based on the operating budgets, the sole director considers the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

7. Financial instruments and capital risk disclosures

a. Categories of financial instruments

	The Lexing Group		
	At 31 December		At 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Available-for-sale investments	5,304	5,304	–
Loans and receivables at amortised cost (including cash and cash equivalents)	66,824	134,302	76,503
Financial liabilities			
Liabilities at amortised cost	1,864,351	2,188,790	2,380,077

b. Financial risk management objectives and policies

The Lexing Group's major financial instruments include trade receivables, other receivables, trade payables, other payables, payables for the mineral resources compensation fee, amount due from non-controlling shareholder of a subsidiary, amount due to non-controlling shareholder of a subsidiary, amount due to an intermediate holding company, amounts due to a director and a related company and bank balances and cash. Details of the financial instruments are disclosed in respective notes.

Management monitors and manages the financial risks relating to the Lexing Group through internal risk assessment which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Lexing Group does not enter into any trading activities of financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Lexing Group's exposure to these kinds of risks or the manner in which it manages and measures these risks.

Market risk

Currency risk

Certain transactions of the Lexing Group are denominated in Hong Kong dollar which are other than the functional currency of the relevant group entity (i.e. RMB), which expose the Lexing Group to foreign currency risk. The Lexing Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Lexing Group's foreign currency denominated financial assets and financial liabilities at the end of the reporting period is insignificant, no sensitivity analysis is presented.

Interest rate risk

The Lexing Group is exposed to cash flow interest rate risk in relation to variable-rate borrowings from non-controlling shareholder of a subsidiary (see note 27 for details of these borrowings). The Lexing Group's cash flow interest rate is mainly concentrated on the fluctuation of People's Bank of China ("PBOC") prescribed interest rate arising from the Lexing Group's RMB denominated amount due to non-controlling shareholder of a subsidiary. The management considers the exposure to interest rate risk in relation to bank balances is insignificant due to the low level of bank interest rate.

The Lexing Group is also exposed to fair value interest rate risk in relation to fixed rate borrowings from non-controlling shareholder of a subsidiary.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments relating to variable-rate borrowings at the end of the reporting period. The analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Lexing Group's loss for the period from 9 April 2010 to 31 December 2010, for the year ended 31 December 2011 and the nine months ended 30 September 2012, would increase/decrease by Nil, RMB11,110,000 and RMB10,222,000 respectively.

Credit risk

At the end of each reporting period, the Lexing Group's maximum exposure to credit risk which will cause a financial loss to the Lexing Group due to failure to discharge an obligation by the counterparties provided by the Lexing Group are arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Lexing Group has delegated a team responsible for monitoring the repayment progress to ensure that follow-up action is taken to recover overdue debts. In addition, the Lexing Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lexing considers that the Lexing Group's credit risk is significantly reduced.

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

As at 30 September 2012, the Lexing Group has concentration of credit risk as 49% of the total trade receivables were due from the Lexing Group's largest customer and 48% of the total trade receivables were due from another customer.

Other than concentration of credit risk on liquid funds as well as trade receivables, other receivables and amounts due from non-controlling shareholder of a subsidiary, the Lexing Group does not have any other significant concentration of credit risk. The Lexing Group would closely monitor the repayment status of the trade receivables including the financial positions of the debtors making sure such balances are collected in a timely manner. For amount due from non-controlling shareholder of a subsidiary and other receivables, (which is an advance to a subsidiary of the non-controlling shareholder of a subsidiary), the Lexing Group closely monitor the financial positions including the net assets backing of the non-controlling shareholder of a subsidiary. In addition, the Lexing Group reviews the recoverable amounts of the individual debts to ensure that adequate impairment losses are made for the irrecoverable amounts. In this regard, the sole director of Lexing considers that the Lexing Group's credit risk is mitigated.

Liquidity risk

The Lexing Group is in net current liabilities position which exposed the Lexing Group to liquidity risk. The Lexing Group had net current liabilities of RMB1,535,276,000 as at 31 December 2010, RMB770,777,000 as at 31 December 2011 and RMB1,011,031,000 as at 30 September 2012 respectively and the Lexing Group incurred a loss attributable to owners of Lexing of RMB28,248,000 for the period from 9 April 2010 to 31 December 2010, RMB107,052,000 for the year ended 31 December 2011 and RMB82,113,000 for the nine months ended 30 September 2012 respectively.

The Lexing Group's ability to continue as a going concern and its ability to meet its financial obligations as they fall due is dependent on the ongoing availability of finance to the Lexing Group, including advances amounting to RMB1,382,453,000 and an additional loan facility provided by the non-controlling shareholder of a subsidiary and the internal funds generated from mining operations as more fully explained in note 2.

In the management of the liquidity risk, the Lexing Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Lexing Group's operations and mitigate the effects of fluctuations in cash flows through obtaining loans from related parties and operating cashflows, as appropriate.

The following table details the Lexing Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Lexing Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

The Lexing Group

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2010						
Other payables	–	825,474	–	–	825,474	825,474
Amount due to a director	–	64	–	–	64	64
Amount due to an intermediate holding company	–	115,053	–	–	115,053	115,053
Amount due to non-controlling shareholder of a subsidiary-fixed rate	5.40	391,252	–	–	391,252	391,252
Amount due to a related company	–	142,265	–	–	142,265	142,265
Payables for the mineral resources compensation fees	6.96	120,304	97,012	230,312	447,628	390,243
		1,594,412	97,012	230,312	1,921,736	1,864,351
As at 31 December 2011						
Other payables	–	521,150	–	–	521,150	521,150
Amount due to a director	–	61	–	–	61	61
Amount due to an intermediate holding company	–	117,335	–	–	117,335	117,335
Amount due to non-controlling shareholder of a subsidiary-variable rate	6.10 – 7.65	–	–	1,356,026	1,356,026	1,111,000
Amount due to a related company	–	148,150	–	–	148,150	148,150
Payables for the mineral resources compensation fees	6.96	97,012	115,156	115,156	327,324	291,094
		883,708	115,156	1,471,182	2,470,046	2,188,790
As at 30 September 2012						
Trade payables	–	1,831	–	–	1,831	1,831
Other payables	–	440,246	–	–	440,246	440,246
Amount due to a director	–	61	–	–	61	61
Amount due to an intermediate holding company	–	117,768	–	–	117,768	117,768
Amount due to non-controlling shareholder of a subsidiary-non-interest bearing	–	19,453	–	–	19,453	19,453
Amount due to non-controlling shareholder of a subsidiary-variable rate	6.10 – 12.32	152,840	557,463	863,122	1,573,425	1,363,000
Amount due to a related company	–	229,224	–	–	229,224	229,224
Payables for the mineral resources compensation fees	6.96	115,156	115,156	–	230,312	208,494
		1,076,579	672,619	863,122	2,612,320	2,380,077

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The sole director of Lexing considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

8. Revenue

	9.4.2010 (date of incorporation) to 31.12.2010	**1.1.2011 to 31.12.2011**	**1.1.2011 to 30.9.2011**	**1.1.2012 to 30.9.2012**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Trading of coals	–	8,703	–	21,757

9. Operating segments

HKFRS 8 "Operating segments" requires operating segments to be identified on the basis of internal reports about components of the Lexing Group that are regularly reviewed by the chief operating decision maker ("CODM") i.e. the sole director of Lexing in order to allocate resources to segments and to assess their performance.

The Lexing Group's operating activities are attributable to different coal mine sites focusing on the exploration, mining and trading of coking coal in Shanxi, the PRC. All of the Lexing Group's non-current assets were located and revenue was derived in the PRC. Each of the coal mine site constitutes an operating segment. All of these mine sites operate in the same jurisdiction subject to similar regulatory environment and share similar economic characteristics. In light of this, the CODM aggregates these operating segments as a single operating segment for disclosure purpose under HKFRS 8. Only operating results were provided to CODM for review. Details of the segment information were shown on the consolidated statements of comprehensive income.

Information about major customers

Revenues from customers of the corresponding periods contributing over 10% of the total sales of the Lexing Group are as follows:

	9.4.2010 (date of incorporation) to 31.12.2010	1.1.2011 to 31.12.2011	1.1.2011 to 30.9.2011	1.1.2012 to 30.9.2012
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer A[1]	–	8,703	–	–
Customer B[1]	–	–	–	16,452
Customer C[1]	–	–	–	5,305

[1] *Revenue from trading of coking coals*

10. Other income

	9.4.2010 (date of incorporation) to 31.12.2010	1.1.2011 to 31.12.2011	1.1.2011 to 30.9.2011	1.1.2012 to 30.9.2012
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Bank interest income	113	490	380	161
Sales of scrap	2	–	–	–
Gain on disposal of property, plant and equipment	–	10	–	–
Other *(note)*	–	–	–	1,777
	115	500	380	1,938

Note: Coal mines in Shanxi are undertaking the merger, reorganisation and integration under the instruction of the People's Government of Shanxi Province. The coal mines of the Lexing Group were required to implement safety assessments and complete necessary reconstruction and improvement works before they are allowed to resume mining operations. During the process of reconstruction and improvement works, some coals were extracted incidentally in the mining areas and sold to the customers.

11. Other expenses

Other expenses mainly comprise depreciation changes and staff costs during the process of reconstruction and improvement works before the Lexing Group resumes the mining operations.

12. Finance costs

	9.4.2010 (date of incorporation) to 31.12.2010 *RMB'000*	**1.1.2011 to 31.12.2011** *RMB'000*	**1.1.2011 to 30.9.2011** *RMB'000* (unaudited)	**1.1.2012 to 30.9.2012** *RMB'000*
Interest expense on amount due to non-controlling shareholder of a subsidiary wholly repayable within five years	5,142	47,480	30,462	64,850
Less: Amount capitalised in construction in progress	(117)	(1,959)	(1,469)	(5,093)
	5,025	45,521	28,993	59,757
Imputed interest for payables for the mineral resources compensation fees *(note 30)*	7,760	21,155	17,738	14,412
Imputed interest for provision for restoration, rehabilitation and environmental costs *(note 31)*	1,043	2,887	2,120	2,278
	13,828	69,563	48,851	76,447

Borrowing costs capitalised for the period from 9 April 2010 to 31 December 2010, for the year ended 31 December 2011 and the nine months ended 30 September 2012 are at 6.96% per annum respectively to expenditure on qualifying assets.

13. Emoluments of director and employees

Director

No remuneration has been paid and payable to the sole director of Lexing, Mr. Zhang and he has not waived any emoluments for the period from 9 April 2010 to 31 December 2010, for the year ended 31 December 2011 and the nine months ended 30 September 2011 and 2012.

Employees

Details of the emoluments paid by the Lexing Group to the five highest paid individuals during the Relevant Periods are as follows:

	9.4.2010 (date of incorporation) to 31.12.2010	1.1.2011 to 31.12.2011	1.1.2011 to 30.9.2011	1.1.2012 to 30.9.2012
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	597	1,723	1,219	1,021
Retirement benefit contributions	–	–	–	–
	597	1,723	1,219	1,021

The emoluments of each of the five highest paid individuals were below HK$1,000,000 for the period from 9 April 2010 to 31 December 2010, for the year ended 31 December 2011 and the nine months ended 30 September 2011 and 2012. No emoluments were paid by the Lexing Group to the five highest paid individuals as an inducement to join or upon joining the Lexing Group or as compensation for loss of office.

14. Income tax expense

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax has been made in the Relevant Periods as there is no assessable profit derived in Hong Kong and PRC. The income tax expense for the year/period can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	9.4.2010 (date of incorporation) to 31.12.2010	1.1.2011 to 31.12.2011	1.1.2011 to 30.9.2011	1.1.2012 to 30.9.2012
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before tax	(64,516)	(217,832)	(141,954)	(169,483)
Tax charge at the applicable income tax rate of 25%	(16,129)	(54,458)	(35,488)	(42,370)
Tax effect of expenses not deductible for tax purpose	16,158	54,583	35,583	42,852
Tax effect of income not taxable for tax purpose	(29)	(125)	(95)	(484)
Tax effect of tax loss not recognised	–	–	–	2
Taxation for the year/period	–	–	–	–

The PRC Enterprise Income Tax rate is used for the tax reconciliation as the principal place of business of the Lexing Group is substantially based in the PRC.

At the end of the reporting period, the Lexing Group has no significant unused tax losses for offset against future profits. No other significant unrecognised temporary difference as at 31 December 2010, 31 December 2011 and 30 September 2012 respectively.

15. Loss and total comprehensive expenses for the year/period

	9.4.2010 (date of incorporation) to 31.12.2010 *RMB'000*	1.1.2011 to 31.12.2011 *RMB'000*	1.1.2011 to 30.9.2011 *RMB'000* (unaudited)	1.1.2012 to 30.9.2012 *RMB'000*
Loss for the period/year has been arrived at after charging (crediting):				
Auditors' remuneration	53	850	640	864
Depreciation of property, plant and equipment (included in other expenses)	31,898	51,730	38,241	37,904
Staff costs (included in other expenses)				
– Salaries and other benefits	16,641	69,117	34,439	44,488
– Contributions to retirement benefits scheme	1,479	2,811	1,712	2,415
	18,120	71,928	36,151	46,903
Rental expenses in respect of office property under operating leases	724	1,815	1,343	946
Gain on disposal of property, plant and equipment	–	(10)	–	–

16. Property, Plant and Equipment

	Construction in progress RMB'000	Buildings RMB'000	Mining establishment RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Computer equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
THE LEXING GROUP									
COST									
Acquisition of subsidiaries *(note 34)*	13,432	65,982	188,759	97,157	923	22,857	888	75	390,073
Additions	11,258	22,496	66	693	108	51	131	19	34,822
At 31 December 2010	24,690	88,478	188,825	97,850	1,031	22,908	1,019	94	424,895
Additions	49,086	10	–	7,025	1,290	2,727	157	633	60,928
Disposals	–	–	–	–	(22)	–	(8)	–	(30)
At 31 December 2011	73,776	88,488	188,825	104,875	2,299	25,635	1,168	727	485,793
Additions	69,400	–	–	2,436	2,035	287	2,585	778	77,521
At 30 September 2012	143,176	88,488	188,825	107,311	4,334	25,922	3,753	1,505	563,314
DEPRECIATION									
At 9 April 2010	–	–	–	–	–	–	–	–	–
Provided for the period	–	4,384	16,023	8,602	107	2,682	95	5	31,898
At 31 December 2010	–	4,384	16,023	8,602	107	2,682	95	5	31,898
Provided for the year	–	6,979	16,542	21,950	361	5,422	307	169	51,730
Eliminated on disposals	–	–	–	–	(3)	–	(7)	–	(10)
At 31 December 2011	–	11,363	32,565	30,552	465	8,104	395	174	83,618
Provided for the period	–	5,368	13,385	14,118	463	3,942	352	276	37,904
At 30 September 2012	–	16,731	45,950	44,670	928	12,046	747	450	121,522
CARRYING VALUES									
At 31 December 2010	24,690	84,094	172,802	89,248	924	20,226	924	89	392,997
At 31 December 2011	73,776	77,125	156,260	74,323	1,834	17,531	773	553	402,175
At 30 September 2012	143,176	71,757	142,875	62,641	3,406	13,876	3,006	1,055	441,792

The Lexing Group's buildings and mining establishment are erected on the mine sites and situated in the PRC.

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over the following estimated useful lives:

Buildings	15 – 20 years
Mining establishment	8 – 15 years
Machinery and equipment	7 – 15 years
Furniture and fixtures	5 – 8 years
Motor vehicles	2 – 3 years
Computer equipment	2 – 3 years
Leasehold improvement	2 – 3 years

17. Intangible asset

	Mining rights of the Lexing Group *RMB'000*
At date of acquisition of subsidiaries *(note 34)*, at 31 December 2010, 2011 and 30 September 2012	1,458,766

All the mines of the Lexing Group are located in Shanxi, PRC. The mining rights of the Lexing Group have finite useful lives and will be expired ranging from 16 December 2014 to 8 January 2015 and subject to renewal. Mining rights are amortised using the unit of production method based on proven and probable coal mining reserves. In the opinion of the PRC legal advisor of Lexing Group, Lexing Group will be able to renew the mining rights with the relevant government authority continuously at insignificant cost.

During the Relevant Periods, the mining operations of the Lexing Group have not yet been commenced and no amortisation was provided.

18. Available-for-sale investment

Details of available-for-sale investment are set out below:

	The Lexing Group		
	At 31 December		At 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity investment in PRC	5,304	5,304	–

The unlisted equity investment represents 1.2% investment in 山西煤炭運銷集團碾底煤業有限公司(Shanxi Coal Transportation Niandi Coal Mining Company Limited), which is a subsidiary of the non-controlling shareholder of a subsidiary of the Lexing Group, engages in exploration and mining of coking coal. The unlisted equity investment is measured at cost less impairment at the end of the reporting period because the sole director of Lexing is of the opinion that their fair values cannot be measured reliably.

During the period ended 30 September 2012, the Lexing Group sold the unlisted equity investment to the non-controlling shareholder of a subsidiary at its carrying amount.

19. Inventories

The balance of the Lexing Group represents the consumables used in the mining construction.

20. Trade receivables

	The Lexing Group		
	At 31 December		At 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	–	12,869

The Lexing Group maintains a defined credit policy. For sales of goods, the Lexing Group generally allows a credit period of not exceeding 90 days to its trade customers. The aged analysis of the Lexing Group's trade receivables by good delivery date at the end of the reporting period is as follows:

	At 30 September 2012
	RMB'000
Less than 30 days	6,249
31 – 60 days	6,207
61 – 90 days	–
91 – 120 days	413
	12,869

Included in the trade receivables balance as at 30 September 2012 were debtors with aggregate carrying amount of RMB413,000 which were past due as at the reporting date for which the Lexing Group had not provided for impairment loss. Over 90% of the trade receivables as at 30 September 2012 were subsequently settled. Having considered the good repayment history of the customers, the sole director considered the amounts would be recovered. The Lexing Group did not hold any collateral over these balances.

In determining the recoverability of the trade receivables, the Lexing Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. In addition, the Lexing Group reviews the recoverable amount of each individual trade receivable at the end of the reporting period and considers to make impairment losses for irrecoverable amount, if necessary.

21. Other receivables, deposits and prepayments

	The Lexing Group		
	At 31 December		At 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Other receivables *(note)*	19,554	30,703	38,473
Utility and other deposits	332	16,943	22,440
Prepaid expenses	750	2,370	2,639
	20,636	50,016	63,552

Note: Included in the balances are RMB11,913,000 RMB17,655,000 and RMB17,769,000 advances to 山西煤炭運銷集團碾底煤業有限公司(Shanxi Coal Transportation Zhandi Coal Mining Company Limited#), an investee of the Lexing Group as at 31 December 2010, 31 December 2011 and 30 September 2012, and a subsidiary of the non-controlling shareholder of a subsidary of the Lexing Group.

22. Amount due from non-controlling shareholder of a subsidiary

The balances is unsecured, interest-free and repayable on demand.

23. Bank balances and cash

At 31 December 2010, 31 December 2011 and 30 September 2012, bank balances of the Lexing Group carry interest at prevailing market rate at 0.36%, 0.50% and 0.50% per annum respectively.

24. Trade payables

The Lexing Group normally receives credit terms of up to 90 days of trade payables from its suppliers. The following is an analysis of the trade payables by age, presented based on the invoice date at the end of the reporting period.

	The Lexing Group		
	At 31 December		At 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	–	–	1,831

25. Other payables and accruals

	The Lexing Group		
	At 31 December		At 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Consideration for the acquisition of subsidiaries by Shanxi Coal *(note)*	766,223	439,045	388,034
Payables for the mineral resources compensation fees *(note 30)*	120,304	97,012	115,156
Payables for construction works and purchase of machinery	95	18,685	39,488
Accrued salaries	623	10,953	14,699
Safety guarantee deposits	3	17,580	11,441
Advances from staff	52,636	52,636	–
Other tax payable	8,215	12,381	13,161
Other payables	6,520	10,784	12,724
	954,619	659,076	594,703

Note: The amount is non-interest bearing and repayable on demand.

26. Amount due to an intermediate holding company

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

27. Amount due to non-controlling shareholder of a subsidiary

As at 31 December 2010, the amount due to non-controlling shareholder of a subsidiary is unsecured, interest bearing at fixed rate at 5.40% per annum. The amount is repayable on demand.

As at 31 December 2011, the amount due to non-controlling shareholder of a subsidiary is unsecured, interest bearing at variable rates ranging from 6.10% to 7.65% per annum benchmark to rates announced by PBOC. The amounts were entrust loan provided by non-controlling shareholder of a subsidiary through banks. The maturity of the balances is ranging from 25 March 2014 to 13 June 2016 and accordingly, classified under non-current liabilities.

As at 30 September 2012, the current amount due to non-controlling shareholder of a subsidiary amounting to RMB150,000,000 is unsecured, interest bearing at variable rates ranging from 9.52% to 12.32% per annum benchmark to rates announced by PBOC and repayable within three months from the end of the reporting period. The amounts were entrust loans provided by non-controlling shareholder of a subsidiary through banks. The remaining amount of RMB19,453,000 is unsecured, interest free and repayable on demand. Accordingly, they are classified under current liabilities.

As at 30 September 2012, the non-current amount due to non-controlling shareholder of a subsidiary amounting to RMB1,213,000,000 is unsecured, interest bearing at variable rates ranging from 6.10% to 7.65% per annum. The amounts were entrust loans provided by non-controlling shareholder of a subsidiary through banks. The maturity of the balances is ranging from 25 March 2014 to 13 June 2016 and accordingly, classified under non-current liabilities.

28. Amount due to a director

The amount due to the sole director of Lexing is unsecured, interest free and repayable on demand.

29. Amount due to a related company

The related company is wholly-owned by the sole director of Lexing. The amount is unsecured, interest-free and repayable on demand.

30. Payables for the mineral resources compensation fees

	The Lexing Group		
			At
	At 31 December		**30 September**
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year/period	–	390,243	291,094
Acquired at date of acquisition *(note 34)*	484,097	–	–
Imputed interest expense *(note 12)*	7,760	21,155	14,412
Payment for the year/period	(101,614)	(120,304)	(97,012)
At end of the year/period	390,243	291,094	208,494
Current portion *(note 25)*	120,304	97,012	115,156
Non-current portion	269,939	194,082	93,338
	390,243	291,094	208,494

In accordance with the relevant regulations in the PRC, the Lexing Group is required to pay mineral resources compensation fees to the Shanxi government at a pre-agreed rate of raw coal reserve by reference to the grade of underlying mine reserves and coal content. The non-current portion of payables for mineral resources compensation fees will be settled in the years of 2013 to 2014 and is carried at amortised cost at effective interest rate of 6.96% per annum.

31. Provision for restoration, rehabilitation and environmental costs

	The Lexing Group		
	At 31 December		At 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year/period	–	41,481	44,368
Acquired at date of acquisition *(note 34)*	40,438	–	–
Imputed interest expense *(note 12)*	1,043	2,887	2,278
At end of the year/period	41,481	44,368	46,646

The restoration and rehabilitation works will be performed in the years from 2022 to 2040. The provision is carried at amortised cost at effective interest rate of 6.96% per annum.

32. Deferred tax liabilities

The deferred tax liabilities are arisen from the fair value adjustments on the intangible assets acquired, which are set out in note 34.

33. Share capital

	Number of shares	Share capital
		RMB
Authorised:		
Ordinary shares of US$1 each	1	8
Issued and fully paid:		
Issued and allotted at date of incorporation, at 31 December 2010, 31 December 2011 and 30 September 2012	1	8

Lexing was incorporated with an authorised share capital of US$1, or 1 ordinary share of US$1 each on 9 April 2010. At the date of incorporation, 1 share of US$1 was issued at par to the subscriber to provide the initial share capital of Lexing.

There is no earnings per share presented as it is considered not meaningful for the purpose of this report.

34. Acquisitions of subsidiaries

In July 2010, the HK OEPC acquired the entire equity interest in Jiangxi Wantai from Mr. Li Xu Wan and Ms. Cheng Ai Lin, independent third parties at a cash consideration of RMB113,000,000. The acquisition was completed on 24 July 2010. At the date of acquisition, Jiangxi Wantai, through its wholly owned subsidiaries, Shanxi Ruiying, Taiyuen Zhitao and Shanxi Changtong, indirectly held 49% equity interest in Shanxi Coal. Pursuant to the 2009 Amendments (as more fully disclosed in note (4) on page II – 3 of Appendix II), Shanxi Ruiying, Taiyuen Zhitao and Shanxi Changtong collectively are able to appoint 5 directors out of 9 on the Board and a resolution to be passed by the Board requires a simple majority. Upon Shanxi Ruiying, Taiyuen Zhitao and Shanxi Changtong were effectively acquired by the Group on 24 July 2010, the Lexing Group is able to control the decision making of the Board of Shanxi Coal through these 3 indirect wholly owned subsidiaries. Based on the 2009 Amendments and all the shareholders agreed that they will approve the plans and proposals, including operating and investment plan, financial budgeting, profit appropriation, extraction of discretionary reserve and the issuance of bonds, proposed by the board of directors, the Lexing Group considered that it is able to control Shanxi Coal and its subsidiaries from 24 July 2010. In the opinion of the PRC legal advisor of the Lexing Group, the 2009 Amendments and the above agreement amongst the Shareholders of Shanxi Coal are not in contradiction to any PRC laws, rules and regulations, including those applicable to the business of Shanxi Coal and its subsidiaries. Shanxi Coal is accounted for as subsidiary of Lexing. At the date of acquisition, Shanxi Coal directly held 95%, 51%, 91% and 69.4% equity interest in Bolong, Liaoyuan, Xinfeng and Fuchang, respectively, which are as subsidiaries of Shanxi Coal. Shanxi Coal and its subsidiaries is engaged in exploration and mining of coking coals in Shanxi, PRC. The acquisition is accounted for using the acquisition method.

In November 2010, Shanxi Coal acquired 100% equity interest in Jinxin from Mr. Zhang Sihuo, a brother of Mr. Zhang and Mr. Kang Chang Min, an independent third party, at a cash consideration of RMB202,000,000. Jinxin is engaged in exploration and mining of coking coals in Shanxi, PRC. The acquisition is accounted for using the acquisition method.

Acquisition-related costs have been excluded from the cost of the above acquisitions. The costs were insignificant and recognised as an expense in the period, within the other expenses in the consolidated statements of comprehensive income.

The fair value of assets and liabilities of Jiangxi Wantai and its subsidiaries ("Jiangxi Wantai Group") and Jinxin at the date of acquisition is as follows:

	Jiangxi Wantai Group	**Jinxin**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	315,441	74,632	390,073
Intangible asset	1,215,650	243,116	1,458,766
Available-for-sale investment	5,304	–	5,304
Inventories	38	272	310
Other receivables, deposits and prepayments	78,099	–	78,099
Bank balances and cash	178,140	–	178,140
Other payables and accruals	(586,783)	–	(586,783)
Amount due to non-controlling shareholder of a subsidiary	(183,730)	–	(183,730)
Amount due to a related company	(65,110)	–	(65,110)
Provision for restoration, rehabilitation and environmental costs	(36,752)	(3,686)	(40,438)
Payables for the mineral resources compensation fees	(403,537)	(80,560)	(484,097)
Deferred tax liabilities *(note 32)*	(157,700)	(31,774)	(189,474)
	359,060	202,000	561,060
Non-controlling interests	(246,060)	–	(246,060)
Total consideration, satisfied by cash	113,000	202,000	315,000
Net cash (outflow) inflow arising from acquisition:			
Cash consideration	(113,000)	(202,000)	(315,000)
Bank balance and cash acquired	178,140	–	178,140
	65,140	(202,000)	(136,860)

The fair value of other receivable, at the date of acquisition amounted to RMB78,099,000 which approximate to the gross contractual amounts of those corresponding balances acquired by the Lexing Group. At the date of acquisition, the management of the Lexing Group considered that the contractual cash flows not expected to be collected is insignificant.

The fair value of the Jiangxi Wantai Group's identifiable assets and liabilities has been determined by the management of the Lexing Group by reference to the valuations carried out on 31 July 2009 by an independent professional valuer, 山西中強資產評估咨詢有限公司(Shanxi Zhong Qiang Assets Appraisal and Consultation Co. Ltd.).

The fair value of the Jinxin's identifiable assets and liabilities has been determined by the management of the Lexing Group by reference to the valuations carried out on 31 May 2010 by an independent professional valuer, 山西中強資產評估咨詢有限公司(Shanxi Zhong Qiang Assets Appraisal and Consultation Co. Ltd.).

The sole director of Lexing considered that there is no significant change in fair value of the Jiangxi Wantai Group's and Jinxin's identifiable assets and liabilities between respective valuation dates and the dates of acquisitions.

Impact of acquisition on the results of the Lexing Group

Jiangxi Wantai Group and Jinxin has not generated revenue and incurred a total loss of RMB64,516,000 for the period between the date of acquisition and 31 December 2010. Had the acquisition of Jiangxi Wantai Group and Jinxin been effected at 9 April 2010, no revenue would be generated and the loss incurred by the Lexing Group would be RMB91,172,000. The above information is for illustrative purposes only and is not necessary an indication of revenue and result operation of the Lexing Group at actually would have been achieved had the acquisition been completed at 9 April 2010, nor is intended to be a projection of future results.

35. Acquisition of additional interests in subsidiaries

In November 2010, Shanxi Coal further acquired 6% additional interest in Xinfeng from a non-controlling shareholder, and the shareholding in Xinfeng held by Shanxi Coal increased from 91% to 97% accordingly. In December 2010, Shanxi Coal further acquired 49% additional interest in Liaoyuan, which became the wholly owned subsidiary of Shanxi Coal. The difference of RMB290,743,000 between the total consideration paid for the acquisition of additional interests in Xinfeng and Liaoyuan amounting to RMB345,731,000 and the carrying amount of the non-controlling interests attributable to additional interests acquired of RMB54,988,000 is debited to other reserve of the Lexing Group.

In June 2011, Shanxi Coal acquired the remaining 3% additional interest in Xinfeng, which became the wholly owned subsidiary of Shanxi Coal. The difference of RMB44,874,000 between the total consideration paid for the acquisition of additional interest in Xinfeng amounting to RMB46,050,000 and the carrying amount of the non-controlling interest attributable to additional interest acquired of RMB1,176,000 is debited to other reserve of the Lexing Group.

In June 2012, Shanxi Coal acquired the remaining 5% additional interest in Bolong, which became the wholly owned subsidiary of Shanxi Coal. The difference of RMB8,035,000 between the total consideration paid for the acquisition of additional interest in Bolong amounting to RMB17,187,000 and the carrying amount of the non-controlling interest attributable to additional interest acquired of RMB9,152,000 is debited to other reserve of the Lexing Group.

36. Capital commitments

At 31 December 2010, 31 December 2011, 30 September 2012, capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for in the consolidated statements of financial position amounted to RMB33,615,000, RMB49,590,000 and RMB69,186,000 respectively.

37. Operating lease arrangement

At the end of the reporting period, the Lexing Group had contracted with landlords for future minimum lease payments under non-cancellable operating leases in respect of land and building which fall due as follows:

	The Lexing Group		
			At
	At 31 December		30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,823	878	850
In the second to fifth year inclusive	–	1,385	676
	1,823	2,263	1,526

Operating lease payments represent payable by the Lexing Group for its office property. The leases are negotiated for a term of three years.

38. Related party transactions

Other than disclosed elsewhere in the Financial Information, there was no other significant related party transaction during the Relevant Periods.

Compensation of key management personnel

The remuneration of other members of key management for the period are as follows:

	9.4.2010 (date of incorporation) to 31.12.2010	1.1.2011 to 31.12.2011	1.1.2011 to 30.9.2011	1.1.2012 to 30.9.2012
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Short-term benefits	597	1,890	1,343	1,137
Contributions to retirement benefits scheme	–	–	–	–
	597	1,890	1,343	1,137

The remuneration of key executives is determined by reference to the performance of individuals and market trends.

39. NON-CASH TRANSACTION

During the period ended 30 September 2012, the Lexing Group sold the unlisted equity investment to the non-controlling shareholder of a subsidiary at its carrying amount and the amount was net off with the amount due to the counterparty.

40. CONTINGENT LIABILITIES

As at 30 September 2012, the Lexing Group had the following contingent liabilities:

On 16 July 2008, 山西省昌源焦化集團有限公司 (Shanxi Changyuan Coking Co., Ltd) ("Shanxi Changyuan") filed a claim ("Claim") at 山西省太原市中級人民法院 (the Intermediate People's Court of Taiyuan City of Shanxi Province) ("Intermediate Court") against 古交市屯川煤礦 (Gujiao City Tuenchuan Coal Mine) ("Gujiao Tuenchuan"), which was subsequently reorganised into Bolong under the merger and reorganisation of coal mines in Gujiao City in Shanxi Province, in relation to a management agreement ("Management Agreement") dated 30 December 1999 and entered into between Shanxi Changyuan and Gujiao Tuenchuan pursuant to which Gujiao Tuenchuan agreed to engage Shanxi Changyuan for the management of its coal mines for a term of five years from 1 January 2000 to 31 December 2004. As alleged in the Claim, pursuant to the Management Agreement, Shanxi Changyuan agreed to inject capital by way of a loan to Gujiao Tuenchuan for the operation of its coal mines and an outstanding balance of approximately RMB16.7 million and interest thereon of approximately RMB842,000 was owed by Gujiao Tuenchuan to Shanxi Changyuan under such loan as at the date of the Claim. On 10 August 2009, Gujiao Tuenchuan counter-claimed that as an accident occurred in its coal mines during the term of the Management Agreement, Shanxi Changyuan breached its obligation to ensure safe production pursuant to the Management Agreement and accordingly Gujiao Tuenchuan was entitled to damages in relation to such breach ("Counter-claim").

On 22 July 2010, the Intermediate Court issued a judgment in relation to the Claim and the Counter-claim ruling that, among others, (i) an amount of approximately RMB16.7 million shall be payable by Gujiao Tuenchuan to Shanxi Changyuan in relation to the capital injection by Shanxi Changyuan pursuant to the Management Agreement, together with the interest thereon calculated as from 1 January 2005 at the interest rate stipulated by the People's Bank of China for loans granted during the corresponding period amounting to approximately RMB5.8 million; and (ii) an amount of approximately RMB15.2 million shall be payable by Shanxi Changyuan to Gujiao Tuenchuan as damages in relation to the breach of its obligation to ensure safe production pursuant to the Management Agreement. On 18 August 2010, Shanxi Changyuan appealed to 山西省高級人民法院 (the Higher People's Court of Shanxi Province) ("High Court") against the judgment issued by the Intermediate

Court in relation to the Counter-claim and on 7 December 2010, Gujiao Tuenchuan filed a defence to such appeal. As at 30 September 2012, the High Court has not issued any ruling in relation to such appeal.

If the ruling in relation to the appeal is issued unfavorable to Gujiao Tuenchuan, the Lexing Group will be subject to an aggregate payment of approximately RMB22.5 million and a receivable from Shanxi Changyuan of approximately RMB15.2 million.

Save as aforesaid or as otherwise disclosed herein, the sole director of Lexing confirmed that the Lexing Group had no significant contingent liabilities as at 31 December 2010, 2011 and 30 September 2012.

B. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At the date of this report, the sole director of Lexing consider that City Bloom Limited and Best Growth Enterprises Limited, both are limited liability companies incorporated in the British Virgin Islands, to be the immediate holding company and ultimate holding company of Lexing, respectively.

C. DIRECTORS' REMUNERATION

It is estimated that no directors' remuneration will be paid for the year ending 31 December 2012.

D. SUBSEQUENT EVENTS

There are no significant events took place subsequent to 30 September 2012.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Lexing Group, the Lexing or any of its subsidiaries have been prepared of any period subsequent to 30 September 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Set out below are the unaudited combined statements of financial position of North Asia Resources Group Limited and Good Loyal Group Limited as at 31 December 2009, 2010, 2011 and 30 September 2012, the related unaudited combined statements of comprehensive income, statements of changes in equity, statements of cash flows for each of the three years ended 31 December 2011 and the nine months ended 30 September 2012, and explanatory notes, which have been reviewed by the auditor of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). There was no qualification or modification in the review reports issued by the auditors.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Nine months ended 30 September	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	–	–	4,428	1,469	19,264
Cost of sales and services rendered	–	–	(3,086)	(817)	(15,115)
Gross profit	–	–	1,342	652	4,149
Other operating income	23	215	78	41	463
Selling and distribution expenses	–	–	–	–	–
Administrative expenses	(8,039)	(20,935)	(26,931)	(22,599)	(17,601)
Impairment loss recognised in respect of goodwill	(12,408)	–	–	–	–
Other operating expenses	–	(1,731)	–	–	(115)
Finance costs	–	(1)	–	–	(873)
Loss before taxation	(20,424)	(22,452)	(25,511)	(21,906)	(13,977)
Taxation	–	–	25	26	(83)
Loss for the year/period	(20,424)	(22,452)	(25,486)	(21,880)	(14,060)
Attributable to:					
Owner of the Company	(20,388)	(22,270)	(25,412)	(21,826)	(13,714)
Non-controlling interests	(36)	(182)	(74)	(54)	(346)
	(20,424)	(22,452)	(25,486)	(21,880)	(14,060)
Loss for the year	(20,424)	(22,452)	(25,486)	(21,880)	(14,060)
Other comprehensive expenses for the year/period					
– Exchange differences on translation of foreign operations	–	(361)	155	–	3
Total comprehensive expenses for the year/period	(20,424)	(22,813)	(25,331)	(21,880)	(14,057)
Attributable to:					
Owner of the Company	(20,388)	(22,631)	(25,257)	(21,826)	(13,711)
Non-controlling interests	(36)	(182)	(74)	(54)	(346)
	(20,424)	(22,813)	(25,331)	(21,880)	(14,057)

COMBINED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Non-current assets				
Plant and equipment	379	66,628	94,503	95,903
Mining right	5,715	8,100	8,100	8,100
Finance lease receivables	–	–	1,684	–
Deposits for acquisition of plant and equipment	–	22,040	–	–
Deposit paid for acquisition of a subsidiary	–	23,088	23,088	23,088
	6,094	119,856	127,375	127,091
Current assets				
Inventories	–	–	17,889	5,513
Trade and other receivables	4,969	21,347	46,399	8,688
Finance lease receivables	–	–	2,826	–
Amount due from fellow subsidiaries	–	10,108	1,972	816
Amounts due from non-controlling interest holders	–	–	273	273
Bank balances and cash	663	21,375	3,154	6,847
	5,632	52,830	72,513	22,137
Current liabilities				
Trade and other payables	2,220	793	464	1,638
Amount due to intermediate holding company	2,818	277,338	330,182	289,920
Amount due to a fellow subsidiary	–	–	–	2,441
Amount due to a non-controlling interest holder	306	306	306	306
Income tax payable	–	–	2	46
	5,344	278,437	330,954	294,351
Net current assets (liabilities)	288	(225,607)	(258,441)	(272,214)
Total assets less current liabilities	6,382	(105,751)	(131,066)	(145,123)

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Capital and reserves				
Share capital	2,418	468	468	468
Reserves	3,948	(106,774)	(132,031)	(145,973)
Equity attributable to owners of the Company	6,366	(106,306)	(131,563)	(145,505)
Non-controlling interests	(109)	430	399	284
Total equity	6,257	(105,876)	(131,164)	(145,221)
Non-current liability				
Deferred tax liability	125	125	98	98
Net assets (liabilities)	6,382	(105,751)	(131,066)	(145,123)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Exchange reserve	Special reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009 (Unaudited)	–	–	–	–	–	–	–	–
Net loss for the year	–	–	–	–	(20,388)	(20,388)	(36)	(20,424)
Total comprehensive expenses for the year	–	–	–	–	(20,388)	(20,388)	(36)	(20,424)
Acquisition of a subsidiary	–	–	–	–	–	–	(73)	(73)
Issue of shares	2,418	24,336	–	–	–	26,754	–	26,754
At 31 December 2009 (Unaudited) and 1 January 2010 (Unaudited)	2,418	24,336	–	–	(20,388)	6,366	(109)	6,257
Net loss for the year	–	–	–	–	(22,270)	(22,270)	(182)	(22,452)
Other comprehensive expenses for the year	–	–	(361)	–	–	(361)	–	(361)
Total comprehensive expenses for the year	–	–	(361)	–	(22,270)	(22,631)	(182)	(22,813)
Acquisition of additional interest in a subsidiary	–	–	–	(88,103)	12	(88,091)	721	(87,370)
Reorganisation	(1,950)	–	–	–	–	(1,950)	–	(1,950)
At 31 December 2010 (Unaudited) and 1 January 2011 (Unaudited)	468	24,336	(361)	(88,103)	(42,646)	(106,306)	430	(105,876)
Net loss for the year	–	–	–	–	(25,412)	(25,412)	(74)	(25,486)
Other comprehensive expenses for the year	–	–	155	–	–	155	–	155
Total comprehensive expenses for the year	–	–	155	–	(25,412)	(25,257)	(74)	(25,331)
Capital contribution from non-controlling interests	–	–	–	–	–	–	43	43
At 31 December 2011 (Unaudited) and 1 January 2012 (Unaudited)	468	24,336	(206)	(88,103)	(68,058)	(131,563)	399	(131,164)
Net loss for the period	–	–	–	–	(13,714)	(13,714)	(346)	(14,060)
Other comprehensive expenses for the period	–	–	3	–	–	3	–	3
Total comprehensive expenses for the period	–	–	3	–	(13,714)	(13,711)	(346)	(14,057)
Acquisition of additional interest in a subsidiary	–	–	–	(231)	–	(231)	231	–
At 30 September 2012 (Unaudited)	468	24,336	(203)	(88,334)	(81,772)	(145,505)	284	(145,221)

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES					
Loss before taxation	(20,424)	(22,452)	(25,511)	(21,906)	(13,977)
Adjustments for:					
Finance costs	–	–	–	–	873
Depreciation	4	1,322	4,920	4,266	4,937
Impairment loss recognised in respect of goodwill	12,408	–	–	–	–
Interest income	(13)	(89)	(75)	(37)	(36)
Loss on disposal of plant and equipment	–	–	–	–	163
Waiver of other payable	–	–	–	–	(99)
Write off of other receivables	–	–	–	–	115
Operating cash flows before movements in working capital	(8,025)	(21,219)	(20,666)	(17,677)	(8,024)
(Increase) decrease in inventories	–	–	(17,889)	(5,780)	12,376
(Increase) decrease in trade and other receivables	(4,927)	(16,378)	(14,244)	(16,406)	36,419
Increase (decrease) in trade and other payables	2,111	(1,427)	(329)	(287)	1,922
Cash (used in) generated from operations	(10,841)	(39,024)	(53,128)	(40,150)	42,693
Income tax paid	–	–	–	(54)	(39)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(10,841)	(39,024)	(53,128)	(40,204)	42,654
INVESTING ACTIVITIES					
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	(13,488)	–	–	–	–
Acquisition of mining right	(4,355)	(2,385)	–	–	–
Acquisition of plant and equipment	(383)	(67,571)	(21,563)	(14,189)	(4,789)
Deposit for acquisition of a subsidiary	–	(23,088)	–	–	–
Deposit for acquisition of plant and equipment	–	(22,040)	–	–	–
(Advance to) repayment from fellow subsidiaries	–	(10,108)	8,136	6,215	1,156
Advance to customers under finance lease	–	–	(5,665)	–	–
Advance to non-controlling interest holders	–	–	(273)	–	–
Repayment from customers under finance lease	–	–	1,214	460	976
Interest received	13	89	18	37	9
Proceeds from disposal of plant and equipment	–	–	–	–	2,381
NET CASH FROM (USED IN) INVESTING ACTIVITIES	(18,213)	(125,103)	(18,133)	(7,477)	(267)

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES					
Proceed from issue of shares	26,754	–	–	–	–
Advance from (repayment to) intermediate holding company	2,818	185,200	52,844	29,338	(40,262)
Advance from a fellow subsidiary	–	–	–	–	2,441
Advance from non-controlling interest holders	145	–	–	–	–
Interest paid	–	–	–	–	(873)
Capital contribution from non-controlling interest holders	–	–	41	–	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	29,717	185,200	52,885	29,338	(38,694)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	663	21,073	(18,376)	(18,343)	3,693
CASH AND CASH EQUIVALENTS AT 1 JANUARY	–	663	21,375	21,375	3,154
Effect of foreign exchange rate changes	–	(361)	155	–	–
CASH AND CASH EQUIVALENTS AT 31 DECEMBER/30 SEPTEMBER, represented bank balances and cash	663	21,375	3,154	3,032	6,847

NOTES TO THE UNAUDITED FINANCIAL INFORMATION

1. General

On 12 June 2012, North Asia Resources Holdings Limited (the "Company") entered into a disposal agreement (the "Disposal Agreement") with Mountain Sky Resources (Mongolia) Limited ("Mountain Sky"). Pursuant to this Disposal Agreement, the Company has conditionally agreed to dispose of the entire equity interest of North Asia Resources Group Limited ("NARG") and Good Loyal Group Limited ("GLG") and their subsidiaries (collectively referred as the "Disposal Group") and all the obligations, liabilities and debts owing to or incurred by the Disposal Group to the Company and its subsidiaries on or at any time prior to the completion of the Disposal Agreement to Mountain Sky (the "Disposal") at a consideration of HK$600,000,000.

2. Basis of presentation of unaudited combined financial information

The combined financial information of the Disposal Group for each of the three years ended 31 December 2011 and nine months ended 30 September 2011 and 2012 ("Unaudited Combined Financial Information") has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purpose of inclusion in the circular to be issued by the Company in connection with the Disposal.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows including the results and cash flows of the companies comprising the Disposal Group have been prepared as if the current group structure had been in existence since the respective date of incorporation up to 30 September 2012. The combined statements of financial position of the Disposal Group as at 31 December 2009, 2010 and 2011 and 30 September 2012 have been prepared to present the assets and liabilities of the companies comprising the Disposal Group as if the current group structure had been in existence at those date.

The amounts included in the Unaudited Combined Financial Information have been recognised and measured in accordance with the relevant accounting policies of the Company adopted in the preparation of its consolidated financial statements for the nine months ended 30 September 2012, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Unaudited Combined Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" nor a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 "Interim Financial Report" issued by the HKICPA.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

A. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

25 March 2013

The Directors
North Asia Resources Holding Limited
Units 2001-2, 20th Floor,
Li Po Chun Chambers,
189 Des Voeux Road Central,
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of North Asia Resources Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Section B of Appendix IV to the circular issued by the Company dated 25 March 2013 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Lexing Holdings Limited (together with its subsidiaries collectively referred to "Target Group") by the Company; the proposed disposal of the entire equity interest in North Asia Resources Group Limited and Good Loyal Group Limited (together with their subsidiaries collectively referred to the "Disposal Group") (the Group excluding the Disposal Group but including the Target Group hereinafter referred to as the "Enlarged Group") and the sum of the outstanding loans due from the Disposal Group to the Enlarged Group on completion; the proposed subscription of the Company's ordinary shares and convertible preference shares by Business Ally Investments Limited; and the proposed alteration of terms of the existing convertible loan notes (the "Transactions"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the Transactions might have affected the financial information presented.

The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section B below.

Respective responsibilities of Directors and reporting accountants

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

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

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

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

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

- the financial position of the Enlarged Group as at 30 June 2012 or any future date; and

- the results and cash flows of the Enlarged Group for the year ended 31 December 2011 or any future period.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

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

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai

Practising Certified Number: P05589
Hong Kong

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction to the unaudited pro forma financial information

The accompanying unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of North Asia Resources Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), excluding North Asia Resources Group Limited ("NARG") and Good Loyal Group Limited ("GLG") and their subsidiaries (the "Disposal Group") but including Lexing Holdings Limited ("Lexing") and its subsidiaries (hereinafter collective referred to as the "Target Group") (the Group excluding the Disposal Group but including the Target Group hereinafter referred to as the "Enlarged Group") has been prepared by the directors of the Company (the "Directors") to illustrate the effect of the following proposed transactions (the "Transactions"):

i) proposed acquisition of the entire issued share capital of Lexing by the Company (the "Proposed Acquisition");

ii) the proposed disposal of the entire equity interest in NARG and GLG and the sum of the outstanding loans due from the Disposal Group (the "Sale Loan") to the Enlarged Group (the "Proposed Disposal");

iii) the proposed subscription of the Company's ordinary shares (the "Subscription Ordinary Shares") and convertible preference shares (the "Subscription CPS") at HK$0.17 per Subscription Ordinary Share and Subscription CPS (the "Proposed Subscription") by Business Ally Investments Limited ("Business Ally"), the holder of the convertible loan notes issued by the Company on 14 September 2010 with aggregate outstanding principal amount of United States Dollar ("US$") 30,000,000 (the "US$30M Convertible Bonds") to capitalise outstanding principal amount of US$15,000,000 of the US$30M Convertible Bonds, as at 30 June 2012; and

iv) and the proposed alteration of terms of the non-capitalised portion of the US$30M Convertible Bonds with principal amount of US$15,000,000 immediately after the Proposed Subscription (the "Remaining US$15M Convertible Bonds") (the "Proposed Alteration").

The Unaudited Pro Forma Financial Information has been prepared as if the Transactions have been completed (the "Completion") on 30 June 2012 for the unaudited pro forma consolidated statement of financial position and on 1 January 2011 for the unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2012 as extracted from the published interim report of the Group for the six months ended 30 June 2012, the audited consolidated statement of financial position of the Target Group as at 30 September 2012 as extracted from the accountants' report of the Target Group as set out in Appendix II to the circular dated 25 March 2013 (the "Circular") in connection with the Transactions, and the unaudited combined statement of financial position of the Disposal Group as at 30 September 2012 as extracted from the financial information of the Disposal Group as set out in Appendix III to the Circular.

The unaudited pro forma consolidated income statement and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on the audited consolidated income statement and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 as extracted from the published annual report of the Group for the year ended 31 December 2011, the audited consolidated income statement and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2011 as extracted from the accountants' report of the Target Group as set out in Appendix II to the Circular, and the unaudited combined income statement and the unaudited combined statement of cash flows of the Disposal Group for the year ended 31 December 2011 as extracted from the financial information of the Disposal Group as set out in Appendix III to the Circular.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors and based on a number of assumptions, estimates, uncertainties and currently available information to provide information of the Enlarged Group upon completion of the Transactions. As it is prepared for illustrative purpose only and because of its hypothetical nature, it does not purport to give a true picture of the actual financial position, results and cash flow of the Enlarged Group on completion of the Transactions. Furthermore, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future financial position or results of operations of the Enlarged Group after the completion of the Transactions. The Unaudited Pro Forma Financial Information of the Enlarged Group was prepared in accordance with paragraph 29 of Chapter 4 and paragraph 68(2)(a)(ii) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as extracted from the published annual report of the Group for the year ended 31 December 2011 and published interim report of the Group for the six months ended 30 June 2012, the accountants' report of the Target Group as set out in Appendix II to this Circular and financial information of the Disposal Group as extracted from the financial information of the Disposal Group as set out in Appendix III to the Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 30 June 2012	The Target Group as at 30 September 2012		Pro forma adjustments		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments		Pro forma adjustments	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
		(Note 14)				*(Note 6)*	*(Note 7)*			*(Note 13)*	
Non-current assets											
Plant and equipment	109,841	441,792	534,568	–		(95,903)	(4,549)	–		–	543,957
Goodwill	–	–	–	2,374,834	*1*	–	–	–		–	1,839,376
				(535,458)	*1*						
Mining rights	439,514	1,458,766	1,765,107	11,962,061	*2*	(8,100)	(406,309)	–		–	13,752,273
Deposit for acquisition of a subsidiary	23,088	–	–	–		(23,088)	–	–		–	–
Prepayment for acquisition of plant and equipment	–	38,192	46,212	–		–	–	–		–	46,212
	572,443	1,938,750	2,345,887	13,801,437		(127,091)	(410,858)	–		–	16,181,818
Current assets											
Inventories	8,226	427	517	–		(5,513)	(267)	–		–	2,963
Trade and other receivables	68,482	76,421	92,469	–		(8,688)	–	–		–	152,263
Amount due from non-controlling interest holders	273	–	–	–		(273)	–	–		–	–
Amount due from a director	302	–	–	–		–	–	–		–	302
Bank balances and cash	32,998	25,161	30,445	–		(6,847)	–	–		–	56,596
	110,281	102,009	123,431	–		(21,321)	(267)	–		–	212,124
Current liabilities											
Trade and other payables	52,273	596,534	721,806	600,000	*1(a)*	(1,638)	(600,000)	–		–	930,258
				9,212	*4*		6,032				
				142,573	*5*						
Amount due to an intermediate holding company	–	117,768	142,499	(142,499)	*5*	–	–	–		–	–
Amount due to a non-controlling interest holder	306	169,453	205,038	–		(306)	–	–		–	205,038
Amount due to a director	–	61	74	(74)	*5*	–	–	–		–	–
Amount due to a related company	–	229,224	277,361	–		–	–	–		–	277,361
Amount due to the Group	–	–	–	–		(291,545)	291,545	–		–	–
Other borrowing	8,000	–	–	–		–	–	–		–	8,000
Derivative component of convertible loan notes	112	–	–	2,893,520	*1(c)(ii)*	–	–	(56)	*11*	(56)	2,911,525
Liabilities component of convertible loan notes	270,587	–	–	–		–	–	(135,294)	*11*	18,005 (135,293)	–
Income tax liabilities	6,593	–	–	–		(46)	–	–		–	6,547
	337,871	1,113,040	1,346,778	3,502,732		(293,535)	(302,423)	(135,350)		(117,344)	4,338,729
Net current liabilities	(227,590)	(1,011,031)	(1,223,347)	(3,502,732)		272,214	302,156	135,350		117,344	(4,126,605)
Total assets less current liabilities	344,853	927,719	1,122,540	10,298,705		145,123	(108,702)	135,350		117,344	12,055,213

	The Group as at 30 June 2012	The Target Group as at 30 September 2012		Pro forma adjustments		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments		Pro forma adjustments	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
		(Note 14)				*(Note 6)*	*(Note 7)*			*(Note 13)*	
Non-current liabilities											
Amount due to non-controlling interest	–	1,213,000	1,467,730	–		–	–	–		–	1,467,730
Promissory notes	–	–	–	314,064	*1(b)*	–	–	–		–	314,064
Liabilities component of convertible loan notes	–	–	–	1,791,186	*1(c)(ii)*	–	–	–		138,367	1,929,553
Provision for mineral resources compensation fee	–	93,338	112,939	–		–	–	–		–	112,939
Provision for restoration, rehabilitation and environmental costs	–	46,646	56,442	–		–	–	–		–	56,442
Deferred tax liabilities	40,756	189,474	229,264	2,990,515	*2*	(98)	(40,658)	–		–	3,219,779
	40,756	1,542,458	1,866,375	5,095,765		(98)	(40,658)	–		138,367	7,100,507
Net assets (liabilities)	304,097	(614,739)	(743,835)	5,202,940		145,221	(68,044)	135,350		(21,023)	4,954,706
Capital and reserves											
Share capital	11,380	–	–	3,225	*1(c)(i)*	–	–	1,180	*11(a)*	–	15,980
								195	*11(a)*		
Convertible preference shares	20,865	–	–	–		–	–	6,949	*11(b)*	–	27,643
								(171)	*11(a)*		
Reserves	271,661	(561,065)	(678,889)	87,075	*1(c)(i)*	145,505	83,493	31,860	*11(a)*	(21,023)	(2,299)
				(535,458)	*1*		(6,032)	141,210	*11(b)*		
				678,889	*3*		(145,505)	(45,849)	*11*		
				(9,212)	*4*			(24)	*11(a)*		
Equity attributable to owners of the Company	303,906	(561,065)	(678,889)	224,519		145,505	(68,044)	135,350		(21,023)	41,324
Non-controlling interests	191	(53,674)	(64,946)	4,978,421	*2*	(284)	–	–		–	4,913,382
Total equity	304,097	(614,739)	(743,835)	5,202,940		145,221	(68,044)	135,350		(21,023)	4,954,706

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2011	The Target Group for the year ended 31 December 2011		Pro forma adjustments		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma Enlarged Group for the year ended 31 December 2011
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 14)				*(Note 8)*	*(Note 9)*	*(Note 12)*	*(Note 13)*	
Turnover	73,497	8,703	10,531	–		(4,428)	–	–	–	79,600
Cost of sales and services rendered	(62,025)	(8,547)	(10,342)	–		3,086	–	–	–	(69,281)
Gross profit	11,472	156	189	–		(1,342)	–	–	–	10,319
Other operating income	775	500	605	–		(78)	–	–	–	1,302
Selling and distribution expenses	(3,630)	–	–	–		–	–	–	–	(3,630)
Administrative expenses	(63,802)	(148,925)	(180,199)	(9,212)	*4*	26,931	(6,032)	–	–	(232,314)
Other operating expenses	(1,270)	–	–	–		–	–	–	–	(1,270)
Change in fair value of derivative component of convertible loan notes	37,561	–	–	–		–	–	11,196	–	48,757
Loss on redemption of convertible loan notes	(6,679)	–	–	–		–	–	(45,849)	–	(52,528)
Loss on amendment of terms of convertible loan notes	(24,166)	–	–	–		–	–	–	(21,023)	(45,189)
Impairment loss recognised in respect of exploration and evaluation assets	(7,645)	–	–	–		–	–	–	–	(7,645)
Impairment loss recognised in respect of mining rights	(819,000)	–	–	–		–	819,000	–	–	–
Impairment loss recognised in respect of goodwill	–	–	–	(535,458)	*4*	–	–	–	–	(535,458)
Finance costs	(70,356)	(69,563)	(84,172)	(42,618)	*1(b)*	–	(4,549)	26,819	8,602	(435,310)
				(269,036)	*1(c)(ii)*					
Loss on disposal of subsidiaries	–	–	–	–		–	(663,942)	–	–	(663,942)
Loss before taxation	(946,740)	(217,832)	(263,577)	(856,324)		25,511	144,477	(7,834)	(12,421)	(1,916,908)
Income tax	81,350	–	–	–		(25)	(81,927)	–	–	(602)
Loss for the year	(865,390)	(217,832)	(263,577)	(856,324)		25,486	62,550	(7,834)	(12,421)	(1,917,510)
Attributable to:										
Owners of the Company	(865,316)	(107,052)	(129,533)	(856,324)		25,486	62,550	(7,834)	(12,421)	(1,783,392)
Non-controlling interests	(74)	(110,780)	(134,044)	–		–	–	–	–	(134,118)
	(865,390)	(217,832)	(263,577)	(856,324)		25,486	62,550	(7,834)	(12,421)	(1,917,510)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2011	The Target Group for the year ended 31 December 2011		Pro forma adjustments	Notes	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma Enlarged Group for the year ended 31 December 2011
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 14)				*(Note 10)*	*(Note 9)*	*(Note 12)*	*(Note 13)*	
(Loss) profit before taxation:	(946,740)	(217,832)	(263,577)	(9,212)	*4*	25,511	(6,032)	11,196	8,602	(1,916,908)
				(535,458)	*4*		819,000	26,819	(21,023)	
				(42,618)	*1(b)*		(663,942)	(45,849)		
				(269,036)	*1(c)(ii)*		(4,549)			
Adjustments for:										
Change in fair value of derivative component of convertible loan notes	(37,561)	–	–	–		–	–	(11,196)	–	(48,757)
Depreciation	6,365	51,730	62,592	–		(4,920)	–	–	–	64,037
Finance costs	70,356	69,563	84,172	42,618	*1(b)*	–	4,549	(26,819)	(8,602)	435,310
				269,036	*1(c)(ii)*					
Impairment loss recognised in respect of exploration and evaluation assets	7,645	–	–	–		–	–	–	–	7,645
Impairment loss recognised in respect of mining rights	819,000	–	–	–		–	(819,000)	–	–	–
Impairment loss recognised in respect of trade receivables	1,270	–	–	–		–	–	–	–	1,270
Impairment loss recognised in respect of goodwill	–	–	–	535,458	*4*	–	–	–	–	535,458
Interest income	(255)	(490)	(593)	–		75	–	–	–	(773)
Gain on disposal of subsidiaries	–	–	–	–		–	663,942	–	–	663,942
Loss (Gain) on disposal of plant and equipment	78	(10)	(12)	–		–	–	–	–	66
Loss on redemption of convertible loan notes	6,679	–	–	–		–	–	45,849	–	52,528
Loss on amendment of terms of convertible loan notes	24,166	–	–	–		–	–	–	21,023	45,189
Operating cash flows before movements in working capital	(48,997)	(97,039)	(117,418)	(9,212)		20,666	(6,032)	–	–	(160,993)
(Increase) decrease in inventories	(6,122)	(159)	(192)	–		17,889	–	–	–	11,575
(Increase) decrease in trade and other receivables	(17,331)	(23,638)	(28,602)	–		14,244	–	–	–	(31,689)
Increase (decrease) in trade and other payables	2,672	(411,145)	(497,485)	9,212	*4*	329	6,032	–	–	(479,240)
Cash (used in) from operations	(69,778)	(531,981)	(643,697)	–		53,128	–	–	–	(660,347)
Income tax paid	(417)	–	–	–		–	–	–	–	(417)
Net cash (used in) from operating activities	(70,195)	(531,981)	(643,697)	–		53,128	–	–	–	(660,764)
Investing activities										
Acquisition of plant and equipment	(25,242)	(40,850)	(49,429)	–		21,563	–	–	–	(53,108)
Acquisition of finance lease assets	(5,665)	–	–	–		5,665	–	–	–	–
Advance to non-controlling interest holders	(273)	(33,175)	(40,142)	–		273	–	–	–	(40,142)
Advance to a director	(3)	–	–	–		–	–	–	–	(3)
Advance to an investee	–	(5,742)	(6,948)	–		–	–	–	–	(6,948)
Repayment from customers under finance lease	1,214	–	–	–		(1,214)	–	–	–	–
Interest received	195	490	593	–		(18)	–	–	–	770
Proceeds from disposal of plant and equipment	94	30	36	–		–	–	–	–	130
Net cash (used in) from investing activities	(29,680)	(79,247)	(95,890)	–		26,269	–	–	–	(99,301)

	The Group for the year ended 31 December 2011 HK$'000	The Target Group for the year ended 31 December 2011 RMB'000 (Note 14)	HK$'000	Pro forma adjustments HK$'000	Note	Pro forma adjustments HK$'000 (Note 10)	Pro forma adjustments HK$'000 (Note 9)	Pro forma adjustments HK$'000 (Note 12)	Pro forma adjustments HK$'000 (Note 13)	Pro forma Enlarged Group for the year ended 31 December 2011 HK$'000
Financing activities										
Repayment of convertible loan notes	(101,400)	–	–	–		–	–	–	–	(101,400)
Interest paid	(33,306)	(47,480)	(57,451)	–		–	–	9,300	–	(81,457)
Other borrowing raised	8,000	–	–	–		–	–	–	–	8,000
Capital contribution from non-controlling interests	43	–	–	–		(41)	–	–	–	2
Repayment to non-controlling interest holder	–	(391,252)	(473,415)	–		–	–	–	–	(473,415)
Acquisition of additional interests in subsidiaries	–	(46,050)	(55,721)	–		–	–	–	–	(55,721)
Advance from related company	–	5,885	7,121	–		–	–	–	–	7,121
Advance from non-controlling interests	–	1,111,000	1,344,310	–		(60,980)	–	–	–	1,283,330
Advance from intermediate holding company	–	2,282	2,761	–		–	–	–	–	2,761
Repayment to a director of a subsidiary	–	(3)	(4)	–		–	–	–	–	(4)
Net cash (used in) from financing activities	(126,663)	634,382	767,601	–		(61,021)	–	9,300	–	589,217
Net (decrease) increase in cash and cash equivalents	(226,538)	23,154	28,014	–		18,376	–	9,300	–	(170,848)
Cash and cash equivalents at 1 January	259,086	40,080	48,497	–		(21,375)	–	–	–	286,208
Effect of foreign exchange rate changes	1,025	–	–	–		(155)	–	–	–	870
Cash and cash equivalents at 31 December	33,573	63,234	76,511	–		(3,154)	–	9,300	–	116,230

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The adjustment on goodwill of approximately HK$2,374,834,000 resulted from the Proposed Acquisition is calculated as follows:

		HK$'000
Fair value of consideration	*(below)*	5,689,070
Add: Non-controlling interests (51% in 山西煤炭運銷集團能源投資開發有限公司 (i.e. Shanxi Coal) and its subsidiaries)	*(Note 2)*	4,913,475
Less: Fair value of consolidated identifiable assets and liabilities of the Target Group acquired	*(Note 2)*	(8,227,711)
Goodwill on Proposed Acquisition		2,374,834

On 12 June 2012, the Group entered into an acquisition agreement (the "Acquisition Agreement") with City Bloom Limited ("City Bloom"), an independent third party to the Group, to acquire the entire issued share capital of Lexing at a consideration with nominal value of HK$4,662,000,000.

The consideration of the Proposed Acquisition shall be settled by the Company in the following manner and the fair value of the total consideration at the Completion as if the Proposed Acquisition was completed on 30 September 2012 is as follows:

	Nominal value	**Fair value**	
	HK$'000	*HK$'000*	*Notes*
Consideration settled by application of payments	600,000	600,000	*(a)*
Consideration settled by Promissory Notes	400,000	314,064	*(b)*
Consideration settled by Consideration Share	54,825	90,300	*(c)(i)*
Consideration settled by Consideration Bonds	3,607,175	4,684,706	*(c)(ii)*
	4,662,000	5,689,070	

(a) HK$600,000,000 will be deemed to have been authorised by City Bloom to be applied towards the payment of an equivalent amount payable by City Bloom to Mountain Sky Resources (Mongolia) Limited ("Mountain Sky"), pursuant to the agreement entered between City Bloom and Mountain Sky, a substantial shareholder, a connected person of the Company under Chapter 14A of the Listing Rules and the acquirer of the Disposal Group (the "Mountain Sky Agreement"), on 12 June 2012, for the acquisition of 155,350,000 ordinary shares and 1,500,987,000 convertible preference shares of the Company by City Bloom from Mountain Sky (the "Share Sale"), to satisfy the consideration payable by City Bloom in relation to the Share Sale; and which sum, will be authorised by Mountain Sky to be applied towards the payment of an equivalent amount payable by Mountain Sky to the Company pursuant to the Disposal Agreement to satisfy the consideration payable by Mountain Sky to the Company for the Proposed Disposal.

(b) HK$400,000,000 by way of (i) a cashier order by a licensed bank in Hong Kong or by wire transfer of such sum to the bank account designated by City Bloom and/or (ii) issue of the promissory notes to City Bloom (the "Promissory Notes"). For the purpose of preparation of the Unaudited Pro Forma Financial Information, the Company choose to issue the Promissory Notes at maximum principal amount of HK$400,000,000 and none by cashier order.

The Promissory Notes are in the principal amount of HK$400,000,000 with coupon rate of 5% which will be due on the third anniversary from the date of issue. All interests will be accrued and paid on the date of maturity. The Company may redeem whole or part of the Promissory Notes at any time after the date of issue of the Promissory Notes and before the maturity date with prior notice to City Bloom. No interest shall be accrued and payable in respect of the Promissory Notes that are early redeemed by the Group.

The liability and derivative component (early redemption option) of the Promissory Notes has been measured at the fair value as at 30 September 2012. The fair value of the liability component is determined by discounting the nominal amount of HK$400,000,000 and the accrued interest at the discount rate of 13.57% as determined by the Directors with reference to valuation carried out by Greater China Appraisal Limited ("Greater China"), an independent valuer. The discount rate is based on the credit rating of the Company and bond yield of comparable companies with similar credit rating. The fair values of the liability and derivative component of the Promissory Notes as at 30 September 2012 were HK$314,064,000 and zero respectively.

In accordance with HKAS 32 "Financial Instruments: Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", at the end of each reporting period, subsequent to initial recognition, the derivative component of the Promissory Notes is carried at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The liability component of the Promissory Notes is carried at amortised cost, with the effective interest expense recognised directly in profit or loss in the period in which they arise.

Imputed interest of HK$42,618,000 is to be recognised in the profit or loss for the year ended 31 December 2011. The adjustment has continuing effect on the consolidated income statement and statement of cash flows of the Enlarged Group. For the fair value change of the derivative component of the Promissory Notes for the year ended 31 December 2011, it is not practicable to determine the pro forma fair value of the derivative component as at 1 January 2011 and 31 December 2011 as it is not practicable to determine the key parameters for the determination of fair value of the derivative component, reflecting the effects if the Transactions were already announced on those dates. No adjustment has been made on the consolidated income statement and statement of cash flows of the Enlarged Group for the change in fair value the derivative component of the Promissory Notes assuming there is no change in the fair value of the derivative component.

(c) As to the remaining balance of HK$3,662,000,000:

i) by way of allotment and issue to City Bloom of new ordinary shares of the Company (the "Consideration Share") at an issue price of HK$0.17 per share.

Pursuant to the Acquisition Agreement, the number of Consideration Share issued, together with the Shares held by City Bloom and parties acting in concert with it at Completion, shall represent 29.9% of the enlarged issued share capital of the Company upon Completion. After considering the enlarged issued share capital of the Company is 1,597,960,000 as if the Transactions were completed on 30 September 2012, and not taking into account of the changes of the share capital of the Company subsequent to 30 June 2012, the maximum number of ordinary shares held by City Bloom and parties acting in concert with it at Completion is limited to 477,850,000, 322,500,000 Consideration Share will be issued at an issue price of HK$0.17 per Consideration Share, credited as fully paid. The estimated fair value per Consideration Share is approximately HK$0.28 as at 8 October 2012, the closing price of the share of the Company on the date of resumption of trading, which was determined by the directors of the Company with reference to published market price. The share capital and share premium of the Company will increase by HK$3,225,000 and HK$87,075,000 respectively. The issue of the Consideration Share is a non-cash transaction.

ii) the remaining balance of the consideration of the Proposed Acquisition, by way of issue to City Bloom of the convertible loan notes with maximum principal amount of HK$3,662,000,000 (the "Consideration Bonds").

Pursuant to the Acquisition Agreement, the remaining consideration payable shall be settled by issuance of convertible bonds. After considering the enlarged issued share capital of the Company is 1,597,960,000 as if the Transactions were completed on 30 June 2012 and the 322,500,000 consideration shares will be issued as part of the consideration. Consideration Bonds in the principal amount of HK$3,607,175,000, with coupon rate equal to the rate of dividend per share from time to time declared and paid by the Company to the shareholders as if the Consideration Bonds have been converted in full into shares at the same time when the relevant dividend is payable to the shareholder, to City Bloom. The Consideration Bonds will mature on the fifth anniversary of the Consideration Bonds from the date of issue and can be converted at any time during the period commencing from immediately after the date of issue of the Consideration Bonds up to the maturity date.

The Company may redeem whole or part of the Consideration Bonds at 100% of the outstanding principal amount together with declared but unpaid dividend of the Consideration Bonds (the "Redemption Amount") at any time after six months of the date of issue of the Consideration Bonds and before the maturity date with prior notice to City Bloom.

City Bloom may at any time after one year of the date of issue of the Consideration Bonds and before the maturity date with prior notice to request the Company to redeem whole or part of the Consideration Bonds at Redemption Amount.

The conversion price has been set at HK$0.17 per share. The liability, and derivative component (including conversion option and early redemption option) of the Consideration Bonds, have been measured at the fair value as at 30 September 2012, the date of issue. The fair value of the liability component is determined by discounting the nominal amount of HK$3,607,175,000 and the accrued interest at the discount rate of 15.02% as determined by the Directors with reference to valuation carried out by Greater China, an independent valuer. The discount rate is based on the credit rating of the Company and bond yield of comparable companies with similar credit rating. The fair value of the derivative component is determined using Trinomial Lattice Tree method. The fair values of the liability and derivative component of the Consideration Bonds as at 30 September 2012 were HK$1,791,186,000 and HK$2,893,520,000 respectively.

In accordance with HKAS32 "Financial Instruments: Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", at the end of each reporting period, subsequent to initial recognition, the derivative component of the Consideration Bonds is carried at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The liability component of the Consideration Bonds is carried at amortised cost, with the effective interest expense recognised directly in profit or loss in the period in which they arise. Imputed interest of HK$269,036,000 is to be recognised in the profit or loss for the year ended 31 December 2011, as if the Proposed Acquisition was completed and the Consideration Bonds was issued on 1 January 2011. The adjustment has continuing effect on the pro forma consolidated income statement and pro forma statement of cash flows of the Enlarged Group. For the fair value change of the derivative component of the Consideration Bonds for the year ended 31 December 2011, it is not practicable to determine the pro forma fair value of the derivative component as at 1 January 2011 and 31 December 2011 as it is not practicable to determine the adjusted stock price of the Company reflecting the effects if the Transactions were already announced on those dates, which is one of the key parameters for the determination of fair value of the derivative component. No adjustment has been made on the consolidated income statement and statement of cash flows of the Enlarged Group for the change in fair value of the derivative component of the Consideration Bonds.

Upon the Completion, the fair values of the total consideration would be reassessed upon actual issuance and may be different from the estimated ones as stated above and will be used to determine the cost of the Proposed Acquisition. As a result, the goodwill on acquisition at the date of the Completion may be different from that estimated amount presented.

An impairment test in respect of the goodwill resulting from the Proposed Acquisition was conducted in accordance with HKAS 36 – Impairment of Assets" ("HKAS 36") involves the determination of the recoverable amount of the cash generating unit (the "CGU") to which the goodwill has been allocated, being the higher of the CGU's fair value less costs to sell and its value in use. For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the Directors assessed the recoverable amount of the

CGU as at 30 September 2012 as approximately HK$5,153,612,000 which was determined with reference to valuation carried out by Greater China, an independent valuer, by income approach, and the Directors estimated that an impairment loss of HK$535,458,000, being the difference between the recoverable amount (HK$5,153,612,000) and the carrying amount (HK$5,689,070,000) of the CGU, is recognised as at 30 September 2012. In addition, the Directors will continue to assess the impairment of the Enlarged Group's goodwill in future according to HKAS 36.

The recoverable amount of the Target Group after the completion of the Proposed Acquisition may be different from the estimated amount used in the preparation of the Unaudited Pro Forma Financial Information presented above, the actual impairment of goodwill, if any, may be different from the estimated amount as presented above.

2. During the business combination, except for mining rights held by the Target Group, it is assumed that the fair value of the identifiable assets and liabilities of the Target Group approximate to their carrying amounts as at 30 September 2012.

The fair value of the mining rights as at 30 September 2012 is approximately HK$13,727,168,000 which was determined with reference to valuation carried out by Greater China, an independent valuer, by income approach. The adjustments represented the fair value increase of mining rights held by the Target Group of approximately HK$11,962,061,000 (being the difference of the fair value and the carrying amount of the mining rights as at 30 September 2012 of HK$13,727,168,000 and HK$1,765,107,000 respectively) and the corresponding deferred tax liability of approximately HK$2,990,515,000 charged at PRC applicable tax rates of 25%.

The fair value of consolidated identifiable assets and liabilities acquired is calculated as follows:

	HK$'000
Net carrying amount of consolidated identifiable assets and liabilities of the Target Group	(743,835)
Fair value adjustment to the mining rights	11,962,061
Deferred tax liabilities	(2,990,515)
Fair value of consolidated identifiable assets and liabilities of the Target Group	8,227,711
Non-controlling interests (51% in 山西煤炭運銷集團能源投資開發有限公司 (i.e. Shanxi Coal) and its subsidiaries)	(4,913,475)
Fair value of consolidated identifiable assets and liabilities acquired	3,314,236

The fair value of the non-controlling interests as at 30 September 2012 is HK$6,438,638,000 which was determined with reference to valuation carried by Greater China, an independent valuer, by income approach. Moreover, 51% of fair value adjustments to the deferred tax liabilities of HK$1,525,163,000 is to be shared by the non-controlling interests. Therefore, the carrying amount of the non-controlling interests as at 30 September 2012 is HK$4,913,475,000. With the net liabilities shared by the non-controlling interests of HK$64,946,000 as at 30 September 2012, HK$4,978,421,000 was adjusted on the non-controlling interests.

Upon the Completion, the fair value of the identifiable assets and liabilities of the Target Group will be reassessed and may be different from the fair value as stated above. As a result, the goodwill on acquisition at the date of the Completion may be different from that estimated amount presented.

3. The adjustment represents elimination of the pre-acquisition reserves of the Target Group of HK$678,889,000.

4. This represents the legal and professional fees of approximately HK$9,212,000 which are directly attributable to the Proposed Acquisition. This adjustment has no continuing effect on the consolidated income statement and consolidated statement of cash flows of the Enlarged Group.

   It is not practicable to determine the pro forma fair value of the consideration as at 1 January 2011 as it is not practicable to determine the adjusted key parameters for the determination of fair value of the derivative component of Promissory Notes and Consideration Bonds reflecting the effects if the Transactions were already announced on those dates. Therefore, the goodwill arising from the Proposed Acquisition as if the Proposed Acquisition was completed on 1 January 2011 cannot be determined and the impairment of goodwill is assumed to be the same as determined per Note 1.

5. The amounts due to intermediate holding company and due to a director of the Target Group are reclassified to trade and other payables, as if the Proposed Acquisition had completed on 30 September 2012.

6. The Group had entered into a disposal agreement (the “Disposal Agreement”) with Mountain Sky to disposed of the entire interests in the Disposal Group at a consideration of HK$600,000,000 and the sum of the outstanding loans due from the Disposal Group to the Enlarged Group (the “Sale Loan”) (the “Proposed Disposal”) on 12 June 2012.

   The adjustment reflects the exclusion of the assets and liabilities of the Disposal Group, assuming that the Proposed Disposal had completed on 30 June 2012. The amount of asset and liabilities of the Disposal Group as at 30 September 2012 was extracted from the financial information report as set out in Appendix III of this Circular.

7. The adjustment represents the estimated gain on disposal, as if the Proposed Disposal had completed on 30 June 2012, which is calculated as follows:

	HK$'000
Sale consideration	600,000
Add: net liabilities of the Disposal Group attributable to owners of the Company as at 30 September 2012	145,505
Less: fair value adjustments to	
– mining right of the Disposal Group	406,309
– deferred tax liabilities	(40,658)
Less: amortisation of mining right capitalised in inventories	267
Less: finance cost capitalised in qualifying assets of the Disposal Group	4,549
Less: disposal of the Sale Loan	291,545
Gain on disposal of subsidiaries	83,493

The consideration of the Proposed Disposal shall be settled by the application of the payment of an equivalent amount payable by the Group to the City Bloom pursuant to the Acquisition Agreement to satisfy part of the consideration for the Proposed Acquisition, which will be authorised by City Bloom to be applied towards the payment of an equivalent amount payable by City Bloom to Mountain Sky pursuant to the Mountain Sky Agreement to satisfy the consideration of the Share Sale; and which sum, in turn, will be authorised by Mountain Sky to be applied towards the payment of the equivalent amount payable by Mountain Sky to the Company as the consideration of the Proposed Disposal.

The Disposal Group was acquired by the Group in 2009. The increase in the fair value in the mining right and the deferred tax liabilities were HK$1,513,076,000 and HK$151,308,000 respectively. The accumulated amortisation capitalised in inventories, impairment recognised on the mining right and the related deferred tax effect since the acquisition date up to 30 September 2012 was HK$267,000, HK$1,106,500,000 and HK$110,650,000 respectively. The net effect of the increase in fair value and impairment recognised on the mining right of HK$406,309,000 were derecognised, as if the Proposed Disposal had completed on 30 June 2012. For the deferred tax liabilities, the net effect on the increase in fair value and the related deferred tax effect on the accumulated amortisation and impairment on the mining right of HK$40,658,000 were derecognised, as if the Proposed Disposal had completed on 30 June 2012.

The Company had provided funds to the Disposal Group for the construction of certain qualifying assets and HK$4,549,000 of finance cost was capitalised in the qualifying assets of the Disposal Group during the year ended 31 December 2011. The amount was derecognised, as if the Proposed Disposal had completed on 30 June 2012.

The adjustment will not have continuing effect on the consolidated income statement and consolidated statement of cash flows of the Enlarged Group.

Upon the Completion, the final amount of assets and liabilities of the Disposal Group may be different from the estimated ones as stated above and the gain from the Proposed Disposal will be different from those amounts as presented above.

Moreover, the adjustment represented legal and professional fees of approximately HK$6,032,000 which are directly attributable to the Proposed Disposal. This adjustment has no continuing effect on the consolidated income statement and consolidated statement of cash flows of the Enlarged Group.

8. The adjustment represents the exclusion of the income and expenses attributable to the Disposal Group from the consolidated income statement of the Group for the year ended 31 December 2011, which was extracted from the financial information of the Disposal Group in Appendix III to the Circular, as if the Proposed Disposal had completed on 1 January 2011. The adjustment will not have continuing effect on the consolidated income statement and consolidated statement of cash flows of the Enlarged Group.

9. The adjustment represents the estimated loss on disposal, as if the Proposed Disposal had completed on 1 January 2011, which is calculated as follows:

	HK$'000
Sale consideration	600,000
Add: net liabilities of the Disposal Group attributable to owners of the Company as at 1 January 2011	106,306
Less: fair value adjustments to	
– mining right of the Disposal Group	1,225,576
– deferred tax liabilities	(122,558)
Less: disposal of the Sale Loan as at 1 January 2011	267,230
Loss on disposal of subsidiaries	(663,942)

The Disposal Group was acquired by the Group in 2009. The fair value change in the mining right and the deferred tax liabilities were HK$1,513,076,000 and HK$151,308,000 respectively. The accumulated amortisation and impairment recognised on the mining right and the related deferred tax effect since the acquisition date up to 1 January 2011 was HK$287,500,000 and HK$28,750,000 respectively. The net effect of the increase in fair value and impairment recognised on the mining right of HK$1,225,576,000 were derecognised, as if the Proposed Disposal had completed on 1 January 2011. For the deferred tax liabilities, the net effect on the increase in fair value and the related deferred tax effect on the accumulated impairment on the mining right of HK$122,558,000 were derecognised, as if the Proposed Disposal had completed on 1 January 2011.

Moreover, the adjustment represented legal and professional fees of approximately HK$6,032,000 which are directly attributable to the Proposed Disposal.

Amortisation capitalised in inventories remained unsold, impairment loss and related deferred tax expenses recognised in respect of mining rights of HK$267,000, HK$819,000,000 and HK$81,927,000 were reversed, respectively, as if the mining right and deferred tax liabilities of the Disposal Group was disposed on 1 January 2011.

Finance cost capitalised in the qualifying assets of the Disposal Group of HK$4,549,000 was reversed, as if the Proposed Disposal had completed on 1 January 2011.

The adjustment will not have continuing effect on the consolidated income statement and consolidated statement of cash flows of the Enlarged Group.

10. The adjustment reflects the exclusion of the cash flows of the Disposal Group for the year ended 31 December 2011, which was extracted from the financial information of the Disposal Group set out in Appendix III to the Circular, assuming that the Proposed Disposal had completed on 1 January 2011. The adjustment will not have continuing effect on the consolidated statement of cash flows of the Enlarged Group.

11. On 6 September 2012, the Company and Business Ally entered into the subscription agreement in relation to the Proposed Subscription (the "Subscription Agreement").

    The consideration of the Proposed Subscription that is payable by Business Ally to the Company shall be satisfied by setting off against the aggregate of (a) US$15,000,000 principal amount of the US$30M Convertible Bonds (the "Set-Off Convertible Bonds") and (b) the difference between (i) an amount that would yield the internal return rate at the rate of 18% calculated on the Set-Off Convertible Bonds from the issue date of the US$30M Convertible Bonds up to and including the date of completion of the Subscription (such amount shall take into account of any interest (other than default interest) previously paid with respect to the Set-Off Convertible Bonds), and (ii) interest on the Set-Off Convertible Bonds accrued from the date of the last interest payment (i.e. 14 March 2012) up to and including the date of completion of the Subscription at the rate of 8% per annum (the "Additional Interest"). The amount of the Set-Off Convertible Bonds and Additional Interest as at 30 June 2012 was US$15,000,000 (equivalent to approximately HK$116,250,000) and US$2,832,000 (equivalent to approximately HK$21,948,000) respectively. The maximum number of Subscription Ordinary Shares and Subscription CPS to be issued is 812,933,000 which is calculated by dividing the Set-Off Convertible Bonds and Additional Interest as at 30 June 2012 by the issue price of HK$0.17 per Subscription Ordinary Shares and Subscription CPS.

The adjustment on loss on redemption of Set-Off Convertible Bonds of approximately HK$45,849,000 resulted from the Proposed Subscription, as if the Proposed Subscription had completed on 30 June 2012, is calculated as follows:

	Notes	*HK$'000*
Carrying amount of		
– liability component of Set-Off Convertible Bonds		135,294
– derivative component of Set-Off Convertible Bonds		56
Total carrying amount of Set-Off Convertible Bonds		135,350
Less fair value of		
– Subscription Ordinary Shares	*11(a)*	33,040
– Subscription CPS	*11(b)*	148,159
Total fair value of the Subscription Ordinary Shares and Subscription CPS		181,199
Loss on redemption of Set-Off Convertible Bonds on Proposed Subscription		45,849

The carrying amount of the Set-Off Convertible Bonds and the fair value of the Subscription CPS are based on the book value as at 30 June 2012 and the fair value as at 30 June 2012 respectively.

a) Pursuant to the Subscription Agreement, the number of Subscription Ordinary Shares and Subscription CPS shall be subject to adjustment such that upon Completion, Business Ally shall be issued and allotted such number of ordinary shares that would give Business Ally and any parties acting in concert with it an aggregate interest of less than 20% shareholding in the total issued ordinary share capital of the Company upon Completion at the issue price of HK$0.17 each. After considering the enlarged issued share capital of the Company is 1,597,960,000 as if the Transactions were completed on 30 September 2012, the maximum number of ordinary shares held by Business Ally at Completion is limited to 318,000,000. 318,000,000 Subscription Ordinary Shares will be issued at an issue price of HK$0.17 per ordinary share. In accordance to the supplemental agreement (the "Third Supplemental Agreement") in relation to the proposed alteration of certain terms and conditions of the Remaining US$15M Convertible Bonds entered among the Company, Business Ally and City Bloom, of which 200,000,000 Subscription Ordinary Shares will be transferred from Ultra Asset International Limited ("Ultra Asset"), a substantial shareholder of the Company, to CCB International Securities Limited ("CCBI"), an affiliate of Business Ally and 118,000,000 new Subscription Ordinary Shares will be issued at an issue price of HK$0.17 per ordinary share.

To facilitate the completion of the Subscription Agreement, Ultra Asset had entered into a deed of indemnification with Business Ally. Ultra Asset is willing to convert a total of approximately 17,118,000 convertible preference shares, at the conversion price of HK$0.44 per convertible preference share, into approximately 19,453,000 ordinary shares and transfer together with the approximately 180,547,000 ordinary shares held by Ultra Asset in total 200,000,000 Subscription Ordinary Shares to CCBI. The share capital of the Company will increase by HK$195,000, convertible preference shares will decrease by HK$171,000 and share premium decreased by HK$24,000.

Additional 118,000,000 Subscription Ordinary Shares will be issued to Business Ally at an issue price of HK$0.17 per ordinary share, credited as fully paid. The estimated fair value per Subscription Ordinary Shares approximately HK$0.28 as at 8 October 2012, the date of resumption of share trading, which was determined by the Directors with reference to published market price. The share capital and share premium of the Company will increase by HK$1,180,000 and HK$31,860,000 respectively. The issue of the Subscription Ordinary Shares is a non-cash transaction.

b) The maximum aggregate number of Subscription Ordinary Shares and Subscription CPS to be issued is 812,933,000. As stated in Note 11(a), 118,000,000 Subscription Ordinary Shares are to be issued. The remaining 694,933,000 Subscription CPS will be issued with par value of HK$0.01 each by the Company to Business Ally at an issue price of HK$0.17, credited as fully paid.

The Subscription CPS with a conversion price of HK$0.17 each is non-redeemable, zero coupon rate and are accounted for as the convertible preference share of the Company. The fair value of the Subscription CPS was HK$0.2132 each and was valued by Greater China, an independent valuer, as at 30 September 2012, assuming the issuance was completed as at 30 September 2012. The nominal value of convertible preference shares and share premium of the Company will increase by HK$6,949,000 and HK$141,210,000 respectively. The issue of the Subscription CPS is a non-cash transaction. The fair value of the Subscription CPS will be re-assessed at the actual completion date.

Methodology for Valuation of the Subscription CPS:

The fair value of the Subscription CPS was developed through the application of the Structural Credit Risk model with Trinomial Lattice Tree method and Merton's model with KMV model. Under the Structural Credit Risk model, the CPS was considered as derivatives on the firm value of the Company, and thus can be priced with the application of the Trinomial Tree method. The initial firm value and the volatility of the firm value, which are the inputs of the Structural Credit Risk model, can be estimated by Merton's model with KMV method.

The final market price and valuation results of the Subscription Ordinary Shares and Subscription CPS to be recognised at actual completion of the Proposed Subscription may be different from the amounts stated herein.

Moreover, upon the Completion, the number of Subscription Ordinary Shares and Subscription CPS would be reassessed upon actual issuance and may be different from the estimated ones as stated above. As a result, loss on redemption of Set-Off Convertible Bonds at the date of the Completion may be different from the estimated amount presented.

12. The adjustments represent imputed interest of HK$26,819,000 (the "Set-Off Interest") and gain in fair value of derivative component of convertible loan notes of HK$11,196,000 (the "Set-Off Gain in FV") were adjusted in the profit or loss for the year ended 31 December 2011, as if the Proposed Subscription had completed and the Set-Off Convertible Bonds had been derecognised on 1 January 2011. The adjustment on the Set-Off Interest and the Set-Off Gain in FV is calculated by dividing the total imputed interest of HK$53,637,000 and total gain in fair value of derivative component of convertible loan notes of HK$22,391,000, in respect of the US$30M Convertible Bonds, for the year ended 31 December 2011 by two. These adjustments are expected to have continuing effect on the consolidated income statement and consolidated statement of cash flow.

    Moreover, the adjustments represent the reversal of payment of interest of the Set-Off Convertible Bonds of HK$9,300,000 in the consolidated statement of cash flows, as if the Proposed Subscription had completed and the Set-Off Convertible Bonds had been derecognised on 1 January 2011. These adjustments are expected to have continuing effect on the consolidated income statement and consolidated statement of cash flow.

    For the loss on redemption of Set-Off Convertible Bonds for the year ended 31 December 2011, it is not practicable to determine the pro forma fair value of the Subscription Ordinary Shares and Subscription CPS as at 1 January 2011 and 31 December 2011 as it is not practicable to determine the adjusted stock price of the Company reflecting the effects if the Transactions were already announced on those dates, which is one of the key parameters for the calculation of the loss on redemption of Set-Off Convertible Bonds.

    Loss on redemption of Set-Off Convertible Bonds on Proposed Subscription of HK$45,849,000 is to be recognised in the profit or loss for the year ended 31 December 2011, as if the Proposed Subscription was completed on 1 January 2011 assuming there would be the same loss on redemption as if the Proposed Subscription had completed on 30 June 2012 mentioned above. The adjustment will not have continuing effect on the consolidated income statement and the consolidated statement of cash flows of the Enlarged Group.

13. The Company, Business Ally and City Bloom entered into the Third Supplemental Agreement on 6 September 2012. The principle terms of the Remaining US$15M Convertible Bonds as altered was detailed in the announcement dated 8 October 2012.

    As if the Proposed Alteration had completed on 1 January 2011, the Remaining US$15M Convertible Bonds will mature on 14 September 2015 (the "Maturity Date") and will be classified as non-current liability. The Remaining US$15M Convertible Bonds can be converted at any time during the period commencing from three months after the date of issue of the Remaining US$15M Convertible Bonds up to the Maturity Date.

The Company may redeem whole or part of the Remaining US$15M Convertible Bonds at a value in which the yield to maturity represents a gross yield to redemption of 15% per annum minus all interest paid at any time from the date of issue of the Remaining US$15M Convertible Bonds and before the Maturity Date with prior notice to Business Ally.

The conversion price has been set at HK$0.27 per share. The conversion price will be adjusted to the average closing price of one share during the month in which the financial year-end day of the Company falls in any calendar year plus a premium of 15% thereof is lower than the conversion price in force.

The liability and derivative component of the Remaining US$15M Convertible Bonds has been measured as the fair value as at 30 June 2012, the date of alterations of terms. The fair value of the liability component is determined by discounting the nominal amount of US$15,000,000 (equivalent to approximately HK$116,250,000) and the accrued interest at the discount rate of 13.70% as determined by the Directors with reference to valuation carried out by Greater China, an independent valuer, as if it is to be paid in 14 September 2014. The discount rate is based on the credit rating of the Company and bond yield of comparable companies with similar credit rating. The fair value of derivative component is determined using Trinomial Lattice Tree method.

In accordance with HKAS 32 “Financial Instruments: Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”, at the end of each reporting period, subsequent to initial recognition, the derivative component of the Remaining US$15M Convertible Bonds is carried at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The liability component of the Remaining US$15M Convertible Bonds is carried at amortised cost, with the effective interest expense recognised directly in profit or loss in the period in which they arise. Where there is amendment of terms of the Remaining US$15M Convertible Bonds, the difference between the fair value of the US$15M Convertible Bonds after the Proposed Alteration and the carrying amount of the US$15M Convertible Bonds before the Proposed Alteration is recognised in profit or loss.

The Proposed Alteration constitutes a substantial modification of the terms of the Remaining US$15M Convertible Bonds. The carrying amount of the Remaining US$15M Convertible Bonds is derecognised and the fair value of Remaining US$15M Convertible Bonds upon the completion of the Proposed Alteration is recognised. The difference is recognised in the consolidated income statement.

The adjustment on loss on amendment of terms of the Remaining US$15M Convertible Bonds of approximately HK$21,023,000 resulted from the Proposed Alteration, as if the Proposed Alteration had completed on 30 June 2012, is calculated as follows:

	HK$'000
Carrying amount of Remaining US$15M Convertible Bonds'	
– liability component	135,293
– derivative component	56
Total carrying amount of Remaining US$15M Convertible Bonds	135,349
Remaining US$15M Convertible Bonds' fair value of	
– liability component	138,367
– derivative component	18,005
Total fair value of the Remaining US$15M Convertible Bonds' fair value of liability and derivative components	156,372
Loss on amendment of terms of the Remaining US$15M Convertible Bonds on Proposed Alteration	21,023

The carrying amount of the Remaining US$15M Convertible Bonds and the fair value of the Remaining US$15M Convertible Bonds are based on the book value as at 30 June 2012 and fair value as at 30 June 2012 respectively. The loss on amendment of terms of the Remaining US$15M Convertible Bonds on Proposed Alteration was mainly due to the significant increase time value of the derivate component in respect of the extension of maturity date.

The adjustment will not have continuing effect on the consolidated income statement and the consolidated statement of cash flows of the Enlarged Group.

Imputed interest of HK$18,957,000 is to be recognised in the profit or loss for the year ended 31 December 2011, as if the Proposed Alteration was completed on 1 January 2011. The imputed interest is calculated by multiplying the Remaining US$15M Convertible Bonds's fair value of liability component, i.e. HK$138,367,000, by the effective interest rate of 13.70%. These adjustments are expected to have continuing effect on the consolidated income statement and consolidated statement of cash flows.

Moreover, imputed interest of HK$8,602,000, i.e. deduction of imputed interest in respect of the Remaining US$15M Convertible Bonds before the Proposed Alteration of HK$27,559,000 (the "Deducted Interest") and net off the imputed interest after Proposed Alteration of HK$18,957,000, should be charged to the profit or loss for the year ended 31 December 2011 as if the Proposed Alteration was completed on 1 January 2011. The adjustment will not have continuing effect on the consolidated income statement and the consolidated statement of cash flows of the Enlarged Group. The Deducted Interest is calculated by multiplying the interest expense on the Remaining US$15M Convertible Bonds with an effective interest rate of 26.51% as at 1 January 2011 by two.

It is not practicable to determine the pro forma fair value of the derivative component as at 1 January 2011 and 31 December 2011 as it is not practicable to determine the adjusted key parameters for the determination of fair value of the derivative component reflecting the effects if the Transactions were already announced on those dates.

Loss on amendment of terms of the Remaining US$15M Convertible Bonds on Proposed Alteration of HK$21,023,000 is to be recognised in the profit or loss for the year ended 31 December 2011, as if the Proposed Alteration was completed on 1 January 2011 assuming there would be the same loss on amendment of terms as if the Proposed Alteration had completed on 30 June 2012 mentioned above. The adjustment will not have continuing effect on the consolidated income statement and the consolidated statement of cash flows of the Enlarged Group.

Upon the Completion, the fair values of the Remaining US$15M Convertible Bonds' fair value of liability and derivative components would be reassessed and may be different from the estimated ones as stated above. As a result, the loss on amendment of terms at the date of the Completion may be different from that estimated amount presented.

14. The figures are extracted from the accountant's report set out in Appendix II to this circular and translated from RMB to HK$ at the exchange rate of RMB1.00 = HK$1.21.

I. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below are the management discussion and analysis on the Group which is extracted from in the Company's interim report for the six months ended 30 June 2012 and the Company's annual reports for the three years ended 31 December 2011.

1. For the six months ended 30 June 2012

Business Review

Overview

During the period in review, and as announced by the Company on 13 June 2012 and 4 July 2012, a wholly-owned subsidiary of the Group, entered into the Acquisition Agreement for the purchase of certain coal mines in Shanxi Province from City Bloom. Contemporaneous with the signing of the Acquisition Agreement, the Company entered into the Disposal Agreement with a connected party of the Company, for the disposal by the Company of its iron mining and coal trading and logistics businesses.

Iron mining

The Group owns a 99.99% interest in Golden Pogada LLC ("Golden Pogada"), which holds a mining right license for a 12.01 sq-km iron ore mine located in south-central Mongolia (the "Oyut Ovoo Mine").

As reported in our 2011 Annual Report, the mining operation at the Oyut Ovoo Mine has been halted since the onset of the technical problems with its production equipment and machineries. Furthermore, due to the prolonged iron production schedule, the Company not establishing the required scale of production and the delay in the completion of the Choir station, the Group will have to bear the logistics related costs of transporting the iron ore products from the Oyut Ovoo Mine to Erenhot, to be sold. As such, for the year ended 2011, the Group had further impaired the carrying amount of the mining right as a result of the significant change to the cost structure and overall profitability of the Group's iron mining business.

On 12 June 2012, the Group entered into the Disposal Agreement for the disposal of the entire issued share capital of NARG, which holds the Group's 99.99% interest in Golden Pogada. In light of the issues that the Company has encountered with the iron mining business and the delay in the completion of the Choir station over the last two years, the disposal of the iron business will reduce the drain on Company's resources, and allow the Company to focus on managing the operation of the coal mines, upon the completion of the acquisition.

Gold mining

Dadizi Yuan LLC* ("Dadizi Yuan"), a wholly-owned subsidiary of the Group, holds mining and exploration licenses in respect of two alluvial gold mines located in Khar Yamaat, Khongor and Sharin Gol Soum of Darkhan Uul aimag, Mongolia.

As reported in our 2011 Annual Report, the gold mining operation which was operating smoothly during the second half of 2010, was suspended during the end of the year due to the severe wintery conditions in Mongolia. The operation at the gold mines remained suspended during the period under review due to the political uncertainties surrounding the Mongolian elections and the Group re-strategising its operation. The management will continue to monitor the situation in Mongolia before deciding on a suitable time to re-commence its gold mining operation.

* *For identification purpose only*

Coal Trading & Logistics

The coal trading and logistics businesses of the Group are carried out by GLG through its subsidiary, Global Link Logistics LLC ("GLL") and NARG's subsidiary, NAR Gold Fox Group Limited ("NAR Gold Fox"). The logistics operation at the Gants Mod border crossing is operated through GLL while the coal trading business at Ceke border crossing is operated through NAR Gold Fox.

During the period under review, GLL continued to transport the coal products for a Mongolian coal mining company from one of its coal mines to the Gants Mod border crossing. The Mongolian coal mining company is currently constructing a paved road from its mine to the Gants Mod border and GLL is also assisting in the transportation of cement from the Gants Mod border to the road construction sites. The new road will help increase the fleet efficiency for GLL in its future transportation of coal for the Mongolian coal mining company. This operation has been running relatively smoothly for the past few months and has been generating revenue to the Group; however, more capital investment will be required in order for this business to become profitable.

Around the end of 2011, NAR Gold Fox started a trial running of its business model, which was subsequently aborted as the business involved a relatively long funding cycle and substantial outlay of capital, from the point of initial investment of capital for the purchase of the raw coal, transportation cost and coal washing cost to the final receipt of payment from the washed coal buyers. As such, the Company decided to put this operation on hold and to further review and strategise the operational and funding requirements for this business. Since the washing process had been aborted, the raw coal was sold during the period under review.

The entire issued share capital of GLG and NARG will be disposed to a connected party pertaining to the terms and conditions of the Disposal Agreement. As both GLL's and NAR Gold Fox's businesses are still in their early stages and would require further investments of capital, the disposal of the coal trading and logistics businesses would allow the Company to focus its capital resources on the operation of the coal mines which are expected to contribute a more steady revenue stream to the Group.

Banking and finance systems integration services Businesses

The banking and finance systems integration services businesses of the Group are carried out by its wholly-owned subsidiary, Topasia Computer Limited and its subsidiaries (the "TopAsia Group").

Despite the slight decline in inflation due to the slower economic growth in the first half of 2012, the labour costs in the PRC remained high and the business environment continued to be challenging. In spite of this, the TopAsia Group managed to achieve a slight increase in its total revenue for the period under review as compared to the same period last year. This was mainly due to stronger demands for automatic teller machines ("ATM") with deposit and withdrawal capabilities from the local banks. To capitalize on this opportunity, TopAsia Group cooperated with OKI to develop and promote a new all-in-one ATM model that has a range of functions. The ATM maintenance services revenue in the first half of 2012 remained at the same level as that of last year.

Intense competition in the ATM servicing industry continued to drive maintenance fees down, while manufacturers imposed sales quotas on retailers in an attempt to expand their market share, which resulted in the decrease in the gross profit margin for the TopAsia Group for the first six months of 2012 as compared to the same period last year.

The PRC economy for the second half of 2012 is expected to be challenging, as the deficiency of capital, fluctuation in resource prices, and increase in labour costs continue to be major issues for the service industry. In view of this, the TopAsia Group will continue to maintain a prudent operational strategy for their business.

Outlook

In light of the issues surrounding the iron mining operation and the start-up status of the coal trading business, the Company believes that the disposal of these businesses would allow the Company to focus its resources on the coal mines, which are expected to contribute a more probable and steady revenue stream to the Group. Furthermore, the restructuring of the Group's financial obligation on the US$30M Convertible Bonds will release the Company from the restrictions on its capital usage.

Financial review

Review of Results

For the six months ended 30 June 2012, the Group recorded a turnover of approximately HK$39,153,000 (six months ended 30 June 2011: approximately HK$27,062,000), which represented an increase of approximately 45% while the gross profit increased by 31%. The increase in turnover and gross profit for this first half year were mainly contributed by the coal operation segment. The increase in turnover of this segment was attributed to the increase in coal trading and logistic services of approximately HK$16,339,000.

The Group recorded a loss of approximately HK$58,944,000 as compared to a loss of approximately HK$186,041,000 for the same period last year which represented a decrease of approximately 68%. The decrease in the loss for the current period was mainly as a result of the decrease in impairment loss recognised in respect of the mining rights as compared to the same period last year. Impairment loss on the gold mining right of approximately HK$1,700,000 was recognised in the condensed consolidated income statement for the six months ended 30 June 2012 (six months ended 30 June 2011: impairment loss on iron mining right of HK$129,300,000). For the six months ended 30 June 2012, the impairment loss was made as a result of a decrease in the business enterprise value of Dadizi Yuan. The fair value of the business of Dadizi Yuan was based on a valuation report issued by Greater China. The decision to impair the carrying value of the gold mining right was made by the Board after taking into consideration of the valuation report prepared by Greater China and the delay in production as a result of the current suspension of gold mining operation, which resulted in a change in the time value of operating the Group's gold business. No impairment loss was recognised for the iron mining right for the current period as the recoverable amount of the iron mining right was higher than its carrying amount as at 30 June 2012.

Loss per share for the first half of 2012 were HK5.14 cents compared to HK21.67 cents per share for the same period in 2011.

Liquidity and financial resources

Net Debt and gearing ratio

At 30 June 2012, the Group's gearing ratio, computed as the Group's other borrowing and convertible loan notes over the equity attributable to equity holders of the Group was approximately 0.92 as compared to approximately 0.69 as at 31 December 2011.

Liquidity

The Group had total cash and bank balances of approximately HK$32,998,000 as at 30 June 2012 (31 December 2011: approximately HK$33,573,000).

The maturity date of the US$30M Convertible Bonds has been changed to 13 December 2012 (the "New Maturity Date") and as such the US$30M Convertible Bonds will have to be redeemed on the New Maturity Date, if it has not been fully converted into conversion shares. The Group's net cash balance as at 30 June 2012 was approximately HK$32,998,000 or equivalent to approximately US$4,231,000. However, the Company has entered into the Acquisition Agreement with City Bloom which will bring in viable coal projects into the Group and is in negotiations with the US$30M Convertible Bonds holder to restructure the Company's financial obligations in relation to the US$30M Convertible Bonds.

Charges on Assets

As at 30 June 2012 and 31 December 2011, the entire issued shares of Green Paradise Enterprises Ltd., was pledged to the holder of the US$30M Convertible Bonds.

Treasury Policies

The Group generally financed its operations with internally generated resources and equity and/or debt financing activities. All financing methods will be considered so long as such methods are beneficial to the Company. Subsidiaries in the PRC and Mongolia used shareholder funds and internally generated resources to finance their working capital requirements. Bank deposits are in HK$, RMB, Mongolian Tugrik ("MNT") and the US$.

Contingent Liabilities and capital commitments

The Group has no material contingent liabilities as at 30 June 2012 (31 December 2011: nil).

The Group had no capital commitments as at 30 June 2012 (31 December 2011: nil) but has other commitments for an investment in a cooperation project which were contracted but not provided for totalling HK$6,552,000 (31 December 2011: HK$6,552,000).

Foreign exchange exposure

For the period ended 30 June 2012, the Group mainly earned revenue in RMB and MNT and incurs costs in HK$, RMB, MNT and US$. Although the Group currently does not have any foreign currency hedging policies, it does not foresee any significant currency exposure in the near future.

Employee and Remuneration Policies

As at 30 June 2012, the Group employed approximately 220 full time employees in Mongolia, the PRC and Hong Kong. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage and training programs.

Subsequent Event

As detailed in the Company's announcement dated 27 August 2012, Mountain Sky Resources Holdings Limited (the "Claimant") has on 21 August 2012 filed the Claims in the High Court of Justice of the British Virgin Islands against Mountain Sky, Ultra Asset, the Company and Guang Cheng (the "Defendants"). As at the date hereof, Mountain Sky is a substantial shareholder of the Company holding 155,350,000 Shares and 1,500,987,376 CPS and Guang Cheng is wholly-owned subsidiary of the Company. The Claimant is a minority shareholder of Mountain Sky while Ultra Asset is the majority shareholder of Mountain Sky. The Claimant is not a registered shareholder of the Company.

At the time of issuance of the US$30M Convertible Bonds to Business Ally, Mountain Sky has executed a share charge of 514,932,886 CPS in favour of Business Ally. As disclosed in the circular of the Company dated 8 February 2012, the terms and conditions of the US$30M Convertible Bonds were proposed to be altered, which alteration was conditional upon, among others, (i) Mountain Sky shall have executed under seal and delivered to Business Ally the Additional Charge on Preference Shares registered under its name (being 986,054,490 CPS) in favour of Business Ally; and (ii) Mountain Sky shall have charged, executed under seal and delivered to Business Ally the Charge on Shares registered under its name (being 155,350,000 Shares) in favour of Business Ally. On 5 March 2012, the Additional Charge on Preference Shares and the Charge on Shares were executed by Mountain Sky in favour of Business Ally.

The Claims involves, among other things, the seeking of the following: (i) an injunction restraining the Company, Guang Cheng and Mountain Sky from taking or procuring any further steps in respect of certain proposed transactions (the "Proposed Transactions") as described in the announcement of the Company dated 4 July 2012, in particular any steps that involve selling Mountain Sky's Shares and CPS in the Company in return for the Group's iron mine in Mongolia; (ii) an order declaring that the directors' and shareholders' resolutions of Mountain Sky approving the components of the Proposed Transactions, the Additional Charge on Preference Shares and the Charge on Shares are void and of no effect; (iii) an order that Ultra Asset transfers 350 million Shares free and clear of any encumbrance to the Claimant, or in the alternative that the Additional Charge on Preference Shares and the Charge on Shares are void and of no effect and Ultra Asset procures Mountain Sky to transfer 18.81% of the Shares and CPS it held to the Claimant free and clear of any encumbrance; and (iv) damages and costs. The Claimant alleged that the affairs of Mountain Sky have been and are likely to be conducted in a manner that is oppressive, unfairly discriminatory and/or unfairly prejudicial to the Claimant in its capacity as a shareholder of Mountain Sky.

The Company has carried out all reasonable work including obtaining relevant copies of minutes and resolutions from Mountain Sky and a copy of a legal opinion based on the laws of the British Virgin Islands addressed to Business Ally in relation to the execution of the Additional Charges on Preference Shares and the Charge on Shares. Based on the aforesaid legal opinion, the Board considers that the Additional Charge on Preference Shares and the Charge on Shares were duly executed by Mountain Sky and proper authorisation has been obtained from the relevant parties for the execution of the same. In addition, after preliminary consultations with relevant professionals, the Company considers that the Claims against the Company is unmeritorious and without any justifiable basis. As stated above, the Claimant is not a shareholder of the Company and it is not clear the standing in which the Claimant is making the Claims against the Company. Further, the Company is of the view that the Proposed Transactions are in the interest of the Company for the benefit of its shareholders as a whole. The legal proceedings are currently underway. On 30 November 2012, the Defendants filed a joint-defense statement to the High Court of Justice of the British Virgin Islands and on 14 January 2013, the Claimant filed its reply to the defense statement. The Defendants will continue to strongly defend the Claims.

2. For the year ended 31 December 2011

Financial review

Review of Results

For the year ended 31 December 2011, the Group recorded a turnover from continuing operations of approximately HK$73,497,000 (2010: approximately HK$31,922,000), which represented an increase of approximately 130% while the gross profit increased by 13%. The increases in turnover and gross profit were mainly contributed by the banking and finance systems integration services and software solutions segment. The increase in turnover of this segment was attributed to the increase in equipment sales as well as some additional revenue from the sales of ATM parts and postage mailing machines. However, even though the full year revenue for the banking and finance systems integration services and software solutions segment almost doubled that of last year, the gross profit for the full year, only marginally increased as compared to last year due to intense price competition and higher cost of goods and labor. Further analysis of the banking and finance systems integration services and software solutions businesses can be found in the "Business Review" section of this report.

The Group recorded a loss of approximately HK$865,316,000 as compared to a loss of approximately HK$3,009,777,000 last year. The decrease in the loss for the current year was mainly as a result of a lower impairment loss recognised in respect of the iron mining business (approximately HK$819,000,000) as compared to last year (approximately HK$2,941,267,000). The impairment loss recognised this year was as a result of a decrease in the fair value of the business enterprise value of Golden Pogada as assessed by Greater China, an independent professional valuer. The decision to impair the carrying amount of the mining right was made by the Board after taking into consideration Greater China's report, the information obtained from our logistics partner and other sources of information in recent months, regarding the likely increase in the transportation costs for transporting iron ore products from the Oyut Ovoo mine site to a border town as a result of not establishing the required scale of production and our inability to attract other large-scale buyers to absorb the transportation cost, which resulted in a significant change to the cost structure and overall profitability of the Group's iron business. Further details of the iron mining business can be found in the "Business Review" section of this report.

Loss per share for the year to 31 December 2011 were HK86.62 cents compared to HK438.10 cents per share for 2010.

Final dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

Business review

Overview

During the financial year end of 2011, the Group remained focus on advancing its operational plans for the iron and gold mining, coal trading and logistics businesses in Mongolia. Although delayed by extreme weather conditions and a nation-wide fuel shortage, the Group started its gold mining operations at the Khar Yamaat mine site during the second half of 2011 and successfully sold all of its gold extracts. Its iron ore mining operation at the Oyut Ovoo mine site also commenced dry production during the year. However, production was temporarily halted due to some technical problems and the Group dedicated its attention on resolving the issues with the equipment supplier and in carrying out further testing and fine tuning of the equipment. The newly invested logistics business commenced operation and has started generating some revenue.

During 2011, the Group did not acquire any new projects or assets in the mining and resources sectors although it was actively seeking for opportunities. A framework agreement entered into in July 2010, for the acquisition of two additional iron mines in Mongolia was terminated on 25 May 2011 based on mutual agreement. The Group also did not carry out any material acquisition or disposal of subsidiaries and/or associated companies in 2011.

Iron mining

The Group owns a 99.99% interest in Golden Pogada, which holds a mining right license for Oyut Oyoo Mine, a 12.01 sq-km iron ore mine located in south-central Mongolia.

As reported in our 2011 interim report, the Group faced some unexpected challenges in the form of adverse weather conditions, nation-wide diesel shortage and technical problems with its production equipment and machinery, during the first half of the year. The mining operation at Oyut Ovoo was halted pending resolution of the technical issues. During the second half of the year, management dedicated its attention on fixing the technical issues together with the equipment supplier.

There has also been a similar delay in the overall construction progress of the transit and loading dock near the Choir train station, and the rail extension line linking the docking facility to the main rail line of the Choir station (the "Choir Project"). Moreover, as a result of an increase in the required area of construction of the Choir Project and significant escalation of the prices of fuel, materials and labor, the construction of the Choir Project has been further delayed. The Group is in negotiations with China Railway Mongolia Investment LLC ("CRMI"), its logistics partner, regarding the estimated construction cost to complete the Choir Project.

The Group did not sell any iron ore products during the year as management's efforts were devoted towards resolving the technical issues at the Oyut Ovoo Mine. Towards the end of the year, when the technical issues have almost been resolved pending further testing and fine tuning of the equipment, the Group consulted its logistics partner, CRMI and other sources, with regards to the sales logistics of its iron ore products. In February 2012, CRMI informed management that since the Group has not yet established the required scale of production at the Oyut Ovoo Mine and as a result of the delay in the completion of the Choir Project, the Group will have to bear the logistics related costs of transporting the iron ore products from the Oyut Ovoo Mine to Erenhot, the border town near to China. CRMI has provided the Group with an estimate of the transportation cost. Given that the iron production schedule has been prolonged (as reported in our 2010 Annual Report) and we have not established the required scale of production, we lack the bargaining power to attract other large-scale buyers who will be willing to absorb the transportation costs. Furthermore, based on recent information, it will be tough to find buyers which will absorb the costs of transportation given the logistics conditions in Mongolia.

The Group believes that CRMI is still the most ideal logistics partner to provide the required transportation services due to CRMI's ability to access the railway systems in both Mongolia and China. The increase in transportation cost will affect the cost structure of operating the iron business and affect the overall profitability of the iron business going forward and as such, the management has made a decision to impair the carrying amount of the mining right as a result of the decrease in the fair value of the business enterprise value of the iron business as valued by Greater China.

Gold mining

Dadizi Yuan, a wholly-owned subsidiary of the Group, holds mining and exploration licenses in respect of two alluvial gold mines (the "KY Gold Mine"), located in Khar Yamaat Khongor and Sharin Gol Soum of Darkhan Uul aimag, Mongolia.

During the second half of the year, since no production activities were being carried out at the Oyut Ovoo Mine, management spent more effort on the gold production at the KY Gold Mine. After completing the preparation work and topsoil excavation, the KY Gold Mine commenced operation in July 2011 and it managed to recover some of the lost productivity as a result of the delay encountered during the first half of the year. All the gold products recovered were also successfully sold during the year in accordance with the Group's modus operandi which is to produce and sell within a short interval so as to reduce the security costs of safeguarding our gold inventories and reduce our risks from carrying these valuable stocks.

The Group's gold mining operation progressed quite smoothly during the second half of the year and it did not encounter any other significant interruptions. The gold mining activities stopped around end of October at the onset of the winter season.

Coal Trading and Logistics

During the year under review, the Group dedicated its efforts into the setting up of its coal trading and logistics operations at both the Ceke and Gants Mod border crossings. Ceke and Gants Mod are the two major border crossings for coal transportation at the Sino-Mongolian border in the coal-rich South Gobi region.

In June 2011, a non-wholly owned Mongolian subsidiary of the Group, GLL entered into a coal transportation agreement with a Mongolian coal mining company, whereby GLL has agreed to transport the coal products from one of its coal mines to the unloading station near the Gants Mod border using heavy-duty trucks. In meeting its undertakings on the agreement, GLL purchased a fleet of heavy-duty trucks made for coal transportation and set up an operation camp site near the coal mine. GLL formally commenced its logistics operation after several successful test runs during the second half of the year. Towards the end of the year and after it has generated some cash flow from its operation, GLL made another capital investment to expand its fleet of heavy duty trucks to cope with the high level of demand for transportation services from its Mongolian trading partner.

A trial run for the Ceke operation (which involved both road and rail transportation) was carried out towards the end of the year in review. The Group purchased raw coal from Ceke which were transported by rail to Baotou, Inner Mongolia. The Group intends to have the raw coal washed and then sold to local end-users, including coal-fired power plants and steel factories, as the selling prices for washed coal are higher than that of raw coal. The trial run has not yet been completed as the washing process requires more time and resources during the winter months due to the extreme weather conditions. If the trial run is successful, the Group intends to dedicate more resources into this new line of business.

During the year, GLL's logistics business has already generated some revenue for the Group. We believe that the logistics business has good potentials in Mongolia as the country currently lacks robust logistics and supply-chain infrastructure and efficient transportation systems, however, we will need to invest more time and capital into this business before it can start generating significant profit for the Group.

Banking and finance systems integration services

The banking and finance systems integration services businesses of the Group is carried out by the TopAsia Group.

The spillover effects of a robust economy in 2010 when China's GDP growth rate was at double digit, yielded a higher full year turnover for the Topasia Group in 2011. The Topasia Group managed to secure new equipment sales from two of its long-term banking customers as well as some additional revenue from the sales of ATM parts and postage mailing machines manufactured by Pitney Bowes Inc. including after-sales installation and maintenance services of those postage mailing machines. The competition within the ATM repair and maintenance business remains intense during the year but the Topasia Group was able to generate the similar level of maintenance revenue as the previous year due to its pool of loyal customers.

However, despite an increase in the full year revenue for the Topasia Group for 2011, the gross profit margin for the full year, declined as compared to last year due to intense price competition from manufacturers which further diminished gross margins. The rising trends of commodity prices and labor costs in the PRC in spite of the Government's measures to cool inflation, contributed to the Topasia Group's net loss position.

In 2011, the global economic condition has been very much affected by the European debt crisis. The PRC's economic condition too has started to see the effects of it with the Government's monetary tightening policy, funding being constrained and growth slowing down. The inflation rate, however, continued to rise. Corporate businesses in the PRC were finding it tougher to operate in such an economic environment and the TopAsia Group was also faced with the same pressure.

Outlook

The Group has had to overcome many unpredictable challenges in its mining operations during the first half of 2011. During the second half of the year, the Group was able to get into pace with its production plans for the gold mining operation and it also started operating its logistics business, however, its iron mining operation remained stalled pending the resolution of the technical issues. Towards the end of the year, the Group was faced with certain financial obligations with the holders of its convertible loan notes, which put further pressure on the Group's resources for the operation of its businesses.

In 2012 and beyond, the Group expects to face further challenges including resolving the technical issues and obtaining the necessary approval of water usage from the local government for the required scale of operation at the Oyut Ovoo Mine. The Choir Project will also require more effort and additional resources to complete. The Group's newly invested coal trading and logistics businesses will help to diversify the Group's revenue stream and also strengthen the Group's financial position, however, these businesses are still in the early stages and will require more time and resources to be invested before they can make an impact on the Group's overall performance. The outlook for the Topasia Group is also uncertain as the inflationary pressures in the PRC continue to drag down corporate profitability. Furthermore, the financial obligation on the US$30M Convertible Bonds will be due for redemption towards the end of 2012, unless they have been fully converted or restructured.

While many challenges lie ahead, the Group believes that it will be able to weather these challenges and it hopes to steer the Group towards a more stable platform. The Group is currently engaged in active negotiations with various parties for the acquisition of new businesses and the disposal of certain slower performing assets of the Group including a restructuring of its convertible loan notes.

Liquidity and financial resources

Gearing ratio

At 31 December 2011, the Group's gearing ratio, computed as the Group's other borrowing and convertible loan notes over the equity attributable to equity holders of the Group was approximately 0.69 as compared to approximately 0.24 as at 31 December 2010.

Liquidity

The Group had total and net cash and bank balances of approximately HK$33,573,000 as at 31 December 2011 (2010: approximately HK$259,086,000) as the Group did not have any bank borrowings (2010: nil).

The maturity date of the US$30M Convertible Bonds has been changed to the New Maturity Date and as such the US$30M Convertible Bonds will have to be redeemed on the New Maturity Date, if it has not been fully converted into conversion shares. The Group's net cash balance as at 31 December 2011 was approximately HK$33,573,000 or equivalent to approximately US$4,304,000. However, given that the New Maturity Date is still some time away, the Company has adequate time to seek ways to enable the Group to fulfill its financial obligations.

Charges on Assets

As at 31 December 2011 and 31 December 2010, the entire issued shares of Green Paradise Enterprises Ltd., was pledged to the holder of the US$30M Convertible Bonds.

Treasury Policies

The Group generally financed its operations with internally generated resources and from equity and/or debt financing activities. All financing methods will be considered so long as such methods are beneficial to shareholders as a whole. Subsidiaries in the PRC and Mongolia used shareholder funds and internally generated resources to finance their working capital requirements. Bank deposits are mainly in HK$, Renminbi RMB, MNT and the US$.

Contingent Liabilities and capital commitments

The Group had no material contingent liabilities as at 31 December 2011 (2010: Nil).

The Group had no capital commitments for the acquisition of plant and machinery which were contracted but not provided for as at 31 December 2011 (2010: HK$18,453,000) and other commitments for an investment in a cooperation project which were contracted but not provided for totaling HK$6,552,000 as at 31 December 2011 (2010: HK$6,552,000).

Foreign exchange exposure

For the year ended 31 December 2011, the Group mainly earned revenue in RMB and MNT and incurred costs in HK$, RMB, MNT and US$. Although the Group did not have any foreign currency hedging policies, it did not foresee any significant currency exposure in the near future. However, any significant changes in the exchange rates of RMB against HK$, may have possible impact on the Group's results and financial positions.

Employee and remuneration policies

As at 31 December 2011, the Group employed approximately 230 full time employees in Mongolia, the PRC and Hong Kong. The Group remunerated its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

Subsequent Events

After the year end, the Company issued a circular to Shareholders dated 8 February 2012 (the "Alteration Circular") in relation to, among others, the proposed alteration of the terms of the US$30M Convertible Bonds, the proposed specific mandate (the "Alteration Specific Mandate") to be granted to the Directors to allot and issue additional conversion shares, which may be issued upon the full conversion of the US$30M Convertible Bonds at the adjusted conversion price of HK$0.27 per conversion share and the convening of a special general meeting on 23 February 2012 to vote on the resolutions. Please refer to the Alteration Circular for further details.

On 23 February 2012, the resolutions for the proposed alteration of the terms of the US$30M Convertible Bonds and the Alteration Specific Mandate were duly approved by Shareholders. The conversion price of the US$30M Convertible Bonds was adjusted from HK$1.30 to HK$0.27 per share with effect from 3 January 2012. The new and amended terms of the US$30M Convertible Bonds became effective on 5 March 2012 upon the satisfaction of all conditions precedent.

3. **For the year ended 31 December 2010**

Financial Performance

The Group's continuing operations delivered a turnover of approximately HK$31,922,000 for the year ended 31st December, 2010 (2009: approximately HK$51,705,000), which was mainly contributed by the banking and finance systems integration businesses. The 38.3 % year-on-year decrease in turnover was mainly attributed to intense price competition in the market during the year.

As a result, the gross profit from continuing operations decreased by 15.6% year on year to approximately HK$10,144,000 (2009: approximately HK$12,019,000) for the year to 31st December, 2010. However, there was an improvement in the gross profit ratio which increased from 24% to 32% due to the exercise of better control on costing during the year in review.

The Group recorded a loss attributable to equity holders of approximately HK$3,009,777,000 mainly as a result of the impairment of goodwill amounting to HK$2,653,767,000 and an impairment loss recognized in respect of mining right for iron of approximately HK$287,500,000 as a result of the decrease in the business enterprise value of Golden Pogada. The fair value of the business of Golden Pogada was based on the valuation report issued by Greater China, an independent professional valuer. The decision to impair the carrying amounts of the goodwill and mining right was made by the Board after taking into consideration Greater China's report and the challenges encountered by the mining operation during the year as a result of prolonged production schedule due to the additional time needed to obtain the necessary approval of water use from the local government for the required scale of production. This represents an increase of 16.2 times as compared to a loss of approximately HK$186,108,000 last year.

Loss per share for the year to 31st December, 2010 was HK438.10 cents, compared with a loss per share of HK70.81 cents for 2009.

During the year in review, the mining business has commenced a trial production but not yet generated any income.

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2010 (2009: Nil).

Business Review

Resources Businesses

Iron ore mining

In April 2010, the Group further consolidated its interests in the Oyut Ovoo Mine through the acquisition of an additional 9.999% equity interest in Golden Pogada by way of the issue of new shares in the Company to CRMI, a subsidiary of China Railway Resources Group Co., Ltd. The Company now holds a 99.990% interest in Golden Pogada.

The first and second quarters of 2010 were exceptionally cold in Mongolia which posed some challenges on the operation of the Oyut Ovoo Mine. In September 2010, after the successful completion of the mine design and dry processing equipment installation, the Oyut Ovoo Mine saw the initial blasting of 20,000 tonnes of iron ore ready for trial production, paving the way for scaled iron ore production expected to commence in the first half of 2011. During the financial year in review, the iron ore mine has not yet generated any income.

Since the Group has repositioned its focus on resources development in Mongolia, transportation solution has become the main emphasis for the Group because it is a critical element to the success of mining and developing bulk mineral resources in Mongolia. As part of this solution, the Group has secured an international throughput quota with CRMI for the transportation of iron ore products from Mongolia through to China. CRMI is also at the stage of completing the overall construction of a transit and loading dock, which is located in close proximity to the train station of Choir, Govisumber aimag in Mongolia. Choir is a transportation hub along the Trans-Mongolian Railway closest to the Oyut Ovoo Mine. The construction of a rail extension line linking the dock to the main rail line of the Choir station is near completion.

Gold mining

In end of April 2010, the Group completed the acquisition of the entire interest in Dadizi Yuan. Dadizi Yuan holds mining and exploration licenses in respect of the KY Gold Mine.

The KY Gold Mine have a total mining area of approximately 20.03 sq km on which 35 drill holes with total drilling of 1,500 m covering a 1.5-sq-km area were completed.

A ground breaking ceremony for the KY Gold Mine was held in June 2010 in the presence of local government officials and community members. For the second half of the year, the majority of the effort has been spent on removing top soil in order to reach the alluvial gold strata. Towards the end of the year, the Group has commenced and successfully recovered approximately 1,200 grams of raw alluvial gold from the licensed area. The Group is positioned to commence commercial production of its alluvial gold after the winter months.

Furthermore, as the windfall tax on gold in Mongolia is to be lifted from 1st January 2011, the Group is in a position to better capture this revenue source in the near future.

During the financial year in review, the KY Gold Mine has not yet commence generating any income for the Group.

New Business – Coal trading

As part of the Group's strategy to become a gateway for resources between China and Mongolia, the Group decided to expand into the coal trading business, leveraging on the transportation strength of CRMI. Together, we established a jointly invested company in December 2010. Under the shareholders' agreement governing the establishment and operations of the jointly invested company, CRMI is responsible for procuring sufficient transportation and throughput quota for 2011 from the Lin-Ce Railway Co., Ltd. to be allocated to the jointly invested company. Furthermore, the Group has signed a coal supply agreement with SouthGobi Sands LLC, a subsidiary of SouthGobi Resources Ltd., for the purchase of 450,000 tonnes of coal in 2011. The Group is currently in discussion with other coal mining companies to diversify its supply source. The scale of this business segment is expected to grow significantly once the Group has established long-term relationships with the coal suppliers.

The Management expects this business segment to contribute a healthy cash-flow to the Group in 2011 and beyond.

Agricultural Businesses

In consideration of the unsatisfactory and slower-than-expected pace of development of the agro-conservation and bio-energy businesses, and in order to focus on the new resources businesses, the Group disposed of the agro-conservation and bio-energy operations in March 2010.

Banking and finance systems integration services Businesses

The banking and finance systems integration services businesses of the Group is carried out by the TopAsia Group.

Affected by the monetary easing measures implemented across the world, the PRC experienced asset price and labor cost hikes, increasing pressure of inflation and severe business environment in 2010. Against such backdrop, the TopAsia Group's performance from its operation of the banking and finance systems integration services businesses continued to decline as compared to previous years. Competition within the industry led to a drop in the maintenance cost per machine. On the other hand, the renewal of maintenance contracts was affected by the replacement of obsolete equipment by the customers. Furthermore, equipment manufacturers flocked to the after-sales market for better return as the profit from sales of hardware has diminished, further intensifying existing competition. These factors presented major threats to the business of the TopAsia Group.

The outlook for the TopAsia Group for 2011 remains uncertain. The main goals for the TopAsia Group will be to continue with its costs control measures and maintain its long term clients.

Outlook

The Board expects 2011 to be an exciting year for the resources business as the Group shifts from the preparation stage to the production stage for both of the Group's mines. Through the trials and challenges that were experienced in 2010, the Group is confident of commencing scaled production for both the Oyut Ovoo Mine and the KY Gold Mine in the second quarter of 2011.

Once the rail extension line linking the dock to the main rail line of the Choir station has been completed, the Group intends to fully utilize facility for the transportation of the minerals from its mine to Choir station.

The Group's newly invested coal trading business is an exciting project that will help to diversify its revenue stream and also strengthen the Group's position as an international supplier of primary steelmaking resources to China. China's demand for steel will very likely continue to increase, which will continue to generate strong demand for the two main feedstocks, iron ore and coking coal. The coal trading and iron ore business synergism will enhance services for its end consumers and generate greater returns for its shareholders.

The Board remains confident in the prospects of the mining and resources businesses, while it acknowledges the challenges and difficulties of operating in this sector. By expanding into other businesses such as coal trading, the Group strives to maintain a diversified income stream, while positioning itself to maximize shareholders' return by continuing to be active in identifying other attractive investment opportunities.

Liquidity and financial resources

Net assets

At 31st December 2010, the Group recorded total assets of approximately HK$1,716,600,000 (2009: approximately HK$4,442,141,000), which were financed by liabilities of approximately HK$488,885,000 (2009: HK$663,014,000) and equity of approximately HK$1,227,715,000 (2009: HK$3,779,127,000). The Group's net asset value as at 31st December 2010 decreased by 66.30% to HK$1,227,285,000 as compared to approximately HK$3,642,297,000 as at 31st December 2009.

Liquidity

The Group had total cash and bank balances of approximately HK$259,086,000 as at 31st December 2010 (2009: HK$27,049,000). The net cash balance as at 31st December 2010 was approximately HK$259,086,000 (2009: HK$27,049,000), as the Group does not have any bank borrowings (2009: nil).

As explained in the "Subsequent Events" section of this report, the Group has breached certain convertible loan notes conditions which would entitle the subscriber of the convertible loan notes to request for early redemption of the convertible loan notes with total principal amount outstanding of approximately HK$335,400,000 and respective unpaid accrued interest. The Group has net cash balance of approximately HK$259,086,000 as at 31st December 2010. The Group is confident that by accepting and fulfilling the additional conditions requested by the subscriber of the convertible loan notes, it will be able to achieve a successful outcome on its ongoing negotiations with the subscribers of the convertible loan note. The Group may also seek appropriate external resources providers to bring in funds and/or viable assets into the Group.

Current ratio and gearing ratio

As at 31st December 2010, the current ratio was 5.75 (2009: 2.27) and gearing ratio was 0.24 (2009: 0.01) which was defined as the Group's convertible loan notes over its equity attributable to equity holders of the Company.

Charges on assets

At 31st December 2010, the entire issued shares of Green Paradise Enterprises Ltd. was pledged to convertible loan noteholders. At 31st December 2009, no fixed deposits were pledged to banks to secure banking facilities.

Treasury policies

The Group generally finances it operations with internally generated resources, proceeds from the disposal of its available-for-sale-investments, from equity fund raising activities and from raising convertible loan notes. All financing methods, including equity, debt and other means, will be considered so long as such methods are beneficial to shareholders as a whole. Subsidiaries in the PRC and Mongolia use internally generated resources to finance their working capital requirements. Bank deposits are mainly in HK$, RMB and US$.

Contingent liabilities and capital commitments

The Group had no material contingent liability as at 31st December, 2010.

The Group had capital commitments for the acquisition of plant and machinery which were contracted but not provided for totaling HK$18,453,000 (2009: nil) and other commitments for an investment in a cooperation project which were contracted but not provided for totaling HK$6,552,000 (2009: HK$21,034,000).

Foreign exchange exposure

For the year ended 2010, the Group mainly earns revenue in Renminbi and incurs costs in HK$, RMB and US$. Although, the Group currently does not have any foreign currency hedging policies, it does not foresee any significant currency exposure in the near future since the HK$ and US$ are pegged. However, any permanent or significant changes in the pegged system or the exchange rates of RMB against HK$, may have possible impact on the Group's results and financial positions.

Employee and remuneration policies

As at 31st December 2010, the Group employed approximately 240 full time staff in the Mainland China, Hong Kong and Mongolia. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

Subsequent Events

After the year end, the Company issued a circular to Shareholders dated 2 February 2011 (the "First Circular") in relation to, among others, the alterations of the terms of the US$30m Convertible Bonds, the proposed specific mandate to be granted to the Directors to allot and issue up to 178,846,153 shares, being the total number of shares which may be issued upon conversion of the US$30m Convertible Bonds and the convening of a special general meeting on 23 February 2011 to vote on the resolutions. Please refer to the First Circular for further details.

Subsequent to the despatch of the First Circular, the Company has on 9th February 2011 received a letter (the "Letter") from the subscriber (the "Subscriber") of the US$30m Convertible Bonds and the US$10m convertible loan notes (together, the "Convertible Loan Notes") notifying the Company of the alleged breach of the terms and conditions (the "Conditions") of the Convertible Loan Notes.

Both Mr. King and Mr. Chan resigned from the directorship of the Company with effect from 27th January 2011 (the "Resignation"). It was alleged by the Subscriber that the Resignation had constituted a breach of and an event of default under, the Conditions, which would entitle the Subscriber to give notice to the Company that each of the Convertible Loan Notes is due and payable at its principal amount. In addition, it was further alleged by the Subscriber that the resignation of Mr. King had also constituted a change of control event as defined in the Conditions, which would entitle the Subscriber to require the Company to redeem all or some of the Convertible Loan Notes.

However, as a gesture of goodwill and support to the Company, the Subscriber stated in the Letter that it may not exercise its right to give notice to the Company that each of the Convertible Loan Notes is due and payable at its principal amount or the right to require the Company to redeem all or some of the Convertible Loan Notes until 31st December 2011 (or a later time as the Subscriber and the Company will mutually agree) on the following conditions:

(i) the Company shall notify the Subscriber immediately on each occasion after the Company has withdrawn US$1,000,000 or more out of the bank account (the "Account") where proceeds from the Convertible Loan Notes are credited; and

(ii) the Company shall submit to the Subscriber a copy of the bi-weekly electronic bank statements in relation to the Account within 3 business days after the end of each of the aforesaid reporting period.

On 10th February 2011, the Company decided to accept the above conditions. On 18th February 2011, the Company announced its decision to adjourn the special general meeting and to issue a supplemental circular (the "Supplemental Circular") to provide Shareholders with further information on the change of circumstances. Please refer to the announcements of the Company dated 10th February 2011 and 18th February 2011 and the Supplemental Circular for further details.

4. For the year ended 31 December 2009

Financial performance

The Group's continuing operations delivered a turnover of approximately HK$51,705,000 for the year ended 31st December, 2009 (2008: approximately HK$63,321,000), which was mainly contributed by the banking and finance systems integration businesses. The 18% year-on-year decrease in turnover was mainly attributed to the continued slow down in the PRC economy as a result of the global financial crisis. However, there were signs of recovery in the second half year which produced most of the turnover for the year.

As a result, gross profit from continuing operations decreased by 8% year on year to approximately HK$12,019,000 (2008: approximately HK$13,133,000) for the year to 31st December, 2009.

The Group recorded a loss attributable to equity holders of approximately HK$186,108,000 mainly as a result of the recognition of the loss from the proposed disposal of the Group's agricultural businesses amounting to HK$109,913,000. This represents a decrease of 6% as compared to a loss of approximately HK$197,906,000 last year.

Loss per share for the year to 31st December, 2009 was HK70.81 cents, compared with a loss per share of HK115.35 cents for 2008.

During the year in review, the mining business has not commenced production nor generated any income. The segment is expected to start production in the second half of 2010.

Final dividend

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2009 (2008: Nil).

Review of agricultural businesses

As part of its strategy for countering the financial turmoil, the Group has undertaken an examination of its business portfolio in terms of macro trends and their ability to deliver returns. In consideration of the slow pace of development of the agro-conservation and bioenergy businesses, the Group resolved in early 2009 to hold back the furtherance of the green projects on hand in order to direct capital and management resources to investments that hold better prospects. As such, the Group did not undertake additional planting in Inner Mongolia and Hainan, PRC, or in Laos during the year.

After the acquisition of a new mining business in the fourth quarter of 2009, the Group further resolved to dispose of its agro-conservation and bioenergy businesses, and to direct management focus on to the mining and non-agricultural businesses.

Agro-conservation

The Group was engaged in agro-conservation business in Inner Mongolia through wholly-owned subsidiaries Green Global Agro-Conservation Resources Limited, Green Global Licorice China Limited and Green Global Salix China Limited.

The agro-conservation business was developed by the Group since 2007 with an aim to assist China's anti-desertification needs. The business was rolled out in Inner Mongolia, which has experienced some of the most severe desertification problems in the country, with the plantation of licorice and salix, both important anti-desertification agents.

As at the year end of 2009, the total plantation area for licorice and salix remained at approximately 58,000 Chinese mu (~3,867 hectares) and 380,000 Chinese mu (~25,300 hectares) respectively. These licorice and salix plants grew well with continued maintenance efforts being afforded. The Group did not extend the plantation area of these two plants during 2009 to prudently manage resources in view of the depressed market conditions and credit limitations, given the present performance of the agro-conservation business. As part of the proposed disposal of the whole agricultural businesses of the Group, a loss of HK$97,913,000 was recognized for the agro-conservation business for the year ended 2009.

Bioenergy

The Group's bioenergy business was developed in response to requirements of the new era for renewable energy solutions, with a focus on the plantation of Jatropha in Hainan, PRC and in Laos under a public-private-partnership model. Jatropha seeds have a valuable biodiesel profile.

The bioenergy business was operated through subsidiaries, Hainan Venture Zhengke Bioenergy Development Company Limited*（海南宏昌正科生物能源有限公司）("Hainan Venture") and Lao Agro Promotion Co., Ltd ("Lao-Agro").

During 2009, Hainan Venture maintained a total area of Jatropha nurseries of approximately 625 Chinese mu (~42 hectares), and Lao-Agro maintained four Jatropha sapling nurseries, covering a total area of approximately 825 Chinese mu (~55 hectares). No additional plantation or sale of saplings was undertaken in 2009 by both Hainan Venture and Lao-Agro. As part of the proposed disposal of the whole agricultural businesses of the Group, a loss of HK$12,000,000 was recognized for the bioenergy business for the year ended 2009.

Review of non-agricultural businesses

Banking and finance systems integration services

The banking and finance systems integration services business of the Group is carried out by the TopAsia Group.

* *For identification purpose only*

The ripple effect of the global financial tsunami continues to take its toll on TopAsia Group's business, which navigated through difficulties in 2009. The order book in the first six months declined, but showed improvement in the second half on the back of recovering economies. With a comprehensive network and solid client base, the TopAsia Group was able to maintain a steady stream of income from banking sector self-service equipment sales and services. Turning to the new year, the Mainland is expected to start to ease its monetary policy and banks are expected to handle increasing amounts of cash, which in turn will put pressure on banks to install additional self-service equipment. TopAsia Group will continue its focused development of self-service equipment repair and maintenance service provision. Leveraging on its sales network and existing clientele, TopAsia Group aims to secure higher renewal rates upon contract expiries. In addition to the retention of existing clients, TopAsia Group will also strive to extend its service to potential clients currently using other brands. However, the market is not expected to fully recover in 2010 and adjustments in various social security schemes and the implementation of the Labor Law have incurred higher costs for corporations and put a squeeze on their margins. Both equipment sales prices and maintenance fees may face further downward pressure. TopAsia Group acknowledges that further challenges are ahead, but remains cautiously optimistic towards its business outlook for the coming year.

Review of new businesses

Iron ore and copper mining business

The first step of the restructuring took place in December 2009 with the completion of the acquisition of 100% shareholding in NARG, enabling the Group to venture into the mining business.

NARG, a minerals exploration, investment and development company active in Mongolia, has a strong management team, and its technical personnel possess over 200 years of combined mining and technical experience. NARG and CRMI held 89.991% and 9.999% respectively of interests in Golden Pogada, a company incorporated in Mongolia holding a mining rights license to an iron ore and copper mine, covering a 12.01 sq km area in south-central Mongolia. The mine has large visible bodies of iron ore and copper mineralization, four of which have been confirmed by a recent technical report to contain approximately 148.9 million tonnes of iron ore resources and approximately 34.6 million tonnes of copper resources, both of high concentrations.

To bring these mineral products to the market, the Company has entered into various arrangements, including a long-term off-take agreement, a transportation agreement and Choir docking agreement with CRMI. China Railway Resources Group Co., Ltd ("China Railway Resources Group") is the parent company of CRMI, which is beneficially owned by China Railway Engineering Corporation (中國鐵路工程總公司), a state-owned enterprise. CRMI will arrange the transportation quotas for trucking and rail transport inside Mongolia, as well as through-transportation to resources-hungry China.

19th February, 2010, the Group entered into a further agreement with CRMI to acquire an additional stake in Golden Pogada by way of the issue of new shares in the Company to CRMI. Upon completion, the Group will hold a 99.99% interest in Golden Pogada and CRMI will become a direct shareholder of the Company. This arrangement is expected to further enhance the business relationship between the Group and CRMI, as well as with its parent China Railway Resources Group.

Gold mining business

It has been the Group's strategy to proactively seek potential investment opportunities, particularly in the mining sector, that would enhance shareholders' value and broaden its sources of revenue.

On 26th January, 2010, the Company entered into a sale and purchase agreement to acquire the entire equity interest in Dadizi Yuan, a company incorporated in Mongolia, for a consideration of RMB35 million (equivalent to approximately HK$39.7 million). Dadizi Yuan holds the exploration licenses for two alluvial gold mines in Mongolia.

The acquisition of Dadizi Yuan presents an attractive investment opportunity for the Group, without requiring significant capital investments and at a reasonable consideration, in view of the continuous growth in worldwide demand for gold, the escalating gold prices and the limited supply of gold reserves worldwide. Further, alluvial gold mining is less capital-intensive and requires a simpler and shorter production process than traditional ore rock gold mining and as such, will be able to generate faster cash flow to the Group.

Financial and operational discipline

Insight and prudence are imperative for a company to be successful in the face of risk and uncertainty in the present market. To enhance the Group's preparedness for today's turbulence, we closely monitor financial management and resources, and maintain a lean and variable cost structure. This enables the Group to act more quickly and flexibly on market turbulence. As a progressive company, we constantly recognize that there are areas where improvements can and should be made and constantly strive for operational excellence.

Outlook

The Board is confident that its new mining businesses offer a great opportunity for the Group to participate in a resources-related industry in a largely untapped country, Mongolia. It also expects that this newly ventured business will present the Group with favorable short and long term prospects. Through a placing of new shares in the Company that closed in February 2010, the Group raised net proceeds of approximately HK$380 million to fund the operation and business pursuits of the newly acquired mining business. The fund raising exercise will also enable the Group to broaden its shareholder base for healthy development in the long term.

In 2010 and forward, the Group will be focusing its efforts on the execution and operation of its mining businesses in Mongolia. The iron ore mine is expected to begin production in the second half of 2010. The Board is confident that, with CRMI's close cooperation and partnership, the Group will complete the Choir docking facility as scheduled to ensure efficient logistics and transportation of the mine's output to China.

Mongolia will remain as the main area of investment for the Group going forward and it will leverage its unique advantage of being the first company to have established such a partnership with China Railway Resources Group and aims to become a world-leading mining company, and a connector between minerals producing Mongolia and China, the world's largest consumer of iron ore.

Liquidity and financial resources

Net Assets

At 31st December, 2009, the Group recorded total assets of approximately HK$4,442,141,000 (2008: HK$491,920,000), which were financed by liabilities of approximately HK$663,014,000 (2008: HK$157,064,000) and equity of approximately HK$3,779,127,000 (2008: HK$334,856,000). The Group's net asset value as at 31st December, 2009 increased by 9.97 times to HK$3,642,297,000 as compared to approximately HK$332,001,000 as at 31st December, 2008.

Liquidity

The Group had total cash and bank balances of approximately HK$27,049,000 (excluding amount classified as disposal groups held for sale) as at 31st December, 2009 (2008: HK$93,754,000). The net cash balance as at 31st December, 2009 was also HK$27,049,000 (excluding amount classified as disposal groups held for sale) (2008: HK$93,754,000), as the Group does not have any bank borrowings (2008: nil).

Current ratio and gearing ratio

As at 31st December, 2009, the current ratio was 2.27 (2008: 2.53) and gearing ratio was 0.01 (2008: 0.20) which was defined as the Group's convertible loan notes over its equity attributable to owners of the Company.

Charges on Assets

At 31st December, 2009, no fixed deposits were pledged to banks to secure banking facilities (2008: nil).

Treasury Policies

The Group generally finances it operations with internally generated resources, proceeds from the disposal of its available-for-sale-investments and from equity fund raising activities. All financing methods, including equity, debt and other means, will be considered so long as such methods are beneficial to shareholders as a whole. Subsidiaries in the PRC use internally generated resources to finance their working capital requirements. Bank deposits are mainly in HK$ and RMB.

Contingent Liabilities and Capital Commitments

The Group had no material contingent liability as at 31st December, 2009.

The Group had no capital commitments for the acquisition of intangible assets which were contracted but not provided for as at 31st December, 2009 (2008: HK$14,751,000) but had other commitments for an investment in a cooperation project which were contracted but not provided for totaling HK$21,034,000 (2008: HK$23,400,000).

Foreign Exchange Exposure

For the year ended 2009, the Group mainly earns revenue in RMB and incurs costs in HK$, RMB and United States dollars ("US$"). Although, the Group currently does not have any foreign currency hedging policies, it does not foresee any significant currency exposure in the near future since the HK$ and US$ are pegged. However, any permanent or significant changes in the pegged system or the exchange rates of RMB against HK$, may have possible impact on the Group's results and financial positions.

Employee and Remuneration Policies

As at 31st December, 2009, the Group employed approximately 220 full time staff members in the Mainland China, Hong Kong, Laos and Mongolia. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

II. MANAGEMENT DISCUSSION AND ANALYSIS ON THE LEXING GROUP

1. Overview

The Lexing Group is principally engaged in the exploration and exploitation of coal products including coking coal in the PRC. Shanxi Coal is one of the subsidiaries of Lexing Group established in the PRC on 18 April 2008 for the consolidation of five underground coal mining operations from former smaller mining operators, producing coking coals in Shanxi Province. Pursuant to a document entitled 《山西省人民政府關於進一步加快推進煤礦企業兼併重組整合有關問題的通知》("Notice of the People's Government of Shanxi Province on further accelerating merger, reorganization and integration of coal enterprises") issued by the People's Government of Shanxi Province on 15 April 2009, Shanxi Coal was one of the authorized entities to undertake the mergers and reorganizations. Shanxi Coal is currently owned as to an aggregate of 49% by three indirect wholly-owned subsidiaries of Lexing, namely Shanxi Ruiying, Shanxi Changtong and Taiyuan Zhituo, and as to the remaining 51% by the PRC Owners. The PRC Owners are entities under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

The mining assets held by Shanxi Coal comprise (i) 100% interest in Liaoyuan; (ii) 100% interest in Jinxin; (ii) 100% interest in Xinfeng; (iv) 100% interest in Bolong; and (v) 69.4% interest in Fuchang.

Liaoyuan Mine, Jinxin Mine, Xinfeng Mine, Bolong Mine and Fuchang Mine are located in Gujiao City of Shanxi Province and are currently in the process of reconstruction to consolidate their operations. Coals within the Coal Mines are mainly fat coals and coking coal. According to the competent person's report on the Coal Mines, the Lexing Group's mining rights areas contain a total of approximately 87.85 million tonnes of JORC-compliant measured, indicated and inferred coal resources and 43.36 million tonnes of JORC-compliant proved and probable marketable reserves as of 30 September 2012. Formal operations of all of the Coal Mines are projected to start by September 2013 at the latest.

2. Factors Affecting Results of Operations and Financial Condition of the Lexing Group

The Lexing Group's results of business operations may be affected by the cyclical nature of the coal market price fluctuations

Most of the Lexing Group's revenue is derived from coal sales. As such, the results of business operations of the Lexing Group mainly rely on the coal market prices and the supply and demand of coal in the PRC domestic market. The Lexing Group mainly refers to the domestic coal market price to set the relevant sale prices, which is affected by any changes in the supply and demand of coal in the market. There could be many factors which are not controllable by the Lexing Group from time to time leading to shortage or oversupply in the PRC domestic coal market. These factors include but not limited to:–

(a) global and domestic economic and political conditions, as well as competition from other energy sectors;

(b) the development and expansion of the electricity and manufacturing industries which have significant demand on the coal industry;

(c) the relevant PRC regulations, including but not limited to the tariff of the national railway system, which is crucial for the logistic part;

(d) the development of other alternative sources of power generation (for example: natural gas, petroleum, hydroelectric and nuclear power); and

(e) the relevant environmental laws and regulations which limit carbon emissions.

The Lexing Group cannot guarantee that domestic coal demand will continue to grow in the domestic coal market. Furthermore, there will be no guarantee that there will not be any oversupply of coal or the coal prices in the PRC will remain stable. Excess production capacity of the coal industry or any sharp reduction in the domestic coal prices are likely to affect the average selling price of the Lexing Group's coal products. As such, the Lexing Group's business operations and the corresponding financial results could be materially adversely affected.

The supply and demand of coke and coal in the PRC and international market are subject to fluctuations. Fluctuations in supply and demand and prices of coking coal and coal-related products may be beyond the control of the Lexing Group.

If the market price of coking coal or coal-related products falls sharply after Completion, such market fluctuations will have an adverse impact on the Group's future results of operations and financial position. If coal or coal products prices continue to slump, the Group’s profitability and ability to meet the capital expenditure requirements will be adversely affected. There is no assurance that the Lexing Group in the future will be able to maintain or reduce its current production costs, or to maintain or increase its production.

The coal demand may be affected by the growth of the steel industry

The steel industry is a main customer for the coal demand of the Lexing Group and any fall in the steel price and/or production capacity will in turn cause the reduction in demand of coal and coke. As such, the business prospect of the Lexing Group will rely upon the growth of the PRC steel industry, which is in turn affected by various factors including but not limited to the relevant government policies.

Risks in association with the renewal of the mining licnece and other requisite permits

According to the PRC Mineral Resources Law (《中華人民共和國礦產資源法》) (the "Mineral Resources Law"), all mineral resources in the PRC are belonged to the state. PRC coal production enterprises are required to obtain the mining license and other requisite permits including but not limited safe production permit, coal production permits and business licenses before carrying out coal production and mining activities.

While the Lexing Group has arranged all its operating subsidiaries to obtain the relevant mining licenses and qualification certificate of the mine manager (礦長資格証), the other permits will be obtained after completion construction of the coal mine infrastructure and conditions for safe production in accordance with the relevant criteria.

According to the Mineral Resources Law, all mineral resources are state owned and mining licenses shall have to be obtained by enterprises before conducting mining activities. While the mining license holder may apply for renewal of the mining license after its expiration, there is no assurance that the mining license upon the expiration will be renewed on favourable terms. As at the Latest Practicable Date, the mining licenses in respect of the Coal Mines owned by the Lexing Group will expire within the forthcoming year, while the Lexing Group expect that there will be no legal obstacles for the Lexing Group to renew the relevant licenses, there is no guarantee as the renewal will be subject to the relevant PRC authorities.

Significant Accounting Policies and Estimation

The consolidated financial statements have been prepared in accordance with the accounting policies set out below, which conform to Hong Kong Financial Reporting Standards (which is a collective term includes Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA.

Revenue

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the conditions are satisfied:

- the Lexing Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Lexing Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Lexing Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Lexing Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Lexing Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. Mining rights include the cost of acquiring mining licenses and exploration and evaluation costs, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortised using the units of production method based on the proven and probable coal mining reserves. Mining rights are written off to profit or loss if the mining property is abandoned.

Gain on losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, the Lexing Group could be required to increase the amount of future depreciation charge.

Impairment of assets

At the end of the reporting period, the Lexing 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 loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Lexing 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.

Provision for restoration, rehabilitation and environmental costs

The provision for restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. The directors estimated this liability for final reclamation and mine closure based upon detailed calculations of the amount and timing of future cash flows spending for a third party to perform the required work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability, such that the provision reflects the present value of the expenditures expected to be required to settle the obligation.

However, the estimate of the associated costs may be subject to change due to new government environmental policy in the future. The provision is reviewed regularly to ensure that it properly reflects the present value of the obligation arising from the mining activities.

Certain Consolidated Statements of Comprehensive Income Items

Revenue

Revenue is generated from trading of the coals since October 2011. Revenue from trading of coals represents the amounts received and receivable for coals sold.

Cost of sales

Cost of sales consist primarily the cost of coals purchased from the Lexing Group's suppliers.

Gross profit

Gross profit is equal to revenue less cost of sales.

Other income

Other income comprises of bank interest income and sale of resulted fat coals and coking coals to the customers during the reconstruction and improvement works undertaken in the Coal Mines.

Distribution expenses

Distribution expenses comprise mainly of transportation costs for delivery of coals sold to the customers.

Other expenses

Other expenses mainly comprise depreciation changes and staff costs during the process of reconstruction and improvement works before the Lexing Group resumes the mining operations.

Finance costs

Finance costs comprise mainly of interest expenses on amount due to non-controlling interest of a subsidiary and the imputed interest for payables for the mineral compensation fees.

Income tax expenses

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are 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.

3. Results of operations

The following summary sets forth the Lexing Group's results of operations for the periods indicated. This summary is extracted from and should be read in conjunction with the accountants' report set out in Appendix II to this circular.

	From 9 April 2010 (date of incorporation) to 31 December 2010	From 1 January 2011 to 31 December 2011	From 1 January 2011 to 30 September 2011	From 1 January 2012 to 30 September 2012
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	–	8,703	–	21,757
Cost of sales	–	(8,547)	–	(21,353)
Gross profit	–	156	–	404
Other income	115	500	380	1,938
Distribution expenses	–	–	–	(329)
Other expenses	(50,803)	(148,925)	(93,483)	(95,049)
Finance costs	(13,828)	(69,563)	(48,851)	(76,447)
Loss before tax	(64,516)	(217,832)	(141,954)	(169,483)
Income tax expense	–	–	–	–
Loss and total comprehensive expenses for the year/period	(64,516)	(217,832)	(141,954)	(169,483)
Loss and total comprehensive expenses for the year/period attributable to:				
Owners of Lexing	(28,248)	(107,052)	(69,732)	(82,113)
Non-controlling interests	(36,268)	(110,780)	(72,222)	(87,370)
	(64,516)	(217,832)	(141,954)	(169,483)

4. Nine months ended 30 September 2012 compared to nine months ended 30 September 2011 (unaudited)

Revenue

For the nine months ended 30 September 2012, Lexing Group recorded revenue of approximately RMB21.8 million for trading of coals. The Lexing Group sold approximately 22,500 tonnes of coals at an average selling price of RMB965 per tonne. As Lexing Group commenced the trading of coals in October 2011, there was no revenue recorded for the nine months ended 30 September 2011.

Cost of sales

The cost of sales incurred during the nine months ended 30 September 2012 was approximately RMB21.4 million (nil for the nine months ended 30 September 2011), all of which were cost of coals purchased from the Lexing Group's suppliers.

Gross profit

As a result of the foregoing, the Lexing Group recorded a gross profit of approximately RMB404,000 for the nine months ended 30 September 2012. The gross profit margin for the period was approximately 1.9%.

Other income

Other income increased from approximately RMB380,000 for the nine months ended 30 September 2011 to approximately RMB1.9 million for the nine months ended 30 September 2012, primarily attributable to the sale of 1,975 tonnes of resulted fat coals and coking coals to 古交市宏祥煤業有限公司 (Gui Jiao City Hongxiang Coal Company Limited*) during the reconstruction and improvement works undertaken in the Coal Mines. The unit selling price was RMB900 per tonne (excluding tax) which represents the prevailing coal price without processing.

Distribution expenses

Distribution expenses of approximately RMB329,000 were incurred for the nine months ended 30 September 2012, all of which was transportation costs of incurred for delivery of coals sold to the customers. No distribution expenses were incurred for the nine months ended 30 September 2011 as the Lexing Group started trading coals since October 2011.

* *Company name for identification only*

Other expenses

Other expenses increased from approximately RMB93.5 million for the nine months ended 30 September 2011 to approximately RMB95.0 million for the nine months ended 30 September 2012, primarily attributable to the increase in staff salaries and benefits expenses.

Finance costs

Finance costs increased from approximately RMB48.9 million for the nine months ended 30 September 2011 to approximately RMB76.4 million for the nine months ended 30 September 2012, primarily attributable to the increase in interest expenses incurred for amount due to a non-controlling interest of a subsidiary, Shanxi Coal Transportation, as a result of increasing in the amount due to Shanxi Coal Transportation.

Loss for the period

As a result of the above, the Lexing Group incurred a loss of approximately RMB169.5 million for the nine months ended 30 September 2012, representing an increase of approximately RMB27.5 million from approximately RMB142.0 million for the nine months ended 30 September 2011.

5. Year ended 31 December 2011 compared to period ended 31 December 2010 (since the date of incorporation on 9 April 2010)

Revenue

For the year ended 31 December 2011, the Lexing Group recorded revenue of approximately RMB8.7 million. During the year ended 31 December 2011, the Lexing Group sold approximately 18,200 tonnes of coals at an average selling price of RMB478 per tonne. As the Lexing Group commenced the trading of coals in October 2011, there was no revenue recorded for the period ended 31 December 2010.

Cost of sales

The cost of sales incurred for the year ended 31 December 2011 was approximately RMB8.5 million (nil for the period ended 31 December 2010), all of which were cost of coals purchased from the Lexing Group's suppliers.

Gross profit

As a result of the foregoing, the Lexing Group recorded a gross profit of approximately RMB156,000 for the year ended 31 December 2011. The gross profit margin for the year was 1.8%.

Other income

Other income increased from approximately RMB115,000 for the period ended 31 December 2010 to approximately RMB500,000 for the year ended 31 December 2011, primarily attributable to the increase in bank interest income.

Distribution expenses

No distribution expenses were incurred for the two years ended 31 December 2011.

Other expenses

Other expenses increased from approximately RMB50.8 million for the period ended 31 December 2010 to approximately RMB148.9 million for the year ended 31 December 2011, primarily attributable to the increase in staff salaries and benefits expenses and depreciation charges.

Finance costs

Finance costs increased from approximately RMB13.8 million for the period ended 31 December 2010 to approximately RMB69.6 million for the year ended 31 December 2011, primarily attributable to the increase in interest expenses incurred for amount due to a non-controlling interest of a subsidiary, Shanxi Coal Transportation, as a result of increase in the amount due to Shanxi Coal Transportation.

Loss for the period

As a result of the above, the Lexing Group incurred a loss of approximately RMB217.8 million for the year ended 31 December 2011, representing an increase of approximately RMB153.3 million from approximately RMB64.5 million for the period ended 31 December 2010.

6. Liquidity and capital resources

During the period since the incorporation date of the Lexing Group, the Lexing Group has financed its capital expenditures and working capital requirements through capital contributions from Shanxi Coal Transportation and loans from related parties. As of 31 December 2010, 31 December 2011 and 30 September 2012, the Lexing Group had net current liabilities of approximately RMB1,535,276,000, RMB770,777,000 and RMB1,011,031,000 respectively. China OEPC Limited has agreed to provide adequate funds to enable the Lexing Group to meet in full its financial obligations as they fall due for the foreseeable future.

The Lexing Group intends to finance its future capital expenditures and meets its working capital requirements through its cash at bank and on hand and cash generated from operating activities following the commencement of operations at the Coal Mines which is expected to be September 2013.

The following table sets forth the current assets and current liabilities of the Lexing Group as of the dates indicated.

	As at 31 December		As at 30 September
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Inventories	71	230	427
Trade receivables	–	–	12,869
Other receivables, deposits and prepayments	20,636	50,016	63,552
Amounts due from non-controlling shareholder of a subsidiary	7,190	40,365	–
Bank balances and cash	40,080	63,234	25,161
Total current assets	67,977	153,845	102,009
Current liabilities			
Trade payables	–	–	1,831
Other payables and accruals	954,619	659,076	594,703
Amount due to an intermediate holding company	115,053	117,335	117,768
Amount due to non-controlling shareholder of a subsidiary	391,252	–	169,453
Amount due to a director	64	61	61
Amount due to a related company	142,265	148,150	229,224
Total current liabilities	1,603,253	924,622	1,113,040
Net current liabilities	(1,535,276)	(770,777)	(1,011,031)

The following table sets forth the cash flow of the Lexing Group for the periods indicated.

	From 9 April 2010 (date of incorporation) to 31 December 2010	From 1 January 2011 to 31 December 2011	From 1 January 2011 to 30 September 2011	From 1 January 2012 to 30 September 2012
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash form (used in) operating activities	195,435	(531,981)	(461,175)	(205,286)
Net cash used in investing activities	(204,276)	(79,247)	(29,976)	(51,074)
Net cash from financing activities	48,921	634,382	460,187	218,287
Cash and cash equivalent at the beginning of the year/period	–	40,080	40,080	63,234
Cash and cash equivalent at the end of the year/period	40,080	63,234	9,116	25,161

Operating activities

Net cash used in operating activities for the nine months ended 30 September 2012 was approximately RMB205.3 million. Such operating cash outflow was primarily attributable to the operating loss before working capital changes of approximately RMB169.5 million and decrease in other payables and accruals of approximately RMB130.6 million. The decrease in other payables and accruals was mainly driven by decrease in other staff loan and accrued consideration for acquisition of subsidiaries, partially offset by the increase in provision for mineral resources compensation fees and payable to suppliers of construction works and purchase of property, plant and equipment.

Net cash used in operating activities for the nine months ended 30 September 2011 was approximately RMB461.2 million. Such operating cash outflow was primarily attributable to the operating loss before working capital changes of approximately RMB142.0 million and decrease in other payables and accruals of approximately RMB355.6 million. The decrease in other payables and accruals was mainly driven by decrease in accrued consideration for acquisition of subsidiaries and provision for mineral resources compensation fees.

Net cash used in operating activities for the year ended 31 December 2011 was approximately RMB532.0 million. Such operating cash outflow was primarily attributable to the operating loss before working capital changes of approximately RMB217.8 million and decrease in other payables, accruals of approximately RMB411.1 million. The decrease in other payables and accruals was mainly driven by decrease in accrued consideration for acquisition of subsidiaries and provision for mineral resources compensation fees and payable to suppliers of construction works and purchase of property, plant and equipment.

Net cash from operating activities for the period from the date of incorporation to 31 December 2010 was approximately RMB195.4 million, primarily attributable to the increase in other payables, accruals of approximately RMB145.8 million, partially offset by the operating loss before working capital changes of approximately RMB64.5 million The increase in other payables and accruals was mainly driven by the increase in accrued consideration for acquisition of subsidiaries and provision for mineral resources compensation fees.

Investing activities

Net cash used in investing activities for the nine months ended 30 September 2012 was approximately RMB51.1 million, primarily attributable to the purchase of properties, plant and equipment of approximately RMB91.5 million, partially offset by repayment from non-controlling interests of approximately RMB40.4 million. The repayment from non-controlling interests, Shanxi Coal Transportation, were made for the purpose of financing the capital expenditure required before commencing operation.

Net cash used in investing activities for the nine months ended 30 September 2011 was approximately RMB30.0 million. Such investing cash outflow was primarily attributable to the purchase of properties, plant and equipment of approximately RMB31.0 million and the advance to a company classified as available-for-sale investment of approximately RMB5.7 million.

Net cash used in investing activities for the year ended 31 December 2011 was approximately RMB79.2 million, primarily attributable to the advance to non-controlling interests of approximately RMB33.2 million, the purchase of properties, plant and equipment of approximately RMB40.9 million and the advance to a company classified as available-for-sale investment approximately RMB5.7 million. The advance to non-controlling interests was for the repayment of loan borrowed from Shanxi Coal Transportation during the period.

Net cash used in investing activities for the period from the date of incorporation to 31 December 2010 was approximately RMB204.3 million, primarily attributable to the acquisition of subsidiaries of approximately RMB136.9 million, the purchase of properties, plant and equipment of approximately RMB48.4 million and the advance to a company classified as available-for-sale investment of approximately RMB11.9 million. The total cash consideration for acquisition of Jiangxi Wantai and its subsidiaries and Jinxin was approximately RMB315 million.

Financing activities

Net cash from financing activities for the nine months ended 30 September 2012 was approximately RMB218.3 million, primarily attributable to the advances from non-controlling interests of approximately RMB271.5 million and advance from a related company, wholly-owned by Mr. Zhang, of approximately RMB81.1 million, partially offset by the interest paid of approximately RMB64.9 million and repayment to staff of approximately RMB52.6 million. The advances from non-controlling interests, Shanxi Coal Transportation, were made for the purpose of financing the capital expenditure required before commencing operation. The interest was paid to Shanxi Coal Transportation for a loan of borrowed.

Net cash from financing activities for the nine months ended 30 September 2011 was approximately RMB460.2 million. Such financing cash inflow was primarily attributable to the advances from non-controlling interests of approximately RMB519.7 million, partially offset by the acquisition of additional interests in subsidiaries of approximately RMB46.1 million. The advances from non-controlling interests, Shanxi Coal Transportation, were made for the purpose of financing the capital expenditure required before commencing operation.

Net cash from financing activities for the year ended 31 December 2011 was approximately RMB634.4 million, primarily attributable to the advances from non-controlling interests of approximately RMB719.7 million, partially offset by the interest paid of approximately RMB47.5 million and the acquisition of additional interests in subsidiaries of approximately RMB46.1 million. The advances from non-controlling interests, Shanxi Coal Transportation, were made for the purpose of financing the capital expenditure required before commencing operation. The interest was paid to Shanxi Coal Transportation for a loan borrowed.

Net cash from financing activities for the period from the date of incorporation to 31 December 2010 was approximately RMB48.9 million, primarily attributable to the advance from non-controlling interest of a subsidiary of approximately RMB207.5 million and advance from an intermediate holding company of approximately RMB115.1 million, partially offset by the acquisition of additional interests in subsidiaries of approximately RMB345.7 million. The advances from non-controlling interests, Shanxi Coal Transportation, were made for the purpose of financing the capital expenditure required before commencing operation.

7. Contingent liabilities

As at 30 September 2012, the Lexing Group had the following contingent liabilities:

On 16 July 2008, 山西省昌源焦化集團有限公司 (Shanxi Changyuan Coking Co., Ltd) ("Shanxi Changyuan") filed a claim ("Claim") at 山西省太原市中級人民法院 (the Intermediate People's Court of Taiyuan City of Shanxi Province) ("Intermediate Court") against 古交市屯川煤礦 (Gujiao City Tuenchuan Coal Mine) ("Gujiao Tuenchuan"), which was subsequently reorganised into Bolong under the manger and reorganisation of coal mines in Gujiao City in Shanxi Province, in relation to a management agreement ("Management Agreement") dated 30 December 1999 and entered into between Shanxi Changyuan and Gujiao Tuenchuan pursuant to which Gujiao Tuenchuan agreed to engage Shanxi Changyuan for the management of its coal mines for a term of five years from 1 January 2000 to 31 December 2004. As alleged in the Claim, pursuant to the Management Agreement, Shanxi Changyuan agreed to inject capital by way of a loan to Gujiao Tuenchuan for the operation of its coal mines and an outstanding balance of approximately RMB16.7 million and interest thereon of approximately RMB842,000 was owed by Gujiao Tuenchuan to Shanxi Changyuan under such loan as at the date of the Claim. On 10 August 2009, Gujiao Tuenchuan counter-claimed that as an accident occurred in its coal mines during the term of the Management Agreement, Shanxi Changyuan breached its obligation to ensure safe production pursuant to the Management Agreement and accordingly Gujiao Tuenchuan was entitled to damages in relation to such breach ("Counter-claim").

On 22 July 2010, the Intermediate Court issued a judgment in relation to the Claim and the Counter-claim ruling that, among others, (i) an amount of approximately RMB16.7 million shall be payable by Gujiao Tuenchuan to Shanxi Changyuan in relation to the capital injection by Shanxi Changyuan pursuant to the Management Agreement, together with the interest thereon calculated as from 1 January 2005 at the interest rate stipulated by the People's Bank of China for loans granted during the corresponding period amounting to approximately RMB5.8 million; and (ii) an amount of approximately RMB15.2 million shall be payable by Shanxi Changyuan to Gujiao Tuenchuan as damages in relation to the breach of its obligation to ensure safe production pursuant to the Management Agreement. On 18

August 2010, Shanxi Changyuan appealed to 山西省高級人民法院 (the Higher People's Court of Shanxi Province) ("High Court") against the judgment issued by the Intermediate Court in relation to the Counter-claim and on 7 December 2010, Gujiao Tuenchuan filed a defence to such appeal. As at 30 September 2012, the High Court has not issued any ruling in relation to such appeal.

Save as aforesaid or as otherwise disclosed herein, the sole director of the Lexing confirmed that the Lexing Group had no significant contingent liabilities as at 31 December 2010, 2011 and 30 September 2012.

8. Capital structure

The capital structure of the Lexing Group consists of debt, which mainly includes advances from an intermediate holding company, non-controlling interests and a related company, cash and cash equivalents and equity attributable to owners of Lexing, comprising issued share capital, share premium and other reserves.

The directors of the Lexing Group review the capital structure periodically. As part of this review, the directors of the Lexing Group assess budgets of major projects taking into account of the provision of funding. Based on the operating budgets, the directors of the Lexing Group consider the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

9. Capital commitments and expenditures

As at 31 December 2010, 2011 and 30 September 2012, capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for in the consolidated financial statements amounted to RMB33.6 million, RMB49.6 million and RMB69.2 million respectively.

10. Gearing ratio

As at 31 December 2010, 2011 and 30 September 2012, the Lexing Group had net deficit attributable to owners of the Lexing Group, the gearing ratio calculated as borrowings to equity attributable to owners of the Lexing Group was not applicable.

11. Charges on assets

As at 31 December 2010, 2011 and 30 September 2012, no asset of the Lexing Group has been pledged.

12. Significant investments, material acquisition and disposals

Save as disclosed in Notes 34 and 35 of the accountants' report of the Lexing Group as set out in Appendix II to this circular, the Lexing Group did not have any significant investment, material acquisition and disposal during the period under review.

13. Employee and remuneration policies

As at 31 December 2010, 2011 and 30 September 2012, the Lexing Group had 701, 814 and 886 employees respectively. Staff costs, including directors' emoluments, other staff costs and contributions to retirement benefit scheme, was approximately RMB18.1 million, RMB71.9 million and RMB46.9 million for the year ended 31 December 2010, 2011 and nine months ended 30 September 2012 respectively. The Lexing Group remunerates its employees based on their performance, experience and the prevailing industry practice.

14. Market risks

The Lexing Group, in the normal course of business, exposed to market risks relating primarily to currency risk, interest rate risk, credit risk and liquidity risk.

Currency risk

Certain transactions of the Lexing Group are denominated in Hong Kong dollars ("HKD") which are other than the functional currency of the relevant group entity (i.e. RMB), which expose the Lexing Group to foreign currency risk. The Lexing Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Lexing Group is exposed to cash flow interest rate risk in relation to variable-rate borrowings from non-controlling interest of a subsidiary. It is the Lexing Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Credit risk

In order to minimise the credit risk, the management of the Lexing Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Lexing Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Liquidity risk

The Lexing Group is in net current liabilities position, China OEPC Limited has agreed to provide continuous financial support to the Lexing Group to enable the Lexing Group to meet in full its financial obligations as they fall due for the foreseeable future.

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

III. MANAGEMENT DISCUSSIONS AND ANALYSIS ON THE REMAINING GROUP

Set out below are the management discussion and analysis on the Group immediately after completion of the Disposal not taking into account the Lexing Group (i.e. the "Remaining Group") for the six months ended 30 June 2012, and the financial years ended 31 December 2009, 2010 and 2011.

1. For the six months ended 30 June 2012

Financial Performance

For the six months ended 30 June 2012, the Remaining Group recorded a turnover of approximately HK$22,814,000 (six months ended 30 June 2011: approximately HK$27,062,000), which represented a decrease of approximately 16% while the gross profit decreased by 11%. The decreases in turnover and gross profit were mainly contributed by the mining operation segment. The decreases in turnover and gross profit of this segment were attributed to the decrease in sales of gold products in the current period due to the suspension of gold mining operation in Mongolia.

The Remaining Group recorded a loss of approximately HK$49,508,000 as compared to a loss of approximately HK$62,031,000 for the same period last year which represented an decrease of approximately 20%. The decrease in the loss for the current period was as a result of the decrease in interest expenses on Convertible Loan Notes following the repayment of the Convertible Loan Notes with principal amounts of USD10,000,000 and USD3,000,000 in December 2011. No interest expenses for these Convertible Loan Notes were recognised in the current period. Included in the loss for the current period, an impairment loss on the gold mining right of approximately HK$1,700,000 (six months ended 30 June 2011: nil) has been recognised. The impairment loss was made as a result of a decrease in the business enterprise value of Dadizi Yuan. The fair value of the business of Dadizi Yuan was based on a valuation report issued by Greater China. The decision to impair the carrying value of the gold mining right was made by the board of Directors after taking into consideration the valuation report prepared by Greater China and the delay in production as a result of the current suspension of gold mining operation, which resulted in a change in the time value of operating the Remaining Group's gold business.

Interim dividend

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

Review of core businesses

Gold mining

Dadizi Yuan, a wholly-owned subsidiary of the Remaining Group, holds mining and exploration licenses in respect of the KY Gold Mines, located in Khar Yamaat Khongor and Sharin Gol Soum of Darkhan Uul aimag, Mongolia.

The gold mining operation at the KY Gold Mines, which was operating smoothly during the second half of 2010, was suspended during the end of that year due to severe wintery conditions in Mongolia. The operation at the KY Gold Mines remained suspended during the period under review due to the political uncertainties surrounding the Mongolian elections and the Remaining Group re-strategising its operation. The management will continue to monitor the situation in Mongolia before deciding on a suitable time to re-commence its gold mining operation.

Banking and finance systems integration services

The banking and finance systems integration services businesses of the Remaining Group are carried out by TopAsia Group.

Despite the slight decline in inflation due to the slower economic growth in the first half of 2012, the labour costs in the PRC remained high and the business environment continued to be challenging. In spite of this, the TopAsia Group managed to achieve a slight increase in its total revenue for the period under review as compared to the same period last year. This was mainly due to stronger demands for ATM with deposit and withdrawal capabilities from the local banks. To capitalize on this opportunity, TopAsia Group cooperated with OKI to develop and promote a new all-in-one ATM model that has a range of functions. The ATM maintenance services revenue in the first half of 2012 remained at the same level as that of last year.

Intense competition in the ATM servicing industry continued to drive maintenance fees down, while manufacturers imposed sales quotas on retailers in an attempt to expand their market share, which resulted in the decrease in the gross profit margin for the TopAsia Group for the first six months of 2012 as compared to the same period last year. The PRC economy for the second half of 2012 is expected to be challenging, as the deficiency of capital, fluctuation in resource prices, and increase in labour costs continue to be major issues for the service industry. In view of this, the TopAsia Group will continue to maintain a prudent operational strategy for their business.

Material acquisitions and disposals of subsidiaries and associated companies

The Remaining Group did not have any material acquisitions and disposals of subsidiaries and associated companies during the reporting period.

Outlook

The Remaining Group has had to overcome many unpredictable challenges in its gold mining operation during the first half of 2012 such as the political uncertainties surrounding the Mongolian elections. In the second half of 2012, the Remaining Group is re-strategising its mining operation.

The outlook for the TopAsia Group is also uncertain as the inflationary pressures in the PRC continue to drag down corporate profitability. Furthermore, the restructuring of the Remaining Group's financial obligation on the US$30M CB will release the Remaining Group from the restrictions on its capital usage.

Liquidity and financial resources

Net assets

At 30 June 2012, the Remaining Group recorded total assets of approximately HK$4,289,245,000 (31 December 2011: HK$4,320,969,000), which were financed by liabilities of approximately HK$327,388,000 (31 December 2011: HK$309,232,000) and equity of approximately HK$3,961,857,000 (31 December 2011: HK$4,011,737,000). The Remaining Group's net asset value as at 30 June 2012 decreased by 1% to approximately HK$3,961,857,000 as compared to approximately HK$4,011,737,000 as at 31 December 2011. As at 30 June 2012, the Remaining Group's current ratio was approximately 1.13 as compared to approximately 1.28 as at 31 December 2011.

Gearing ratio

At 30 June 2012, the Remaining Group's gearing ratio, computed as the Remaining Group's convertible loan notes over the equity attributable to equity holders of the Remaining Group was approximately 6.83 as compared to approximately 0.23 as at 31 December 2011.

Liquidity

The Remaining Group had total and net cash and bank balances of approximately HK$25,552,000 as at 30 June 2012 (31 December 2011: approximately HK$30,419,000) as the Remaining Group did not have any bank borrowings (31 December 2011: nil).

The maturity date of the US$30M CB has been changed to New Maturity Date and as such the US$30M CB will have to be redeemed on the New Maturity Date, if it has not been fully converted into conversion shares. The Remaining Group's net cash balance as at 30 June 2012 was approximately HK$25,552,000 or equivalent to approximately USD3,276,000. However, given that the New Maturity Date is still some time away, the Company has adequate time to seek ways to enable the Remaining Group to fulfill its financial obligations.

Charges on Assets

As at 30 June 2012 and 31 December 2011, the entire issued shares of Green Paradise Enterprises Ltd., was pledged to the holder of the US$30M CB.

Treasury Policies

The Remaining Group generally financed its operations with internally generated resources and from equity and/or debt financing activities. All financing methods will be considered so long as such methods are beneficial to shareholders as a whole. Subsidiaries in the PRC and Mongolia used shareholder funds and internally generated resources to finance their working capital requirements. Bank deposits are mainly in HK$, RMB, MNT and the USD.

Contingent Liabilities and capital commitments

The Remaining Group had no material contingent liabilities and capital commitments as at 30 June 2012 (31 December 2011: nil).

Foreign exchange exposure

For the six months ended 30 June 2012, the Remaining Group mainly earned revenue in RMB and MNT and incurred costs in HK$, RMB, MNT and USD. Although the Remaining Group did not have any foreign currency hedging policies, it did not foresee any significant currency exposure in the near future. However, any significant changes in the exchange rates of RMB against HK$, may have possible impact on the Remaining Group's results and financial positions.

Employee and remuneration policies

As at 30 June 2012, the Remaining Group employed approximately 194 full time staffs in Mongolia, the PRC and Hong Kong. The Remaining Group remunerated its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

2. For the year ended 31 December 2011

Financial Performance

For the year ended 31 December 2011, the Remaining Group recorded a turnover from continuing operations of approximately HK$69,069,000 (2010: approximately HK$31,922,000), which represented an increase of approximately 116% while the gross profit decreased by 0.1%. The increase in turnover and decrease in gross profit were mainly contributed by the banking and finance systems integration services and software solutions segment. The increase in turnover of this segment was attributed to the increase in equipment sales as well as some additional revenue from the sales of ATM parts and postage mailing machines. However, even though the full year revenue for the banking and finance systems integration services and software solutions segment almost doubled that of last year, the gross profit for the full year, only marginally decreased as compared to last year due to intense price competition and higher cost of goods and labor.

Final dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: nil).

Review of core businesses

During the financial year end of 2011, the Remaining Group remained focus on advancing its operational plans for the gold mining business in Mongolia. Although delayed by extreme weather conditions and a nation-wide fuel shortage, the Remaining Group started its gold mining operations at the Khar Yamaat mine site during the second half of 2011 and successfully sold all of its gold extracts.

During 2011, the Remaining Group did not acquire any new projects or assets in the mining and resources sectors although it was actively seeking for opportunities. A framework agreement entered into in July 2010, for the acquisition of two additional iron mines in Mongolia was terminated on 25 May 2011 based on mutual agreement. The Remaining Group did not have any material acquisitions and disposals of subsidiaries and associated companies in 2011 either.

Gold mining

During the second half of the year, since no production activities were being carried out at the Oyut Ovoo Mine, management spent more effort on the gold production at the KY Gold Mines. After completing the preparation work and topsoil excavation, the KY Gold Mines commenced operation in July 2011 and it managed to recover some of the lost productivity as a result of the delay encountered during the first half of the year. All the gold products recovered were also successfully sold during the year in accordance with the Remaining Group's modus operandi which is to produce and sell within a short interval so as to reduce the security costs of safeguarding our gold inventories and reduce our risks from carrying these valuable stocks.

The Remaining Group's gold mining operation progressed quite smoothly during the second half of the year and it did not encounter any other significant interruptions. The gold mining activities stopped around end of October at the onset of the winter season.

Banking and finance systems integration services

The spillover effects of a robust economy in 2010 when China's GDP growth rate was at double digit, yielded a higher full year turnover for the TopAsia Group in 2011. The TopAsia Group managed to secure new equipment sales from two of its long-term banking customers as well as some additional revenue from the sales of ATM parts and postage mailing machines manufactured by Pitney Bowes Inc. including after-sales installation and maintenance services of those postage mailing machines. The competition within the ATM repair and maintenance business remains intense during the year but the TopAsia Group was able to generate the similar level of maintenance revenue as the previous year due to its pool of loyal customers. However, despite an increase in the full year revenue for the TopAsia Group for 2011, the gross profit margin for the full year, declined as compared to last year due to intense price competition from manufacturers which further diminished gross margins. The rising trends of commodity prices and labor costs in the PRC in spite of the Government's measures to cool inflation, contributed to the TopAsia Group's net loss position.

In 2011, the global economic condition has been very much affected by the European debt crisis. The PRC's economic condition too has started to see the effects of it with the Government's monetary tightening policy, funding being constrained and growth slowing down. The inflation rate, however, continued to rise. Corporate businesses in the PRC were finding it tougher to operate in such an economic environment and the TopAsia Group was also faced with the same pressure.

Outlook

The Remaining Group has had to overcome many unpredictable challenges in its mining operations during the first half of 2011. During the second half of the year, the Remaining Group was able to get into pace with its production plans for the gold mining operation. Towards the end of the year, the Remaining Group was faced with certain financial obligations with the holders of its convertible loan notes, which put further pressure on the Remaining Group's resources for the operation of its businesses.

The outlook for the TopAsia Group is also uncertain as the inflationary pressures in the PRC continue to drag down corporate profitability. Furthermore, the financial obligation on the US$30M CB will be due for redemption towards the end of 2012, unless they have been fully converted or restructured.

While many challenges lie ahead, the Remaining Group believes that it will be able to weather these challenges and it hopes to steer the Remaining Group towards a more stable platform. The Remaining Group is currently engaged in active negotiations with various parties for the acquisition of new businesses and the disposal of certain slower performing assets of the Remaining Group including a restructuring of its convertible loan notes.

Liquidity and financial resources

Net assets

At 31 December 2011, the Remaining Group recorded total assets of approximately HK$4,320,969,000 (2010: HK$4,480,548,000), which were financed by liabilities of approximately HK$309,232,000 (2010: HK$364,712,000) and equity of approximately HK$4,011,737,000 (2010: HK$4,115,836,000). The Remaining Group's net asset value as at 31 December 2011 decreased by 2% to approximately HK$4,011,737,000 as compared to approximately HK$4,115,836,000 as at 31 December 2010. As at 31 December 2011, the Remaining Group's current ratio was approximately 1.28 as compared to approximately 10.09 as at 31 December 2010.

Gearing ratio

At 31 December 2011, the Remaining Group's gearing ratio, computed as the Remaining Group's other borrowing and convertible loan notes over the equity attributable to equity holders of the Remaining Group was approximately 0.23 as compared to approximately 0.07 as at 31 December 2010.

Liquidity

The Remaining Group had total and net cash and bank balances of approximately HK$30,419,000 as at 31 December 2011 (2010: approximately HK$237,711,000) as the Remaining Group did not have any bank borrowings (2010: nil).

The maturity date of the US$30M CB has been changed to the New Maturity Date and as such the US$30M CB will have to be redeemed on the New Maturity Date, if it has not been fully converted into conversion shares. The Remaining Group's net cash balance as at 31 December 2011 was approximately HK$30,419,000 or equivalent to approximately USD3,900,000. However, given that the New Maturity Date is still some time away, the Company has adequate time to seek ways to enable the Remaining Group to fulfill its financial obligations.

Charges on Assets

As at 31 December 2011 and 31 December 2010, the entire issued shares of Green Paradise Enterprises Ltd., was pledged to the holder of the US$30M CB.

Treasury Policies

The Remaining Group generally financed its operations with internally generated resources and from equity and/or debt financing activities. All financing methods will be considered so long as such methods are beneficial to shareholders as a whole. Subsidiaries in the PRC and Mongolia used shareholder funds and internally generated resources to finance their working capital requirements. Bank deposits are mainly in HK$, RMB, MNT and the USD.

Contingent Liabilities and capital commitments

The Remaining Group had no material contingent liabilities and capital commitments as at 31 December 2011 (2010: nil).

Foreign exchange exposure

For the year ended 31 December 2011, the Remaining Group mainly earned revenue in RMB and MNT and incurred costs in HK$, RMB, MNT and USD. Although the Remaining Group did not have any foreign currency hedging policies, it did not foresee any significant currency exposure in the near future. However, any significant changes in the exchange rates of RMB against HK$, may have possible impact on the Remaining Group's results and financial positions.

Employee and remuneration policies

As at 31 December 2011, the Remaining Group employed approximately 190 full time staffs in Mongolia, the PRC and Hong Kong. The Remaining Group remunerated its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

3. For the year ended 31 December 2010

Financial Performance

The Remaining Group's continuing operations delivered a turnover of approximately HK$31,922,000 for the year ended 31 December 2010 (2009: approximately HK$51,705,000), which was mainly contributed by the banking and finance systems integration businesses. The 38% year-on-year decrease in turnover was mainly attributed to intense price competition in the market during the year.

As a result, the gross profit from the Remaining Group's continuing operations decreased by 16% year on year to approximately HK$10,144,000 (2009: approximately HK$12,019,000) for the year to 31 December 2010. However, there was an improvement in the gross profit ratio which increased from 23% to 32% due to the exercise of better control on costing during the year in review.

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: nil).

Review of core businesses

Gold mining

In end of April 2010, the Remaining Group completed the acquisition of the entire interest in Dadizi Yuan. Dadizi Yuan holds mining and exploration licenses in respect of the KY Gold Mines. The KY Gold Mines have a total mining area of approximately 20.03 sq km on which 35 drill holes with total drilling of 1,500 m covering a 1.5-sq-km area were completed. A ground breaking ceremony for the KY Gold Mines was held in June 2010 in the presence of local government officials and community members. For the second half of the year, the majority of the effort has been spent on removing top soil in order to reach the alluvial gold strata. Towards the end of the year, the Remaining Group has commenced and successfully recovered approximately 1,200 grams of raw alluvial gold from the licensed area. The Remaining Group is positioned to commence commercial production of its alluvial gold after the winter months.

Furthermore, as the windfall tax on gold in Mongolia is to be lifted from 1 January 2011, the Remaining Group is in a position to better capture this revenue source in the near future. During the financial year in review, the KY Gold Mines has not yet commenced generating any income for the Remaining Group.

Agricultural Businesses

In consideration of the unsatisfactory and slower-than-expected pace of development of the agro-conservation and bio-energy businesses, and in order to focus on the new resources businesses, the Remaining Group disposed of the agro-conservation and bio-energy operations in March 2010.

Banking and finance systems integration services Businesses

Affected by the monetary easing measures implemented across the world, the PRC experienced asset price and labor cost hikes, increasing pressure of inflation and severe business environment in 2010. Against such backdrop, the TopAsia Group's performance from its operation of the banking and finance systems integration services businesses continued to decline as compared to previous years. Competition within the industry led to a drop in the maintenance cost per machine. On the other hand, the renewal of maintenance contracts was affected by the replacement of obsolete equipment by the customers. Furthermore, equipment manufacturers flocked to the after-sales market for better return as the profit from sales of hardware has diminished, further intensifying existing competition. These factors presented major threats to the business of the TopAsia Group.

The outlook for the TopAsia Group for 2011 remains uncertain. The main goals for the TopAsia Group will be to continue with its costs control measures and maintain its long term clients.

Liquidity and financial resources

Net assets

At 31 December 2010, the Remaining Group recorded total assets of approximately HK$4,480,548,000 (2009: HK$4,153,900,000), which were financed by liabilities of approximately HK$364,712,000 (2009: HK$509,065,000) and equity of approximately HK$4,115,836,000 (2009: HK$3,644,835,000). The Remaining Group's net asset value as at 31 December 2010 increased by 13% to HK$4,115,836,000 as compared to approximately HK$3,644,835,000 as at 31 December 2009. As at 31 December 2010, the Remaining Group's current ratio was approximately 10.09 as compared to approximately 2.27 as at 31 December 2009.

Gearing ratio

At 31 December 2010, the Remaining Group's gearing ratio, computed as the Remaining Group's convertible loan notes over the equity attributable to equity holders of the Remaining Group was approximately 0.07 as compared to approximately 0.01 as at 31 December 2009.

Liquidity

The Remaining Group had total cash and bank balances of approximately HK$237,711,000 as at 31 December 2010 (2009: HK$26,386,000). The net cash balance as at 31 December 2010 was approximately HK$237,711,000 (2009: HK$26,386,000), as the Remaining Group does not have any bank borrowings (2009: nil).

The Remaining Group has breached certain convertible loan notes conditions which would entitle the subscriber of the convertible loan notes to request for early redemption of the convertible loan notes with total principal amount outstanding of approximately HK$335,400,000 and respective unpaid accrued interest. The Remaining Group has net cash balance of approximately HK$237,711,000 as at 31 December 2010. The Remaining Group is confident that by accepting and fulfilling the additional conditions requested by the subscriber of the convertible loan notes, it will be able to achieve a successful outcome on its ongoing negotiations with the subscribers of the convertible loan note. The Remaining Group may also seek appropriate external resources providers to bring in funds and/or viable assets into the Remaining Group.

Charges on assets

At 31 December 2010, the entire issued shares of Green Paradise Enterprises Ltd. was pledged to convertible loan note holders. At 31 December 2009, no fixed deposits were pledged to banks to secure banking facilities.

Treasury policies

The Remaining Group generally finances it operations with internally generated resources, proceeds from the disposal of its available-for-sale-investments, from equity fund raising activities and from raising convertible loan notes. All financing methods, including equity, debt and other means, will be considered so long as such methods are beneficial to shareholders as a whole. Subsidiaries in the PRC and Mongolia use internally generated resources to finance their working capital requirements. Bank deposits are mainly in HK$, RMB and US$.

Contingent liabilities and capital commitments

The Remaining Group had no material contingent liabilities and capital commitments as at 31 December 2010 (2009: nil).

Foreign exchange exposure

For the year ended 2010, the Remaining Group mainly earns revenue in RMB and incurs costs in HK$, RMB and US$. Although, the Remaining Group currently does not have any foreign currency hedging policies, it does not foresee any significant currency exposure in the near future since the HK$ and US$ are pegged. However, any permanent or significant changes in the pegged system or the exchange rates of RMB against HK$, may have possible impact on the Remaining Group's results and financial positions.

Employee and remuneration policies

As at 31 December 2010, the Remaining Group employed approximately 200 full time staffs in the PRC, Hong Kong and Mongolia. The Remaining Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

4. For the year ended 31 December 2009

Financial Performance

The Remaining Group reported a turnover from continuing operations of approximately HK$51,705,000 for the year ended 31 December 2009, which represented an 18% year-on-year decrease compared to previous year. The decrease was mainly attributed to the continued slowdown in the PRC economy as a result of the global financial crisis. As a result, gross profit for the Remaining Group decreased by 8% year on year to approximately HK$12,019,000 in 2009.

The Remaining Group recorded a loss from continuing operations of approximately HK$31,986,000 and a loss before taxation of approximately HK$31,478,000, which was a decrease of approximately 4% and approximately 4%, respectively as compared to previous year.

Final dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2009 (2008: nil).

Review of core businesses

As part of its strategy for countering the financial turmoil, the Remaining Group has undertaken an examination of its business portfolio in terms of macro trends and their ability to deliver returns. In consideration of the slow pace of development of the agro-conservation and bioenergy businesses, the Remaining Group resolved in early 2009 to hold back the furtherance of the green projects on hand in order to direct capital and management resources to investments that hold better prospects. As such, the Remaining Group did not undertake additional planting in Inner Mongolia and Hainan, the PRC, or in Laos during the year.

After the acquisition of the new business in the fourth quarter of 2009, the Remaining Group further resolved to dispose of its agro-conservation and bioenergy businesses, and to direct management focus on the mining and non-agricultural businesses.

Agro-conservation

The Remaining Group was engaged in agro-conservation business in Inner Mongolia through wholly-owned subsidiaries, Green Global Agro-Conservation Resources Limited, Green Global Licorice China Limited and Green Global Salix China Limited.

The agro-conservation business was developed by the Remaining Group since 2007 with an aim to assist China's anti-desertification needs. The business was rolled out in Inner Mongolia, which has experienced some of the most severe desertification problems in the country, with the plantation of licorice and salix, both important anti-desertification agents.

As at the end of the year of 2009, the total plantation area for licorice and salix remained at approximately 58,000 Chinese mu (~3,867 hectares) and 380,000 Chinese mu (~25,300 hectares) respectively. These licorice and salix plants grew well with continued maintenance efforts being afforded. The Group did not extend the plantation area of these two plants during 2009 to prudently manage resources in view of the depressed market conditions and credit limitations, given the present performance of the agro-conservation business. As part of the proposed disposal of the whole agricultural businesses of the Remaining Group, a loss of HK$97,913,000 was recognized for the agro-conservation business for the year ended 2009.

Bioenergy

The Remaining Group's bioenergy business was developed in response to requirements of the new era for renewable energy solutions, with a focus on the plantation of Jatropha in Hainan, PRC and in Laos under a public-private-partnership model. Jatropha seeds have a valuable biodiesel profile.

The bioenergy business line was operated through subsidiaries, Hainan Venture Zhengke Bioenergy Development Company Limited*（海南宏昌正科生物能源有限公司）("Hainan Venture") and Lao Agro Promotion Co., Ltd ("Lao-Agro").

During 2009, Hainan Venture maintained a total area of Jatropha nurseries of approximately 625 Chinese mu (~42 hectares), and Lao-Agro maintained four Jatropha sapling nurseries, covering a total area of approximately 825 Chinese mu (~55 hectares). No additional plantation or sale of saplings was undertaken in 2009 by both Hainan Venture and Lao-Agro. As part of the proposed disposal of the whole agricultural businesses of the Group, a loss of HK$12,000,000 was recognised for the bioenergy business for the year ended 2009.

Banking and finance systems integration services

The ripple effect of the global financial tsunami continues to take its toll on TopAsia Group's business, which navigated through difficulties in 2009. The order book in the first six months declined, but showed improvement in the second half on the back of recovering economies. With a comprehensive network and solid client base, the TopAsia Group was able to maintain a steady stream of income from banking sector self-service equipment sales and services. Turning to the new year, the Mainland is expected to start to ease its monetary policy and banks are expected to handle increasing amounts of cash, which in turn will put pressure on banks to install additional self-service equipment. TopAsia Group will continue its focused development of self-service equipment repair and maintenance service provision. Leveraging on its sales network and existing clientele, TopAsia Group aims to secure higher renewal rates upon contract expires. In addition to the retention of existing clients, TopAsia Group will also strive to extend its service to potential clients currently using other brands. However, the market is not expected to fully recover in 2010 and adjustments in various social security schemes and the implementation of the Labor Law have incurred higher costs for corporations and put a squeeze on their margins. Both equipment sales prices and maintenance fees may face further downward pressure. TopAsia Group acknowledges that further challenges are ahead, but remains cautiously optimistic towards its business outlook for the coming year.

Gold mining business

It has been the Remaining Group's strategy to proactively seek potential investment opportunities, particularly in the mining sector, that would enhance shareholders' value and broaden its sources of revenue.

On 26 January, 2010, the Company entered into a sale and purchase agreement to acquire the entire equity interest in Dadizi Yuan, a company incorporated in Mongolia, for a consideration of RMB35 million (equivalent to approximately HK$39.7 million). Dadizi Yuan holds the exploration licenses for two alluvial gold mines in Mongolia. The acquisition of Dadizi Yuan presents an attractive investment opportunity for the Group, without requiring significant capital investments and at a reasonable consideration, in view of the continuous growth in worldwide demand for gold, the escalating gold prices and the limited supply of gold reserves worldwide. Further, alluvial gold mining is less capital-intensive and requires a simpler and shorter production process than traditional ore rock gold mining and as such, will be able to generate faster cash flow to the Remaining Group.

Outlook

The Board is confident that its new mining businesses offer a great opportunity for the Remaining Group to participate in a resources-related industry in a largely untapped country, Mongolia. It also expects that this newly ventured business will present the Remaining Group with favorable short and long term prospects. Through a placing of new shares in the Company that closed in February 2010, the Group raised net proceeds of approximately HK$380 million to fund the operation and business pursuits of the newly acquired mining business. The fund raising exercise will also enable the Remaining Group to broaden its shareholder base for healthy development in the long term.

In 2010 and forward, the Remaining Group will be focusing its efforts on the execution and operation of its mining businesses in Mongolia. Mongolia will remain as the main area of investment for the Remaining Group going forward and it will leverage its unique advantage of being the first company to have established such a partnership with China Railway Resources Group and aims to become a world-leading mining company, and a connector between minerals producing Mongolia and China, the world's largest consumer of mineral resources.

Liquidity and Financial Resources

Net Assets

At 31 December 2009, the Remaining Group recorded total assets of approximately HK$4,153,900,000 (2008: HK$491,920,000), which were financed by liabilities of approximately HK$509,065,000 (2008: HK$157,064,000) and equity of approximately HK$3,644,835,000 (2008: HK$334,856,000). The Remaining Group's net asset value as at 31 December 2009 increased by 988% to HK$3,644,835,000 as compared to approximately HK$334,856,000 as at 31 December 2008. As at 31 December 2009, the Remaining Group's current ratio was approximately 2.27 as compared to approximately 2.53 as at 31 December 2008.

Gearing ratio

At 31 December 2009, the Remaining Group's gearing ratio, computed as the Remaining Group's other borrowing and convertible loan notes over the equity attributable to equity holders of the Remaining Group was approximately 0.01 as compared to approximately 0.20 as at 31 December 2008.

Liquidity

The Remaining Group had total cash and bank balances of approximately HK$26,386,000 (excluding amount classified as disposal groups held for sale) as at 31 December 2009 (2008: HK$93,754,000). The net cash balance of the Remaining Group as at 31 December 2009 was also HK$26,386,000 (excluding amount classified as disposal groups held for sale) (2008: HK$93,754,000), as the Remaining Group did not have any bank borrowings (2008: nil).

Charges on Assets

At 31 December 2009, no fixed deposits were pledged to banks to secure banking facilities (2008: nil).

Treasury Policies

The Remaining Group generally finances it operations with internally generated resources, proceeds from the disposal of its available-for-sale-investments and from equity fund raising activities. All financing methods, including equity, debt and other means, will be considered so long as such methods are beneficial to shareholders as a whole. Subsidiaries in the PRC use internally generated resources to finance their working capital requirements. Bank deposits are mainly in HK$ and RMB.

Contingent Liabilities and Capital Commitments

The Remaining Group had no material contingent liabilities as at 31 December 2009 (2008: nil). The Remaining Group had no capital commitments as at 31 December 2009. As at 31 December 2008, the Remaining Group had capital commitment for acquisition of intangible assets which was contracted but not provided for totaling of approximately HK$14,751,000 and other commitment for an investment in a cooperation project which was contracted but not provided for totaling of approximately HK$23,400,000.

Foreign Exchange Exposure

For the year ended 2009, the Remaining Group mainly earns revenue in RMB and incurs costs in HK$, RMB and USD. Although, the Remaining Group currently does not have any foreign currency hedging policies, it does not foresee any significant currency exposure in the near future since the HK$ and USD are pegged. However, any permanent or significant changes in the pegged system or the exchange rates of RMB against HK$, may have possible impact on the Remaining Group's results and financial positions.

Employee and Remuneration Policies

As at 31 December 2009, the Remaining Group employed approximately 220 full time staffs in the PRC, Hong Kong, Laos and Mongolia. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

COMPETENT PERSON'S REPORT
FIVE UNDERGROUND COAL MINES
SHANXI COAL TRANSPORTATION AND SALES GROUP
ENERGY INVESTMENT AND DEVELOPMENT CO., LTD.

Gujiao City, Shanxi Province

People's Republic of China

Prepared For

NORTH ASIA RESOURCES HOLDINGS LIMITED

By

John T. Boyd Company

Mining and Geological Consultants

Pittsburgh, Pennsylvania, USA

Report No. 3514.3

NOVEMBER 2012

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21 November 2012
File: 3514.3

North Asia Resources Holdings Limited
Units 2001-2, 20/F
Li Po Chun Chambers
189 Des Voeux Road
Central, Hong Kong

Attention: Mr. Michael Tse Nam
Chairman

Subject: Competent Person's Report
Five Underground Coal Mines
Shanxi Coal Transportation and Sales Group
Energy Investment and Development Co., Ltd.
Gujiao City, Shanxi Province
People's Republic of China

Dear Sirs:

John T. Boyd Company (BOYD) was engaged by North Asia Resources Holdings Limited (North Asia) to complete a Competent Person's Report (CPR) for five coal mines controlled by Shanxi Coal Transportation And Sales Group Energy Investment And Development Co., Ltd. (SCTSG-EID). North Asia is purchasing Lexing Holdings Limited (Lexing) which controls 49% of SCTSG-EID. The target coal mining operations are located approximately 7 km to 15 km southwest to northwest of Gujiao City, Shanxi Province, People's Republic of China (PRC). It is our understanding that BOYD's report will be used for filing on The Hong Kong Stock Exchange (HKEx).

The five operating coal mines, which were consolidated in 2008 from smaller underground mining operations according to the government requirements, have a combined design coal producing capacity of 3.75 Mtpa. The mines are under construction and the initial operation is scheduled by the second to the third quarter of 2013. The results of our review are discussed in this CPR.

For our coal resource (reserve) review, we have applied the Australasian Code for Reporting of Mineral Resources and Ore Reserves as published by Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC Code).

During the course of this study, a team of BOYD's US home office and Beijing office technical specialists in coal mining (underground), coal processing, geology and reserves, and environmental practices completed a series of visits to the subject mines and assets in January 2011 and November 2012. During our visits, we observed the operations, collected source data, and discussed historical performance and future plans with mine staff and management personnel.

We were also provided with financial projections provided by SCTSG-EID for the period from 2013 to 2017 that included an annual forecast of raw coal output, operating cost, and capital spending.

Respectfully submitted:

JOHN T. BOYD COMPANY
By:

John T. Boyd II
President and CEO

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GLOSSARY AND DEFINITIONS

1/3 JM Category	Designation within the Chinese coal classification system for 1/3 coking coal (Code No. 35) with volatile matter (daf basis) in the range of 28% to 37%, caking index (G) larger than 65 and maximum thickness of plastic layer less than 25 mm, used in coking coal blends.
Ad	Air dried, as in coal quality reporting.
AFC	Armored Face Conveyor.
Block	A defined area of coal bordered by gateroads, usually rectangular in configuration, in which the LW face operates, also known as panel.
BOYD	John T. Boyd Company.
cad	Calculated, air dried basis, coal quality reporting for fixed carbon.
CAPEX	Capital Expenditure.
Cash Operating Cost	All cash costs directly associated with coal production including, but not limited to, raw materials, salary and wages, labor benefits, power, repairs, subsidence, coal processing, resource fee, transport of coal from mine to loading point, mine general administrative expense, and selling expenses.

Coal Reserve	The economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.
Coal Resource	A concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a coal resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories.
Coal Seam	Stratum containing coal, also known as coal bed.
Commercial Output	Saleable product, which may include varying proportions of raw and clean coals.
CPP	Coal preparation plant, facility used to selectively remove undesirable waste (rock) from ROM/raw coal using chemical or mechanical methods. Also known as a Wash Plant.
CPR	Competent Person's Report.
CV	Calorific value, heat content of the coal seam.
d	Dry basis as in coal quality reporting.

DB	Drill and blast mining method.
daf	Dry, ash free basis as in coal quality reporting.
Dip	Angle which strata makes with the horizontal.
Face (working face)	An area of coal designated for extraction using longwall mining or development mining.
Feasibility Study	In international practice, a study assessing in detail the technical soundness and Economic Viability of an undeveloped mining project, and serving 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 encompasses all geological, engineering, environmental, legal and economic information related to the project. Generally, a separate environmental impact study is conducted.
Fm	Formation.
FM Category	Designation within the Chinese coal classification system for fat coals (Code Nos. 16, 26, and 36), with volatile matter (daf basis) in the range of 10% to 37%, caking index (G) larger than 85, and maximum thickness of plastic layer larger than 25 mm, used in coking coal blends.
FM LW	Fully Mechanized Longwall (face), mining method in which the working face is equipped with hydraulic shields, AFC and shearer.
FOB	Free-on-board, a mercantile term meaning that the seller is responsible for delivering goods to a specified location after loading to truck or rail, commonly used in coal price reporting.
GAAP	Generally accepted accounting principles.

Gate	Room and pillar development around a longwall panel supporting its operation.
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, hydrology, geotechnical aspects, coal resource/reserve tonnages, exploration status and resource assessment. Supporting maps, cross sections, and figures may also be provided.
Gob	Spoil material subsided behind the longwall retreat.
Gr. d.	Gross value, dry basis as in coal quality reporting for heat content.
HKEx	The Hong Kong Stock Exchange.
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.

In-Place Resource	Coal resources in the ground, in situ or un-mined condition.
JM Category	Designation within the Chinese coal classification system for coking coals (Code Nos. 15, 24, and 25) with volatile matter (daf basis) in the range of 10% to 28%, caking index (G) larger than 50 (No. 24) or 65 (Nos. 15 and 25), and maximum thickness of plastic layer less than 25 mm, used in coking coal blends.
JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
JORC Code	Australasian Code for Reporting of Mineral Resources and Ore Reserves.
Kcal/kg	Kilocalorie per kilogramme – measure of coal heat content.
km	Kilometer.
kW	Kilowatt.
kV	Kilovolt.
Ktpa	Thousand tonnes per annum.
Lexing	Lexing Holdings Limited.
LW	Longwall, underground mining technique, used interchangeably with equipment used in this technique.
m	Meter.
m^2	Square meters.
m^3	Cubic meters.

m^3/min	Cubic meters per minute.
m/s	Meters per second.
Marketable Reserves	Saleable coal product from Recoverable Reserves after accounting for mining and processing losses, where applicable.
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 sample locations are spaced sufficiently close to confirm geological and quality continuity.
Methane	A colorless, odorless, explosive gas (CH_4) typically associated with coal seams.
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 study period, economic viability as determined by operating costs and prices, application of relevant technology, environmental and other regulations, and data from exploration conducted concurrently with mining.
Mining Rights	The mining rights granted by the relevant provincial or central government authorities to conduct mining activities within the People's Republic of China, specifying holder of record, area boundary coordinates, mining method, validity period, and annual output level. Coal seams and elevation ranges may also specified.
MLR	Ministry of Land and Resources of PRC.

mm	Millimeter.
Mt	Million tonnes.
Mtpa	Million tonnes per annum.
North Asia	North Asia Resources Holdings Limited.
ODR	Optimized Design Report.
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.
P	Phosphorus, trace element in coal.
Panel	An area of coal designated for extraction utilizing longwall mining within which a series of blocks (longwall faces) are developed.
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, including detailed mine opening and construction plans from initial work to full production status, and serves as a guide for mine construction and development.

Pillar	Column of coal left behind for support.
PM Category	Designation within the Chinese coal classification system for meager coal (Code No. 11) with volatile matter (daf basis) in the range of 10% and 20% and caking index (G) less than 5, used in coking coal blends.
PRC	The People's Republic of China.
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 which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been conducted, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
Productivity	Measurements of worker efficiency usually expressed in terms of tonnes per unit of time, for example, tonnes per employee-year.
Proved Coal Reserve	The economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been conducted, and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
$Q_{gr.d}$	Gross calorific value or higher heating value on a dry basis.
$Q_{net.ar}$	Net calorific value or lower heating value on an as-received basis.

$Q_{net.d}$	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 preparation plant yield. 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.
RMB	Renminbi, Chinese currency.
ROM	Run-of-mine, the as-mined material as it leaves the mine site.
SACMS	State Administration of Coal Mine Safety of PRC.
Saleable Product	May include varying proportions of raw and clean coal.
SAWS	State Administration of Work Safety of PRC.
SCTSG-EID	Shanxi Coal Transportation and Sales Group, Energy Investment and Development Co. Ltd.
Shearer	Equipment utilized to extract (cut) coal from a LW face.

SM Category	Designation within the Chinese coal classification system for lean coals (Code Nos. 13 and 14) with volatile matter (daf basis) in the range of 10% to 20%, caking index in the range of 20% to 65%, used in coking coal blends.
Strike	The course or bearing of an inclined coal seam or stratum on a level surface; the direction of a horizontal line perpendicular to the dip.
Subcrop	Projected limit of mineral deposition where the coal seam outcrop is overlain by surface alluvial material (i.e., bed outcrop is obscured).
Temporary Workers	Workers employed on a temporary basis at a mining operation to perform specific construction or maintenance tasks. These workers are not reflected in mine employment figures.
Tonne.	Metric ton equal to 1,000 kilogrammes.
tpd	Tonnes per day.
tph	Tonnes per hour.
UG	Underground.
VM	Volatile Matter, characteristic for coal quality reporting.
Yield	Saleable portion of the raw coal processed in a coal preparation plant relative to the total tonnes processed.

1.0 INTRODUCTION

1.1 Background

BOYD was engaged in March 2012 by North Asia to complete a CPR for five underground coal mining operations consolidated from former smaller mining operations, as required by the PRC central government. This report is an update of our earlier report on the same mines with findings as of 30 September 2012 The mines produce JM coking coals and are currently undergoing technical renovations. The five coal mines are controlled by SCTSG-EID. North Asia is purchasing Lexing, which controls 49% of SCTSG-EID through the following enterprises:

Company	% Control of SCTSG-EID
Shanxi Ruiying Investment Management Co., Ltd.	26
Shanxi Changtong Energy Co., Ltd.	15
Taiyuan Zhituo Investment Consulting Co., Ltd.	8
Total	49

It is our understanding that BOYD's report will be used for a filing on the HKEx. The mine operations are located approximately between 7 km and 15 km west of Gujiao City, Shanxi Province, PRC (see Figures 1.1 to 1.4), and include:

Bolong

Mine area:	5.986 km^2
Mine type:	Underground
Coal type:	Fat coal (FM) primarily with coking coal (JM), lean coal and meager coal
Mineable Seams:	5
Design Capacity:	1.2 Mtpa
Certificate status:	Mining right
SCTSG-EID Control:	100%

Fuchang

Mine area:	1.8006 km^2
Mine type:	Underground
Coal type:	Fat coal (FM)
Mineable Seams:	2
Design Capacity:	0.6 Mtpa
Certificate status:	Mining right
SCTSG-EID Control:	69.4%

Jinxin

Mine area:	0.9524 km^2
Mine type:	Underground
Coal type:	Coking coal (JM)
Mineable Seams:	6
Design Capacity:	0.45 Mtpa
Certificate status:	Mining right
SCTSG-EID Control:	100%

Liaoyuan

Mine area:	1.9844 km^2
Mine type:	Underground
Coal type:	Fat coal (FM) primarily with coking coal (JM)
Mineable Seams:	5
Design Capacity:	0.6 Mtpa
Certificate status:	Mining right
SCTSG-EID Control:	100%

Xinfeng

Mine area:	2.1966 km^2
Mine type:	Underground
Coal type:	Fat coal (FM) and coking coal (JM)
Mineable Seams:	5
Design Capacity:	0.9 Mtpa
Certificate status:	Mining right
SCTSG-EID Control:	100%

1.2 Scope of Work

By assignment, the scope of work for the CPR includes an independent assessment of:

- Reported coal reserves in the designated mining rights area with restatement of coal tonnage to comply with JORC Code requirements.
- Mining operations, including site visits to observe operations, and an assessment of current mining practices, historic and current performance, potential risk, transportation infrastructure, and reasonableness of future mine plans.
- Environmental practices to opine on observed operating practices as compared to World Bank/Chinese requirements.

The basis of our work was historical operating and other source data provided principally by SCTSG-EID, which were evaluated within the context of BOYD's extensive Chinese and international mining expertise.

1.3 Work Program

In January 2011 and November 2012, combined teams of BOYD's US and Beijing office technical staff including: specialists in coal mining (underground), coal preparation, geology and reserves, and environmental practices, completed a series of visits to the mine sites. During our visits, we completed firsthand observations of the mines' operations, collected available source data, and discussed historical performance, mining practices, and future plans with the mines' technical staff and management personnel. BOYD's Beijing office also provided technical and translation support.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this CPR was provided by SCTSG-EID, the basis of our professional opinion is founded on our judgment of the reasonableness of the data provided within the context of our professional and technical expertise and broad Chinese mining and international experience. To ensure that our interpretation of the mines data was reasonable, follow-up discussions were conducted with company representatives after our initial analysis and, where necessary, to collect additional information.

After our initial reserve estimate was completed, our work was delayed until SCTSG-EID obtained revised mine design reports to cover room-and-pillar recovery of smaller remaining coal areas.

The findings and conclusions presented in this CPR are as of 30 September 2012, and are supported by the text, tables, and figures herein.

1.4 Forward-Looking Statements

Estimates of coal resources and reserves, as well as projections of coal mine output, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to: inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in market prices, variances in execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional, and/or local government policies could effect future coal production. For example, increased environmental compliance and changes in regulatory oversight for health and safety could result in reduced output and increased costs. Possible variations of future performance from the projections presented in this report are addressed in more detail in specific sections of this report. Comments on the risks inherent in the various operations are discussed in the appropriate sections.

1.5 Project Team

The BOYD project team has extensive professional experience in coal resource and mine evaluations. Section 18.21(1) of Chapter 18 of HKEx rules for Equity Securities for Mineral Companies, requires that a Competent Person (CP) have a minimum five years experience relative to the style of mineralization and type of deposit under consideration, and to the activity which the Mineral Company is undertaking. In addition, Section 18.21(2) requires that the CP be a member of good standing of a relevant Recognized Professional Organization (RPO) (or under JORC requirements be a member of a Recognized Overseas Professional Organization ROPO. Section 18.22 of Chapter 18 of HKEx rules requires that a CP must be independent of the issuing company, its directors, senior management and advisers. Specifically the CP must: (1) have no economic or beneficial interest in any of the assets in the CPR; (2) not be remunerated with a fee dependent upon the findings of the CPR; (3) not be an officer, employee or proposed officer of the issuing company or any group, holding or associated company of the issuing company in the case of the individual CP; not be a group, holding or associated company of the issuing company in the case of the CP firm. None of the CP firm's partners or officers may be officers or proposed officers of any group, holding or associated company of the issuing company. In this instance our understanding of independence extends to the SCTSG-EID mines, Lexing, and North Asia and their respective assets. Key professionals for this project include:

Mr. Ronald L. Lewis – Chief Operating Officer and Managing Director, BS (Civil Engineering)

Mr. Lewis has over 40 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 within the United States 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 JORC Code. Mr. Lewis accepts overall responsibility for the CPR and he is independent as required by Rule 18.22.

Mr. Dehui (David) Zhong – Managing Director – China, BS (Mining Engineering)

Mr. Zhong has over 40 years of experience in the mining industry, primarily in coal mine design at the Beijing Coal Design and Research Institute. He last served as the institute's Chief Engineer.

Mr. James F. Kvitkovich – Vice President, BS (Mining Engineering)

Mr. Kvitkovich has 30 years of experience in assessment and evaluation of underground coal mining operations throughout the world. He is a Registered Professional Engineer within the United States and is highly experienced with regard to reviewing and evaluating CM and LW mining operations. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as defined in the JORC Code. Mr. Kvitkovich is a co-author of this CPR and he is independent as required by Rule 18.22.

Mr. Paul D. Anderson – Director of Geological Services, BS (Geology)

Mr. Anderson is a Certified Professional Geologist (AIPG) with 36 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 JORC Code. Mr. Anderson is a co-author of this CPR and he is independent as required by Rule 18.22.

Mr. Jisheng (Jason) Han – Mining Consultant, MS (Mining Engineering)

Mr. Han has 16 years of mining industry experience in both China and the United States with extensive background in evaluation of underground mines in China. His technical specialty is geotechnical assessments of underground openings. Mr. Han is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as defined in the JORC Code. Mr. Han is a co-author of this CPR and he is independent as required by Rule 18.22.

1.6 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. Our consultancy services have been provided on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations
- Fuel and energy supply planning
- Permitting and environmental analysis
- Contract negotiations
- Market and transport analyses
- Economic feasibility studies and valuations
- Assessment of existing operations
- Strategic business planning
- Transport issues
- Asset appraisals
- Minerals industry restructuring
- Privatization studies
- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Reserve and geotechnical studies
- Technical assistance in legal matters
- Monitoring of operating companies
- Financial analysis

BOYD also possesses extensive computer and software systems to evaluate resources, reserves and mine plans including Vulcan, MINCOM, SurvCADD, and others.

Our headquarters office is located in the Pittsburgh, Pennsylvania, region of the US. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, China. Our website, www.jtboyd.com, has 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 HKEx, London Stock Exchange (LSE), and NI 43-101 (Canadian Requirements), JORC Code, US Securities and Exchange (SEC) Rules, etc. We are familiar with the level of effort required by international investors and financial institutions.

Among our many Chinese Initial Public Offering (IPO) projects, we represented China Shenhua Energy Company Limited (China Shenhua) as their Technical Advisor for their successful IPO on the HKEx. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling, rail and ocean transport facilities, and economics. Shenhua Group Corporation's reserve holdings were evaluated according to JORC Code and HKEx Chapter 18 requirements. We subsequently prepared four resource studies commissioned by China Shenhua for material acquisition HKEx filings.

We also prepared Independent Technical Reviews (ITR) for MP Logistics International Holdings Limited (Ming Kei Energy Holdings Limited) for a transaction involving two openpit mines in Xinjiang Uygur Autonomous Region, for Fushan International Energy Group Limited's acquisition of Fortune Dragon Group Limited mines in Shanxi Province, for Artfield Group Limited's very substantial acquisition of HKEx filing for the Ming Kei Energy Holdings Limited openpit mines in Xinjiang Uygur Autonomous Region, and for GCL-Poly Energy Holdings Limited's acquisition of the Duolun Mine in the Inner Mongolia Autonomous Region. As Technical Advisor, we completed the CPR and Valuation Report for the 2012 Inner Mongolia Yitai Coal Company IPO on the HKEx. Our Chinese non-coal projects include the ITR for the Lumena Resources Corporation IPO on the HKEx.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation (British Coal) and actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry. The coal mining operations of British Coal were successfully privatized. 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.

1.7 Statement of Interests

BOYD is a privately owned consultancy firm with headquarters in the US. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation. BOYD has no ownership or shareholder interest in the SCTSG-EID target mines, Lexing, North Asia, or their respective assets. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by North Asia. We fully comply with the requirements of HKEx Chapter 18.22 listing rule requiring that the CP(s) and CP firm must be independent of the issuing company.

1.8 Closing

In preparing this report, we have relied on reserve, operating, and other data as provided by SCTSG-EID. We have exercised reasonable care in reviewing the information provided. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. Our 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 SCTSG-EID with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have made no attempt to verify the technical and geological information presented in the reference material documents and assume it has been prepared by competent engineers and geologists. Our expertise is in technical and financial mining issues and BOYD is not qualified, nor do we represent that any of our findings include matters of a legal or accounting nature. BOYD's independent analyses of the available data have been developed in a manner consistent with industry standards and engineering practices. We believe our conclusions are reasonable assessments of the information provided.

Following this page are:

Figures

1.1: General Location Map

1.2: Map Showing SCTSG-EID Coal Mining Operations

1.3: Map Showing Select Mining Right Areas SCTSG-EID

1.4: Map Showing Jinxin Mine SCTSG-EID

Respectfully submitted,

JOHN T. BOYD COMPANY
By:

Ronald L. Lewis
Managing Director and COO
Competent Person as defined in
Chapter 18 of the Listing Rules of HKEx

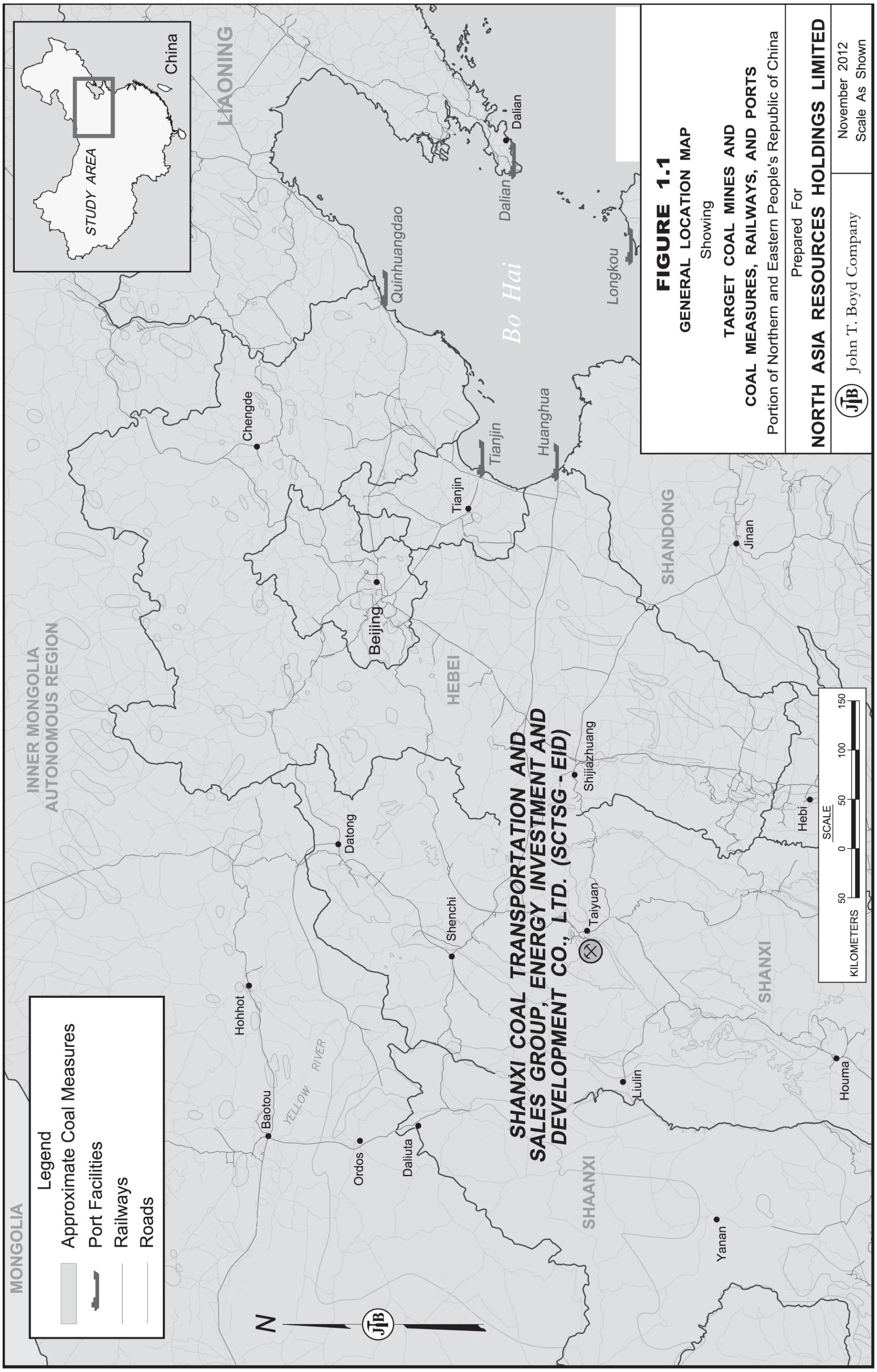
FIGURE 1.1
GENERAL LOCATION MAP
Showing
TARGET COAL MINES AND
COAL MEASURES, RAILWAYS, AND PORTS
Portion of Northern and Eastern People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
John T. Boyd Company
November 2012
Scale As Shown
Legend
Approximate Coal Measures
Port Facilities
Railways
Roads
SHANXI COAL TRANSPORTATION AND SALES GROUP, ENERGY INVESTMENT AND DEVELOPMENT CO., LTD. (SCTSG - EID)
China
STUDY AREA
MONGOLIA
INNER MONGOLIA AUTONOMOUS REGION
LIAONING
HEBEI
SHANDONG
SHANXI
SHAANXI
Bo Hai
Beijing
Tianjin
Chengde
Quinhuangdao
Dalian
Longkou
Huanghua
Jinan
Shijiazhuang
Hebi
Taiyuan
Datong
Shenchi
Hohhot
Baotou
Ordos
Daliuta
Liulin
Houma
Yanan
YELLOW RIVER
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SCALE
KILOMETERS
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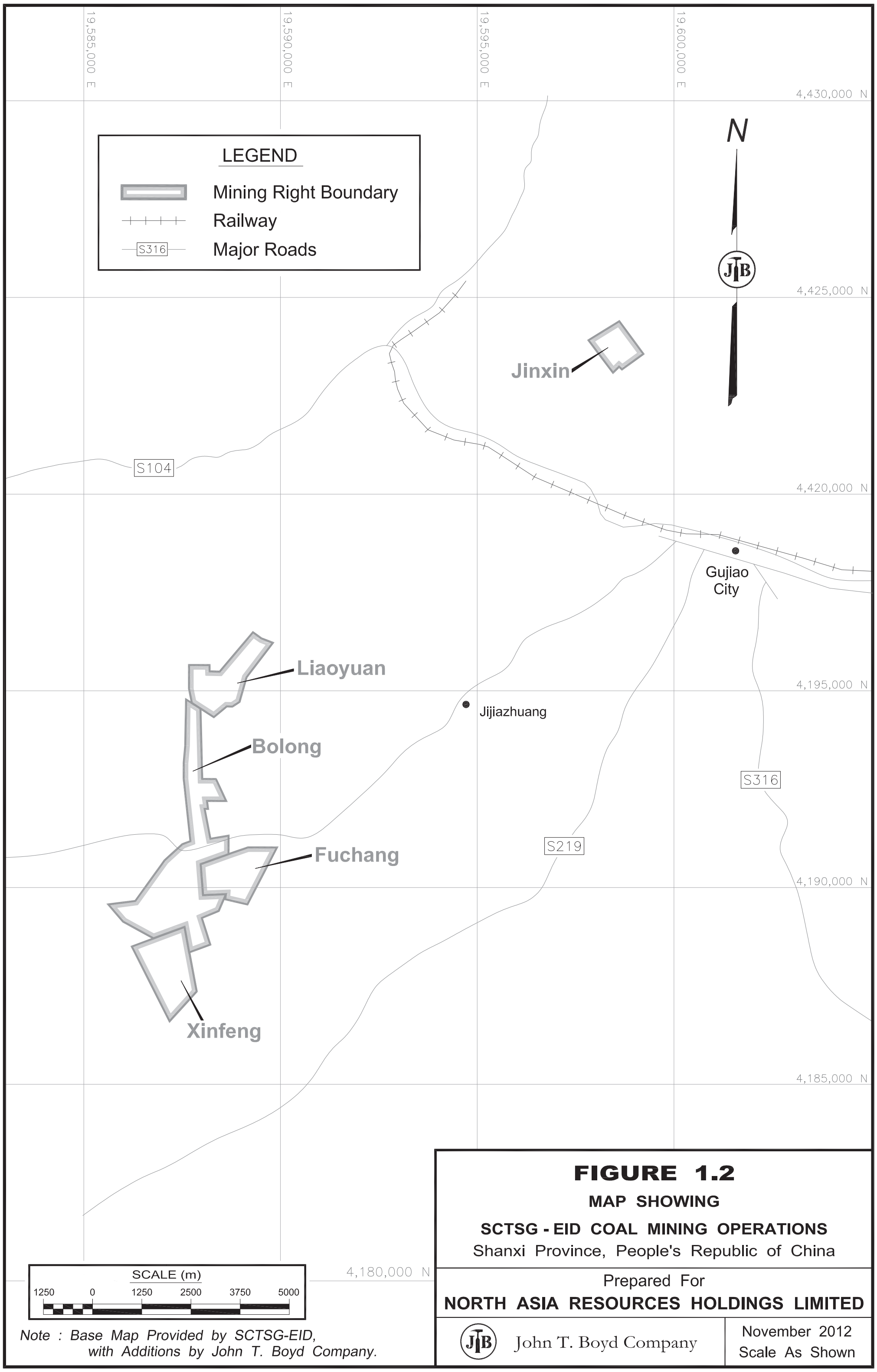
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4,425,000 N
4,420,000 N
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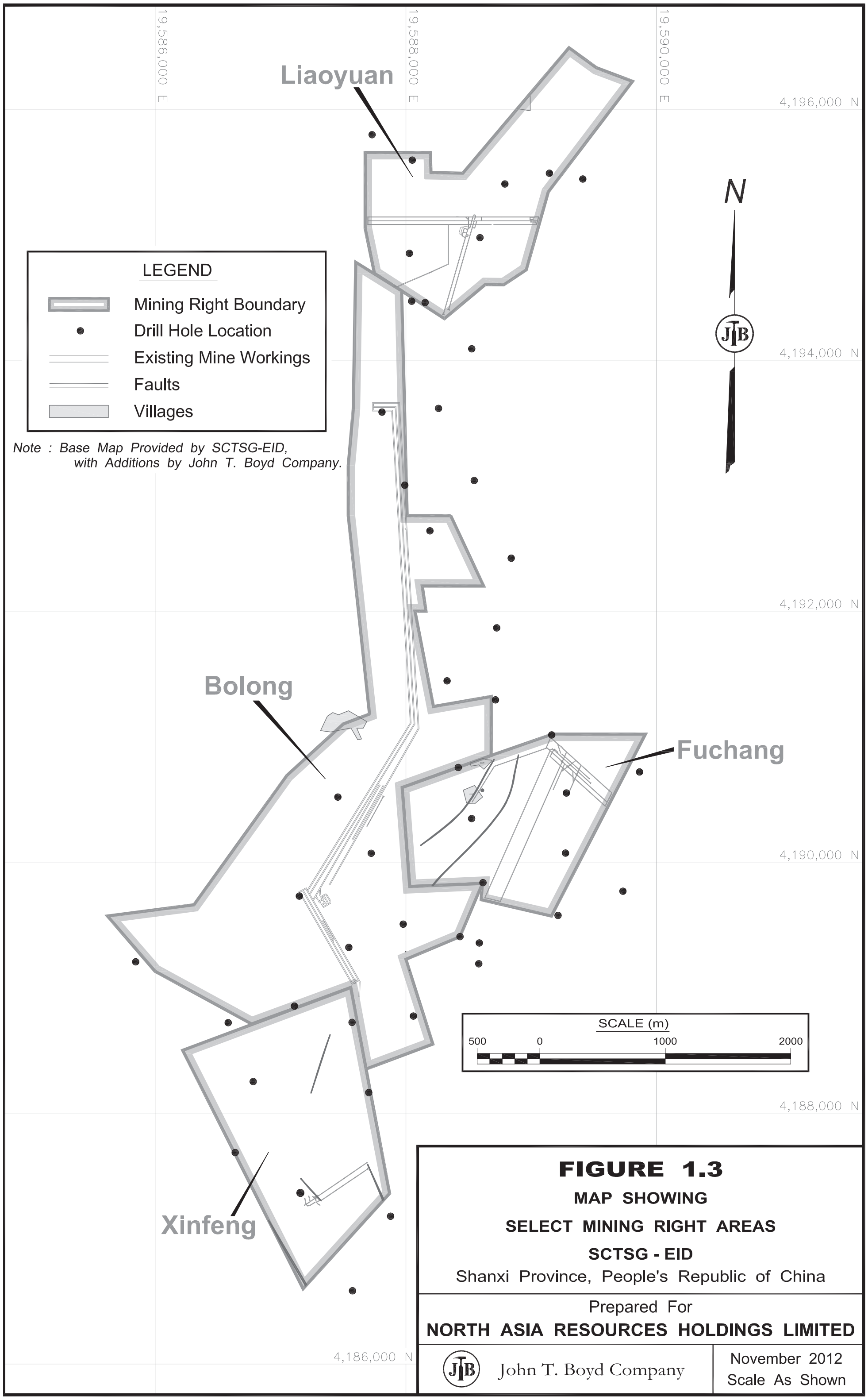
4,190,000 N
4,185,000 N
4,180,000 N
LEGEND
Mining Right Boundary
Railway
S316
Major Roads
N
JTB
Jinxin
S104
Gujiao City
Liaoyuan
Jijiazhuang
Bolong
S316
S219
Fuchang
Xinfeng
SCALE (m)
1250 0 1250 2500 3750 5000
Note : Base Map Provided by SCTSG-EID, with Additions by John T. Boyd Company.
FIGURE 1.2
MAP SHOWING
SCTSG - EID COAL MINING OPERATIONS
Shanxi Province, People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
JTB John T. Boyd Company
November 2012
Scale As Shown



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19,588,000 E
19,590,000 E
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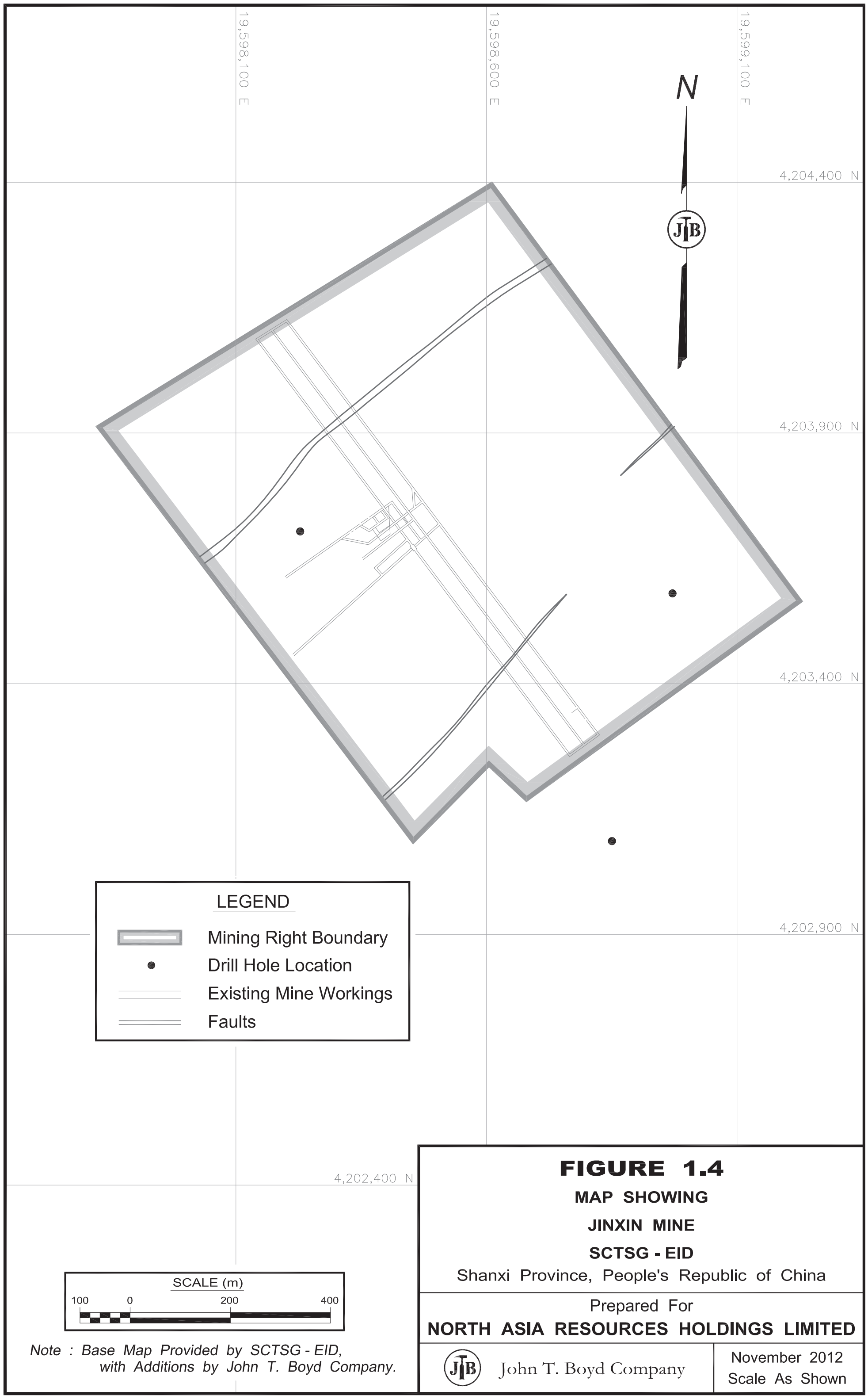
4,192,000 N
4,190,000 N
4,188,000 N
4,186,000 N
Liaoyuan
Bolong
Fuchang
Xinfeng
N
LEGEND
Mining Right Boundary
Drill Hole Location
Existing Mine Workings
Faults
Villages
Note : Base Map Provided by SCTSG-EID, with Additions by John T. Boyd Company.
SCALE (m)
500 0 1000 2000
FIGURE 1.3
MAP SHOWING
SELECT MINING RIGHT AREAS
SCTSG - EID
Shanxi Province, People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
John T. Boyd Company
November 2012
Scale As Shown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4,202,400 N
LEGEND
Mining Right Boundary
Drill Hole Location
Existing Mine Workings
Faults
SCALE (m)
100 0 200 400
Note : Base Map Provided by SCTSG - EID, with Additions by John T. Boyd Company.
FIGURE 1.4
MAP SHOWING
JINXIN MINE
SCTSG - EID
Shanxi Province, People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
John T. Boyd Company
November 2012
Scale As Shown

2.0 SUMMARY

This chapter provides a summary of our CPR including BOYD's major findings regarding coal resources, reserves, economic evaluation, and environmental overview. Technical description and discussion of mine facilities, operating practices, future mine plans, etc. concerning the SCTSG-EID mines can be found in their respective chapters of this report.

2.1 Introduction

This CPR includes the following five SCTSG-EID mines: Bolong, Fuchang, Jinxin, Liaoyuan, and Xinfeng. These underground coal mines are located approximately 7 km 15 km west of Gujiao City, Shanxi Province, PRC. These mines were formed in 2008 from the consolidation of smaller, pre-existing mines having lower levels of mechanization and output capacities. The new design capacity for each of the five mines ranges from 0.45 to 1.2 million tonnes per annum (Mtpa). Minign practices and technology are being upgraded to use FM LW mining methods. Each of the five mines is presently under construction.

The five SCTSG-EID mines have acquired their respective mining right certificate from the local land and resources department. The mining right information is summarized in the table as follows:

Mining Right Area	Mining Right Certificate Number	Authorized Output Capacity (Mtpa)	Authorized Mining Elevation (m)	Mining Method	Area (km²)	Mining Right Grant Date (month/yr)	Expiration (month/yr)
Bolong	C1400002010011220052710	1.20	1,240 – 810	UG*	5.986	12/2012	12/2014
Fuchang	C1400002011041220112071	0.60	1,150 – 880	UG*	1.8006	01/2013	01/2015
Jinxin	C1400002010091220074848	0.45	1,160 – 958	UG*	0.9524	01/2013	01/2015
Liaoyuan	C1400002009121220049012	0.60	1,420 – 820	UG*	1.9844	12/2012	12/2014
Xinfeng	C1400002009121220050446	0.90	1,210 – 780	UG*	2.1966	12/2012	12/2014

* UG = Underground

2.2 Geology and Resources

2.2.1 Introduction

On a global basis, the geological setting or nature of the coal deposits controlled by SCTSG-EID is judged to be moderate (i.e., not geologically complex). The major geologic factors that will impact mining are faulting, localized sinkhole collapse structures, and igneous intrusions.

Areas of coal occurrence evaluated in this report are located in the Xishan Coalfield. Four of the five mining right areas are adjacent; the remaining area is located approximately 11 km to the northeast. The seams are numbered in stratigraphically descending order from No. 02 through No. 9. The upper seams (No. 02 through No. 4) occur in the Shanxi Formation of Permian Age. The lower coal seams (No. 6 through No. 9) are contained in the underlying Taiyuan Formation of Carboniferous Age.

2.2.2 Resource/Reserve Estimates

Our estimates of the Measured, Indicated and Inferred Resources and Proved and Probable Recoverable and Marketable Reserves as of 30 September 2012, prepared in accordance with the JORC Code are summarized as follows:

MINING RIGHT AREAS

	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)			% of
Mine	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Yield %	Proved	Probable	Total	Reserves
					Within Authorized Mining Elevation							
Bolong	18.58	19.27	–	37.85	11.09	10.25	21.34	93	10.27	9.54	19.81	45
Fuchang	8.10	2.31	–	10.41	4.62	1.06	5.68	92	4.23	0.99	5.22	12
Jinxin	1.38	2.28	–	3.66	0.78	1.02	1.80	94	0.72	0.98	1.70	4
Liaoyuan	8.97	6.52	2.53	18.02	4.42	3.49	7.91	94	4.14	3.30	7.44	17
Xinfeng	6.39	6.59	–	12.98	4.09	3.32	7.41	93	3.79	3.07	6.86	16
Total	43.42	36.97	2.53	82.92	25.00	19.14	44.14		23.15	17.88	41.03	94
					Outside Authorized Mining Elevation							
Bolong	0.59	0.66	–	1.25	0.36	0.34	0.70	94	0.34	0.32	0.66	2
Jinxin	0.59	2.64	0.45	3.68	0.33	1.42	1.75	95	0.33	1.34	1.67	4
Total	1.18	3.30	0.45	4.93	0.69	1.76	2.45		0.67	1.66	2.33	6
					Total							
Bolong	19.17	19.93	–	39.10	11.45	10.59	22.04	93	10.61	9.86	20.47	47
Fuchang	8.10	2.31	–	10.41	4.62	1.06	5.68	92	4.23	0.99	5.22	12
Jinxin	1.97	4.92	0.45	7.34	1.11	2.44	3.55	95	1.05	2.32	3.37	8
Liaoyuan	8.97	6.52	2.53	18.02	4.42	3.49	7.91	94	4.14	3.30	7.44	17
Xinfeng	6.39	6.59	–	12.98	4.09	3.32	7.41	93	3.79	3.07	6.86	16
Total	44.60	40.27	2.98	87.85	25.69	20.90	46.59		23.82	19.54	43.36	100

Approximately 47% of the Marketable Reserves are contained in the larger Bolong Mine area, and 92% are within the four adjacent mining right areas (Bolong, Fuchang, Liaoyuan, and Xinfeng). Approximately 55% of the Marketable Reserves are in the Proved classification.

A portion of the No. 9 Seam at Bolong, and portions of the Nos. 4, 7, 8, and 9 seams at Jinxin are outside the authorized mining elevations listed on the mining right certificates. However, SCTSG-EID has provided a document from the Land and Resources Bureau of Shanxi Province that states that the elevations on these mining right certificates are in error and that SCTSG-EID controls all the coal within the mining right areas.

A summary of reserves according to SCTSG-EID control is as follows:

		Marketable Reserves (Mt)		
Mine	SCTSG-EID Control (%)	Proved	Probable	Total
Within Authorized Mining Elevation				
Bolong	100.0	10.27	9.54	19.81
Fuchang	69.4	2.93	0.69	3.62
Jinxin	100.0	0.72	0.98	1.70
Liaoyuan	100.0	4.14	3.30	7.44
Xinfeng	100.0	3.79	3.07	6.86
Total		21.85	17.58	39.43
Outside Authorized Mining Elevation				
Bolong	100.0	0.34	0.32	0.66
Jinxin	100.0	0.33	1.34	1.67
Total		0.67	1.66	2.33
Total				
Bolong	100.0	10.61	9.86	20.47
Fuchang	69.4	2.93	0.69	3.62
Jinxin	100.0	1.05	2.32	3.37
Liaoyuan	100.0	4.14	3.30	7.44
Xinfeng	100.0	3.79	3.07	6.86
Total		22.52	19.24	41.76

2.2.3 Coal Quality

Coals within the mining right areas are low to medium sulfur, medium to high volatile coking coals. Typical raw coal (coal with partings less than 0.05 m thick) quality for the seams is as follows:

	Raw Coal Quality			
Seam	Moist. % (ad)	Ash % (d)	V.M. % (daf)	Sulfur % (d)
02	0.8	20 – 25	30	0.5
2	1.0	15 – 20	28	1.2
4	0.7	25 – 30	28	0.5
6	0.8	30	27	2.0
7	0.7	15	25	1.0
8	0.8	15 – 20	25	2.5
9	0.8	20 – 25	25	1.3

Clean (float 1.40 S.G.) coal quality is reported as follows:

Seam No.	Moisture % (ad)	Ash % (d)	V.M. % (daf)	Sulfur % (d)	P (d)	Y (mm)	G	Coal Type
02	0.8	7.2	30	0.5	0.003	30	>90	FM
2	0.9	6.5	28	0.8	0.003	30	>70	FM
4	0.9	8.6	28	0.8	0.005	23	–	JM, 1/3 JM
6	0.7	13.0	26	1.0	0.015	19	50 – 65	JM
7	0.8	7.0	25	0.8	0.001	23	–	JM
8	0.8	6.9	26	1.4	0.005	28	>80	FM
9	0.9	7.0	25	1.0	0.020	25	>80	FM, JM

As shown above, the seams in the Carboniferous-age Taiyuan Formation (Nos. 6 through 9) are slightly higher in sulfur than the upper seams.

2.3 Mine Design

2.3.1 Mines

The five SCTSG-EID mines are designed to employ FM LW as the primary mining method using domestically manufactured equipment. Each mine has three or four primary access openings. Most of these mine openings were pre-existing (part of the former mining operation), although new openings are to be constructed as required. Belt conveyors provide major underground coal transportation; material and personnel transport is accomplished with winch and rail systems. Methane emissions in the mines are classified as low.

FM LW and development faces are summarized by mine as follows:

Mine	Number of FM LW Faces	Number of Development Faces: Roadheader	Number of Development Faces: Drill & Blast	Design Capacity (Mtpa)
Bolong	2	4	–	1.20
Fuchang	1	1	1	0.60
Jinxin	1	2	–	0.45
Liaoyuan	1	2	–	0.60
Xinfeng	1	2	–	0.90
Total	6	11	1	3.75

In addition to FM LW, the drill and blast mining method will be used in the SCTSG EID mines to recover coal resources where (a) the coal is of reduced thickness (0.7 m< thickness <1.2 m) or (b) the configuration of the resource area is not suitable for FM LW operations, including irregular-shaped areas and barrier pillars. Longwall, shortwall, or room-and-pillar layout may be used for drill and blast operations depending on the configuration of the area to be mined.

Based on our experience with comparable Chinese mines, the SCTSG-EID Mine output designs are typical in performance recognizing the level of mining technology being utilized, installed underground infrastructure, and mine site geologic conditions. Since the mines are all under consolidation construction, the coal output history is insignificant in this review.

2.3.2 Staffing

Projected employment at the SCTSG-EID mines at full production totals 2,504 personnel as indicated in the PDRs. Staffing levels by mine and category are shown below.

	Personnel					
Category	**Bolong**	**Fuchang**	**Jinxin**	**Liaoyuan**	**Xinfeng**	**Total**
Underground	579	329	240	275	463	1,886
Surface	93	42	56	64	70	325
Management	28	19	20	23	26	116
Service	25	15	18	21	28	107
Other	17	15	7	8	23	70
Total	742	420	341	391	610	2,504

Projected average labor productivity at full design output ranges from 1,820 to 2,180 (average 1,990) raw tonnes/employee-year for underground workers and from 1,320 to 1,620 (average 1,500) tonnes/employee-year for the total mine workforces. The proposed staffing for the five mines is high based on our experience with similar mines in the region and related productivity figures appear to be low. It is unclear if contract services personnel would be required at these mines.

2.3.3 Capital Expenditures

According to the Preliminary Design Reports (PDR), the projected capital spending totals RMB991.75 million. At full design capacity of 3.75 Mtpa, the capital spending total for the five mines averages approximately RMB264/raw tonne. Based on BOYD's PRC coal industry experience and the planned level of consolidation being considered, the planned level of capital spending (excluding coal resource fee) is moderate but sufficient to complete the mine construction work.

2.3.4 Mine Operating Costs

According to the PDRs, average raw coal operating costs for the five SCTSG-EID mines ranges from RMB176 to RMB189 per raw tonne (average RMB185 per raw tonne). In our opinion, projected operating costs are reasonable at the design output levels.

2.4 Future Operations and Economic Analysis

2.4.1 Introduction

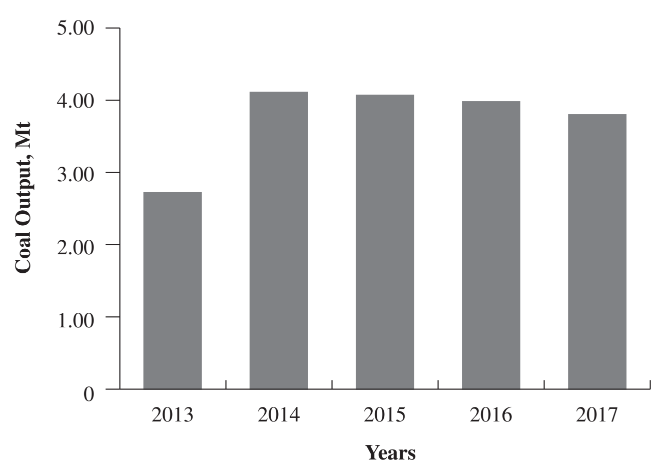
Our review of future mine plans and business projections for the SCTSG-EID underground mining operations are based on data submitted by the company, and discussions with mine management, financial, and engineering staff. Our independent assessment of the reasonableness of internally prepared SCTSG-EID forecasts consider each mine's design within the context of our Chinese and international mining experience.

2.4.2 Coal Output

SCTSG-EID's raw coal output projections for the period from 2013 to 2017 are summarized as follows:

	Projected ROM Output (million tonnes)			
Year	**FM LW**	**Drill & Blast**	**Development**	**Total**
2013	1.91	0.19	0.61	2.72
2014	3.77	–	0.33	4.11
2015	3.59	0.11	0.37	4.07
2016	3.42	0.13	0.44	3.98
2017	3.39	0.11	0.30	3.80

Projected ROM Output – All Mines



Projected coal output in 2013 includes coal produced from development and test runs of FM LW faces during that period. SCTSG-EID forecasts most of the mines begin operation at design output capacities by the second to the third quarter of 2013 and maintain the design output level in the subsequent years. Supporting technical data, including the mining and development sequence for 2013 to 2017 period, were provided and reviewed. The drill and blast method is projected to be adopted to recover coal resources where the configuration is not suitable for FM LW techniques. It is BOYD's opinion that the projected output targets are generally achievable, particularly considering that any shortfall in one mine could be offset by higher output in one or more of the other four mines.

2.4.3 Construction Schedule

As of this report, remaining construction periods for the mines range from 6 months to 10 months not including any potential idle times. According to SCTSG-EID, the construction work that began in 2011 is projected to be completed in the first half of 2013, followed by three months of test runs. Formal operations of the mines are projected to start at the conclusion of the test runs. Construction schedules provided by SCTSG-EID are summarized as follows:

	Construction Projections			
Mine	Period (months)	Finish Date	Test Run Period (months)	Operation Starting Date
Bolong	10.0	31/5/2013	3.0	1/9/2013
Fuchang	6.0	31/1/2013	3.0	1/5/2013
Jinxin	7.0	28/2/2013	3.0	1/6/2013
Liaoyuan	9.0	30/4/2013	3.0	1/8/2013
Xinfeng	10.0	31/5/2013	3.0	1/9/2013

SCTSG-EID projected the time needed for various activities during mine construction including preparation of sites and materials, mine openings rehabilitation/ construction, pit-bottom work, roadway development, equipment installation and testing, etc. In our opinion, the projected construction schedules are attainable with competent management, skilled construction staffing, and the absence of any unforeseen extraordinary delay beyond management's control.

2.4.4 Staffing

SCTSG-EID staffing projections for the target mines are as follows:

	Personnel					
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Underground						
Mining	710	568	639	710	731	753
Development	812	650	731	812	836	861
Support	431	345	388	431	444	457
Subtotal-Underground	1,953	1,562	1,758	1,953	2,012	2,070
Surface coal handling						
Transportation	154	123	139	154	159	163
Coal handling	94	75	85	94	97	100
Subtotal-Surface coal handling	248	198	223	248	255	263
Surface support						
Management	80	64	72	80	82	85
Technical personnel	52	42	47	52	54	55
Other support	135	108	122	135	139	143
Subtotal-Surface support	267	214	240	267	275	283
Others	36	29	32	36	37	38
Total	2,504	2,003	2,254	2,504	2,579	2,654

SCTSG-EID's staffing projections in 2015 matches the Optimized Design Reports (ODR), but is lower in 2013 (20% less) and 2014 (10% less) and higher in 2016 (3% higher) and 2017 (6% higher). It is BOYD's opinion that it is reasonable to assume similar staffing numbers for the same output level (drill and blast mine operations are carried out by the same crew for FM LW operations). The projected labor productivity for the mines appears low in our opinion (i.e., there is the potential for either higher output or reduced employment levels).

2.4.5 Capital Expenditures

SCTSG-EID projects capital spending of RMB351.6 million in the 2013 to 2017 period for the mines, summarized as follows:

	Projected Capital Expenditures, (RMB – millions)					
Category	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Civil Engineering	3.8	3.8	2.0	12.6	7.1	29.3
Mine Development	14.5	10.4	19.2	20.9	14.8	79.8
Electromechanical Equipment	2.1	1.8	9.8	4.1	4.2	22.0
Production Equipment	1.6	1.8	3.6	15.2	1.9	24.1
Monitoring Equipment	4.2	–	–	–	2.3	6.5
Office Equipment	1.5	3.0	1.0	1.7	1.1	8.2
Longwall Move	15.0	20.5	22.5	24.0	24.5	106.5
Other	21.5	9.3	12.0	15.2	17.3	75.3
Total	64.2	50.6	70.0	93.7	73.1	351.6

Note: Numbers may not add due to rounding.

Based on projected raw coal output, the sustaining capital spending projections average RMB18 per raw tonne and are adequate in our opinion to support future output projections. Projected capital spending does not include the capital for mining right purchase, totaling RMB677.6 million, of which 230.3 million remains to be paid. According to the pay-off contracts between SCTSG-EID and the local government, the outstanding amount is arranged to be paid by the end of the first quarter of 2014.

In addition, RMB23.96 million has been planned to cover the compensation for moving the villages at the mines. It is BOYD's opinion that the planned average compensation level for the resident families is adequate.

2.4.6 Mine Operating Costs

Projected mine operating costs at the design coal output levels for the period 2013 to 2017 from the ODRs are shown below. The ODRs provide brief supporting calculations for the various line item cost estimates.

	Projected Operating Cost (RMB/Raw Tonne)					
		ODR				
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Materials/Supplies	27.4	28.4	29.5	30.7	31.9	33.2
Repairs	4.2	4.8	5.0	5.2	5.4	5.6
Power/Fuel	14.5	14.5	15.1	15.7	16.4	17.1
Salary	32.9	34.3	35.7	37.1	38.6	40.1
Welfare	6.0	6.3	6.5	6.8	7.0	7.3
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	23.2	23.2	23.1	23.2	23.3
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	26.8	25.7	26.8	27.7	29.0	30.1
Subtotal – Cash	146.8	152.2	156.8	161.3	166.5	171.7
	–	–	–	–	–	–
Depreciation	11.4	12.0	12.5	12.9	13.5	14.1
Amortization	1.7	4.1	4.2	4.4	4.5	4.7
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	38.2	41.1	41.6	42.3	43.0	43.7
Total	184.9	193.3	198.4	203.6	209.5	215.5

Operating cost projections include an inflation factor of 4% per year. Our comments on the operating cost projections are as follows:

- Materials/Supplies costs are adequate as projected in the ODRs based on our experience with Chinese mines with similar output levels and operating conditions.

- Power costs, estimated according to calculations reflecting major power usage from equipment and facilities over the course of a typical operating year, appear to reasonably reflect the mine facilities and equipment complement. The power rate factor (power required to produce one tonne of output) has a high fixed component for an established mine infrastructure and equipment complement.

- Workforce salaries and welfare as calculated from the ODR projections at approximately RMB55,000 per year, appear adequate to attract a workforce from the surrounding region. Welfare expense is calculated at 14% of salaries.

- Equipment maintenance (repair) costs are adequate as projected in the PDRs and ODRs for initial mine operation and adequately reflect higher operating costs over time as the equipment ages, according to our experience with similar mines.

- The Environment Recovery Guarantee Fund and Development Fund for Mine Transition are the mandatory cash fees, RMB10/tonne and RMB5/tonne, respectively (the ODRs appear to mistakenly reverse the amount applicable to each fund). However, these two funds can be reserved (escrowed) and used by the mine under the supervision of government for specific mine projects.

- The Sustainable Development Fund is collected by the local government and is treated as cash cost. According to Shanxi Provincial Implementation Regulations on Collection and Use of Coal Sustainable Development Fund (Tentative Edition, issued on March 10, 2007), the fund (RMB20/tonne) references non-tax government revenues paid by coal mining enterprises to the provincial financial department in accordance with regulations. The fund is designed to establish an ecological recovery and compensation mechanism for damage to the environment resulting from coal mining operations. The fund is also intended to provide seed money to assist the province's coal-centered industries adjust after the mines are depleted. In March 2011, an escalation of RMB3/tonne to the Sustainable Development Fund is applied and the funds collected from this escalation will be earmarked for supporting the water diversion (from the Yellow River to Shanxi Province) project. The fund is collected on a monthly basis according to the standards for various coal types and authorized mine production capacity adjustments. The amount shown in the ODR of Bolong, RMB30/tonne, is higher than the RMB23/tonne standard.

- The Other Expenses category generally includes other mine-specific general and administrative costs, selling costs, labor benefit-related costs, resource compensation fee, etc. The ODRs did not provide a breakdown for this category. Based on our experience, the projected monies appear adequate, pending a breakdown of cost components. The resource compensation fee is projected at RMB6.8/tonne of raw coal production in the PDRs.

- Safety Fund and Production Maintenance ("Keep Simple Production") fees are considered as non-cash cost accruals (according to generally accepted accounting principles GAAP) for income tax calculations, although the monies may be utilized for mine-related projects.

- Depreciation costs are calculated using the straight-line method for fixed assets according to established asset depreciation lives and salvage value estimations.

- The overall projected operating costs appear reasonable. The most recent coal pricing for this region of China indicates an FOB mine price for coking coal and fat coal of RMB770 to RMB1,000 per tonne (net of value added tax VAT). Based on our review, the SCTSG-EID mines would be profitable and generate significant cash margins at projected sales volume and operating costs.

2.5 Preparation Plant/Coal Processing

It is our understanding that no coal preparation plant (CPP) is currently available or projected to be built at any of five mine locations. According to SCTSG-EID, a CPP, currently owned by Taiyangshen Coal Processing Co., Ltd. and located 8 km northwest of Gujiao City, is planned to be purchased by SCTSG-EID to process coal produced by the five mines. The Taiyangshen CPP is equipped with dense media coal washing technology and has a processing capacity of 3.0 Mtpa. BOYD has not been provided nor have we reviewed design documents for this CPP. Due to the limited capacity of the Taiyangshen CPP, part of the coal produced by the five mines will be sold on raw basis after the ROM is hand-picked.

For purposes of this CPR, we have assumed future reserves nad mine output will be marketed (sold) on a raw screened basis at the mine gate. Off mine site transport and coal washing are considered to be independent of the mines.

2.6 Environmental Overview

BOYD has completed an overview of SCTSG-EID environmental practices and policies and opines that environmental protection plans of the SCTSG-EID operations are in compliance with relevant PRC and Shanxi Province laws and regulations. SCTSG-EID has made diligent efforts to incorporate responsible environmental protection policies and practices into the mine designs. The planned capital expenditures for environmental protection appear reasonable. Since most of the reports related to environmental protection are under preparation, BOYD's opinion is subject to our future review of these documents once they are completed to further assess the environmental protection aspects of the mine consolidation projects.

3.0 GEOLOGY AND RESOURCES

3.1 Geology

On a global basis, the geological setting or nature of the coal deposits controlled by SCTSG-EID is judged to be moderate (i.e., not geologically complex). The major geologic factors that will impact mining are faulting, localized sinkhole collapse structures, and igneous intrusions.

Areas of coal occurrence evaluated in this report are located in the Xishan Coalfield. Four of the five mining right areas are adjacent; with the remaining area located approximately 11 km to the northeast. The seams are numbered in stratigraphically descending order from No. 02 through No. 9. The upper seams (No. 02 through No. 4) are in the Shanxi Formation of Permian Age. The lower coal seams (No. 6 through No. 9) are contained in the underlying Taiyuan Formation of Carboniferous Age.

The coal-bearing formations were unconformably overlain by semi-consolidated Tertiary and Quaternary alluvium measuring from 0 m to 75 m (average 30 m) thick, known as the Shanxi Loess Plateau. These strata have been eroded to form the present rugged topography with steep slopes (typical relief of 300 m). The thickness of the loess is typically greatest at the highest elevations along ridges and less in the valleys. In some of the lower drainage areas, these alluvial strata have been completely eroded away, and the Permian strata are exposed.

The geologic strike of the strata in this part of the Xishan coalfield is generally north to south, but varies to slightly northeast to southwest. Correspondingly, the general dip of the strata is to the southeast and south. In the mining right areas, the strata dip from 5 to 20 degrees. Faulting is common, with a total of 27 faults documented in the mining right areas. We expect that additional small displacement faults will be encountered by the mining operations. Depth of cover ranges from the seam subcrop to 500 m, which is typical for mines in the area.

Several sinkhole collapse features have been encountered in previous mining operations. These features result from the collapse of caverns in the underlying Ordovician-age limestone strata and typically cause minor disruptions in the mine plans. We expect that additional collapse features will be encountered in the mining right areas.

An igneous intrusion has been identified along the western edge of the Bolong and Xinfeng mining right areas. In the area of the intrusion, the coal seams have been replaced by granite. Immediately adjacent to the intrusion, the coal has been coked and altered. Additional drilling is needed to better define the location and influence of this intrusion. There is no evidence of other intrusions in the remaining areas.

3.2 Resource Source Data

In January 2011, BOYD geologists and engineers met with SCTSG-EID technical personnel. During these meetings, SCTSG-EID made presentations of the geology, coal resources, and mine plans for each mining right area. SCTSG-EID provided BOYD with detailed geologic reports and mine feasibility studies. In addition, BOYD mining engineers visited all active mines. During the mine site visits, discussions with mine managers and personnel were conducted concerning coal resources. In May 2011 and November 2012, SCTSG-EID provided updated geologic and mining data used in this report

In order to prepare an independent assessment of the coal resources, SCTSG-EID provided BOYD with the following data:

1. Geologic reports.

2. Geologic data, including tables containing drill hole data and logs and coal quality analyses.

3. Resource tables and maps for each seam.

4. Other data, including hydrologic drilling and mapping, geophysical logs, etc.

5. PDRs and ODRs.

The geologic reports for the mining areas contained the following:

1. Location and Geography.

2. Regional Geologic, Mine Geology, Coal Seam Geology.

3. Coal Quality.

4. Hydrology.

5. Engineering Geology.

6. Environmental Geology.

7. Exploration Status.

8. Resource Assessment.

9. Resource Calculations.

These reports also included various supporting maps, sections, and figures.

PDRs encompass general mine design aspects, including: geology, resource/reserve data, mine development, initial LW face layout, equipment, ventilation, safety, coal preparation, underground and surface facilities, environmental protection, economic issues (projected capital expenditures, costs, and profits), etc. The ODRs contain detailed life of mine plans.

These reports also included the following information:

1. Maps showing mining barriers that define the mining districts within each area.

2. Mine plans showing main development roadways, gate roads, and LW faces.

3. Maps showing the layout of surface facilities.

4. Other design maps.

The resource and mine feasibility maps provided by SCTSG-EID show drill hole and mine measurement locations, seam thickness and structure, faults, geologic and hydrologic features, mining rights limits, barrier areas, and surface features. Resource polygons were shown with polygon identification number, area, seam thickness, dip, and in-place tonnage data.

The number of drill holes and mine measurements defining the coal resources are as follows:

Mine Area	Drill Holes	Mine Measurements
Bolong	23	–
Fuchang	10	–
Jinxin	3	5
Liaoyuan	9	10
Xinfeng	7	–
Total	52	15

The source data provided by SCTSG-EID included in-place coal resource tonnage estimates for each seam, by each resource area. These estimates were prepared according to standards established by the PRC government for this coal classification and grade. Under applicable coking coal standards, all underground mineable seams greater than 0.7 m in thickness are included in the resource estimates. In accordance with PRC government resource estimation protocol, geologists used a polygon method to define individual area subdivisions used to calculate in-place resources. A detailed account of all in place coal tonnage is maintained to track exploitation of a strategic national asset and provide a basis for mining right fee determination.

Polygon tables provided in the reports, which correspond to the resource maps, include polygon identification, polygon area, average thickness, in-place tonnes, and drill hole references used to determine seam thickness tonnage calculation.

We reviewed the in-place resource estimates prepared by the respective geologic teams and found that the estimates were reasonable, prepared in accordance with PRC government standards, and supported by available source exploration data. However, it is important to understand that these estimates represent an inventory of coal occurrence, as required by the PRC, and include significant tonnage that is judged by both BOYD and the Chinese mine design groups to not be economically mineable. This non-economically mineable tonnage includes thin, erratic seams that will not be recovered and coal to be left in barriers along property boundaries and in mine facility and roadway areas.

By assignment, resource and reserve estimates prepared in this report are compliant with the JORC Code. In the JORC Code, resources should only include portions of the deposit that have reasonable prospects for eventual economic extraction and should not include inventory coal.

Since the in-place estimates prepared by the geologic teams contain significant uneconomic inventory coal, they are not JORC compliant and could not be used for purposes of this report. Therefore, BOYD prepared new estimates for the specified resource areas.

3.3 Resource Classification

In reporting resources for the valuation of mining properties, most international classification systems recognize two major factors that must be considered, namely:

- Geologic assurance of existence.

- Economic viability.

All systems require that the degree of geological assurance of existence be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements). Economic viability of resources is usually reported in economic and sub-economic categories. The terms Resource and Reserve are commonly used in the reporting of coal tonnage, but the usage or definition applied to these terms can vary. The relevant JORC Code definitions are found in the Glossary and Definitions section.

In this report, Measured Resources are defined by points of observation on 500 m spacing. Indicated Resources are defined on 1,000-m spacing. Inferred Resources are defined on 2-km spacing. Projections of resources in any category beyond any point of observation do not exceed one-half of the defined spacing. We have assigned these spacing criteria based on our independent assessment of the site specific geologic conditions at each mine. We believe the points of observation spacings used in this report are appropriate and provide the required level of geological assurance.

3.4 Estimation Methods

BOYD developed criteria to assess the economic viability of each seam resource area based on:

1. Mine plan feasibility studies.

2. Current mining economics.

3. Seam thickness and areal extent.

4. Geological considerations.

We reviewed mine plans, costs, and other data and developed economic analyses and life-of-mine plans to evaluate the coal resources. A minimum seam thickness (coal and parting) limit of 0.7 m has been used in our mapping, reflecting type of coal (coking coal) and the practical operating height limits of the LW face equipment proposed for the areas. It should be noted that due to the abrupt thinning of the seams, a decrease in this limit has minimal impact on the resource areas.

In-Place Resources were estimated within areas defined by various barriers shown on maps from the mining feasibility studies. These maps showed the main roadway development and potential LW face areas and also areas where room-and-pillar mining is planned. The LW face areas are defined by barriers, for the main roadways, adjacent to property boundaries, in shallow areas, and underlying mine facilities. Room-and-pillar areas are in the barriers adjacent to the main roadways and also in irregular shaped areas unsuitable for longwall mining. In-Place Resources were estimated within each area that could be economically accessed from the main roadways. The resource maps from the geologic studies combined with barriers from the feasibility studies were used as a basis in preparing our estimates.

In-Place Resources were estimated within each resource area for each seam (coal and partings), using the following coal and parting densities:

Seam	Specific Gravity (g/cm^3)
Bolong	
No. 02	1.45
No. 2	1.45
No. 4	1.50
No. 8	1.45
No. 9	1.50
Fuchang	
No. 8	1.45
No. 9	1.50
Jinxin	
No. 4	1.50
No. 7	1.40
No. 8	1.40
No. 9	1.45
Liaoyuan	
No. 02	1.45
No. 2	1.45
No. 6	1.50
No. 8	1.45
No. 9	1.50
Xinfeng	
No. 02	1.45
No. 2	1.45
No. 4	1.50
No. 8	1.50
No. 9	1.50
Partings	2.10

To develop estimates of Recoverable and Marketable Reserves, BOYD developed a life-of-mine plan for each mineable seam in each area showing the main roadways, LW faces, and room-and-pillar areas. Recoverable Reserves include the as-mined coal, including in-seam partings, mining dilution, and moisture gain. Marketable Reserves represent the final product after coal screening (processing).

BOYD used various criteria shown below to estimate Recoverable and Marketable Reserves:

1. Vertical Seam Recovery.

2. Geologic Recovery.

3. Mining Dilution.

4. Mining Moisture Gain.

5. Coal Screening.

3.4.1 Vertical Seam Recovery

Coal extraction is performed primarily using FM LW. For mines using lower profile equipment in thinner seams, minimum cutting height is 0.7 m, with a maximum height of 2.5 m. In thicker seams (No. 8) where higher profile equipment is used, 4.0 m maximum thickness is recovered. Only coal that could be recovered within the maximum cutting height of the mining equipment was included in the reserve estimates. Coal, parting, and seam thicknesses by mine and seam, and average vertical interval between seams are shown below:

	Thickness (m)			Seam
Seam	**Coal**	**Parting**	**Seam**	**Interval (m)**
	Bolong			
No. 02	1.5	0.1	1.6	
				15
No. 2	2.2	0.1	2.3	
				5
No. 4	0.9	–	0.9	
				70
No. 8	3.6	0.4	4.0	
				15
No. 9	1.4	–	1.4	

	Thickness (m)			Seam
Seam	Coal	Parting	Seam	Interval (m)
	Fuchang			
No. 8	3.9	0.4	4.3	
				15
No. 9	1.5	–	1.5	
	Jinxin			
No. 4	2.5	–	2.5	
				35
No. 7	0.9	–	0.9	
				20
No. 8	3.8	0.2	4.0	
				10
No. 9	1.7	–	1.7	
	Liaoyuan			
No. 02	1.0	–	1.0	
				10
No. 2	2.4	–	2.4	
				10
No. 4	1.6	0.2	1.8	
				30
No. 6	1.0	–	1.0	
				35
No. 8	4.6	0.2	4.8	
				10
No. 9	1.2	0.1	1.3	
	Xinfeng			
No. 02	1.6	0.1	1.7	
				5
No. 2	1.4	0.1	1.5	
				5
No. 4	0.9	–	0.9	
				90
No. 8	3.7	0.3	4.0	
				10
No. 9	1.5	0.2	1.7	

Most of the seams are less than 2 m thick, except for the thick No. 8 Seam which is uniform throughout the mining right areas.

3.4.2 Geologic Recovery

Life-of-mine plans were developed to efficiently recover coal within the resource areas. However, geologic factors such as minor faulting, erratic seam occurrence, sinkhole collapse areas, igneous intrusions, and other geologic factors often result in less than 100% recovery within the mine plan area. The geologic conditions of each area are similar and a geologic recovery factor of 75% was used. Recovery of coal in the room-and-pillar areas is estimated at 30%.

3.4.3 Mining Dilution

Mining dilution (commonly referred to as out-of-seam dilution OSD) is rock contamination from roof and floor rock strata that are mined with the coal seam during the normal mining process. BOYD has estimated mining dilution for all seams at 0.1 m. This factor is based on the seam thickness and planned mining equipment to be utilized in the resource areas. A 2.3 specific gravity (S.G.) density factor is used for calculating mining dilution tonnage.

3.4.4 Moisture Gain

Spray water is commonly used throughout the mining process to control dust liberated during mining and coal handling. A two percentage point gain in raw coal tonnage is assigned to account for moisture gain during mining.

3.4.5 Coal Screening

Run-of-mine coal will be screened and sold as a raw product. We have estimated that 50% of the in-seam parting and out of seam dilution will be removed by screening and hand picking.

3.5 Resource/Reserve Estimates

Our estimates of the Measured, Indicated, and Inferred Resources and Proved and Probable Recoverable and Marketable Reserves as of 30 September 2012 on the basis of 100% control, are summarized as follows:

MINING RIGHT AREAS

	In-Place Resource (Mt)				Recoverable Reserves (Mt)				Marketable Reserves (Mt)			
Mine	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Processing Yield %	Proved	Probable	Total	% of Reserves
					Within Authorized Mining Elevation							
Bolong	18.58	19.27	–	37.85	11.09	10.25	21.34	93	10.27	9.54	19.81	45
Fuchang	8.10	2.31	–	10.41	4.62	1.06	5.68	92	4.23	0.99	5.22	12
Jinxin	1.38	2.28	–	3.66	0.78	1.02	1.80	94	0.72	0.98	1.70	4
Liaoyuan	8.97	6.52	2.53	18.02	4.42	3.49	7.91	94	4.14	3.30	7.44	17
Xinfeng	6.39	6.59	–	12.98	4.09	3.32	7.41	93	3.79	3.07	6.86	16
Total	43.42	36.97	2.53	82.92	25.00	19.14	44.14		23.15	17.88	41.03	94
					Outside Authorized Mining Elevation							
Bolong	0.59	0.66	–	1.25	0.36	0.34	0.70	94	0.34	0.32	0.66	2
Jinxin	0.59	2.64	0.45	3.68	0.33	1.42	1.75	95	0.33	1.34	1.67	4
Total	1.18	3.30	0.45	4.93	0.69	1.76	2.45		0.67	1.66	2.33	6
					Total							
Bolong	19.17	19.93	–	39.10	11.45	10.59	22.04	93	10.61	9.86	20.47	47
Fuchang	8.10	2.31	–	10.41	4.62	1.06	5.68	92	4.23	0.99	5.22	12
Jinxin	1.97	4.92	0.45	7.34	1.11	2.44	3.55	95	1.05	2.32	3.37	8
Liaoyuan	8.97	6.52	2.53	18.02	4.42	3.49	7.91	94	4.14	3.30	7.44	17
Xinfeng	6.39	6.59	–	12.98	4.09	3.32	7.41	93	3.79	3.07	6.86	16
Total	44.60	40.27	2.98	87.85	25.69	20.90	46.59		23.82	19.54	43.36	100

Approximately 47% of the Marketable Reserves are contained in the larger Bolong Mine area, and 92% are within the four adjacent mining right areas (Bolong, Fuchang, Liaoyuan, and Xinfeng). Approximately 55% of the Marketable Reserves are in the Proved classification.

Approximately 95% of the Marketable reserves are within the authorized mining elevations shown on the mining right certificates. However a portion of the No. 9 Seam at Bolong, and portions of the Nos. 4, 7, 8, and 9 seams at Jinxin are outside the authorized mining elevations on the certificates. It is common practice in China to limit the authorized elevations to near term mining areas to avoid paying the resource fees for coal that will be mined far into the future. However, this does not appear to be the case at Bolong and Jinxin. SCTSG-EID has provided a document from the Land and Resources Bureau of Shanxi Province that states that the elevations on the mining right certificates are in error and that SCTSG-EID controls all the coal within the mining right area. Therefore, it is our opinion that is it reasonable to assume that all coal is controlled.

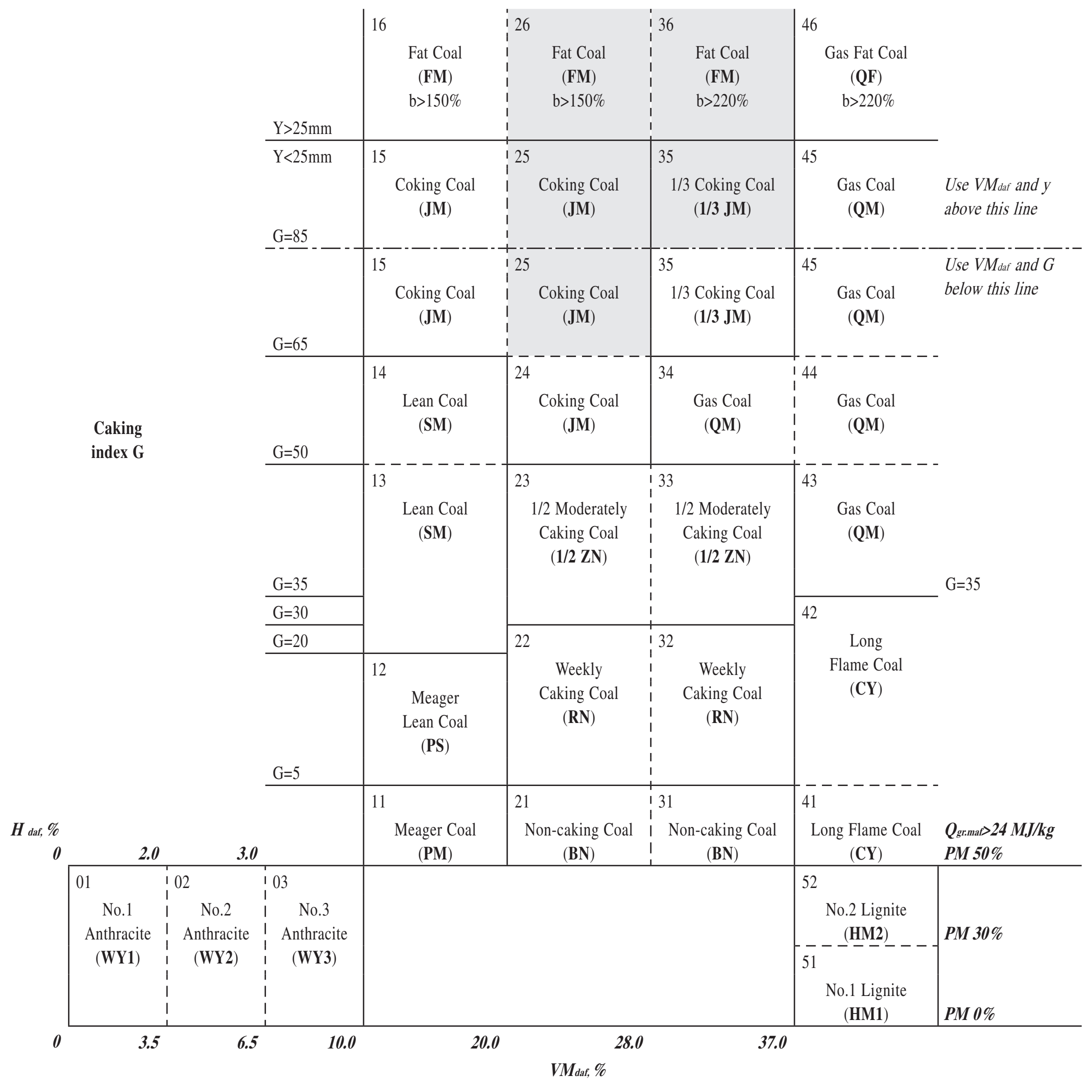
Tables 3.1 through 3.5 show detailed resource estimates for each mining right area by seam on the basis of 100% control.

A summary of reserves according to SCTSG-EID control is as follows:

		Marketable Reserves (Mt)		
Mine	**SCTSG-EID Control (%)**	**Proved**	**Probable**	**Total**
Within Authorized Mining Elevation				
Bolong	100.0	10.27	9.54	19.81
Fuchang	69.4	2.93	0.69	3.62
Jinxin	100.0	0.72	0.98	1.70
Liaoyuan	100.0	4.14	3.30	7.44
Xinfeng	100.0	3.79	3.07	6.86
Total		21.85	17.58	39.43
Outside Authorized Mining Elevation				
Bolong	100.0	0.34	0.32	0.66
Jinxin	100.0	0.33	1.34	1.67
Total		0.67	1.66	2.33
Total				
Bolong	100.0	10.61	9.86	20.47
Fuchang	69.4	2.93	0.69	3.62
Jinxin	100.0	1.05	2.32	3.37
Liaoyuan	100.0	4.14	3.30	7.44
Xinfeng	100.0	3.79	3.07	6.86
Total		22.52	19.24	41.76

3.6 Coal Quality

Coals within the mining right areas are mainly low to medium sulfur, medium to high volatile coking coals and are classified in the Chinese coal classification system as shown below.



Typical raw coal (coal with partings less than 0.05 m thick) quality for the seams is as follows:

	Raw Coal Quality			
Seam	**Moist. % (ad)**	**Ash % (d)**	**V.M. % (daf)**	**Sulfur % (d)**
02	0.8	20 – 25	30	0.5
2	1.0	15 – 20	28	1.2
4	0.7	25 – 30	28	0.5
6	0.8	30	27	2.0
7	0.7	15	25	1.0
8	0.8	15 – 20	25	2.5
9	0.9	20 – 25	25	1.3

Clean (float 1.40 S.G.) coal quality is reported as follows:

Seam No.	Moisture % (ad)	Ash % (d)	V.M. % (daf)	Sulfur % (d)	P (d)	Y (mm)	G	Coal Type
02	0.8	7.2	30	0.5	0.003	30	>90	FM
2	0.9	6.5	28	0.8	0.003	30	>70	FM
4	0.9	8.6	28	0.8	0.005	23	–	JM, 1/3 JM
6	0.7	13.0	26	1.0	0.015	19	50 – 65	JM
7	0.8	7.0	25	0.8	0.001	23	–	JM
8	0.8	6.9	26	1.4	0.005	28	>80	FM
9	0.9	7.0	25	1.0	0.020	25	>80	FM, JM

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 1.40 S.G. In actual practice, the total coal seam is mined and raw coal is processed (washed) at gravities greater than 1.40.

As shown above, the seams in the Carboniferous-age Taiyuan Formation (Nos. 6 through 9) are slightly higher in sulfur than the upper seams.

This CPR assumes the output of the individual mines is sold on a raw screened basis at the minegate. While we are aware that SCTSG-EID is considering the acquisition of an existing coal preparation plant (CPP), we have not reviewed this CPP and assume any off mine site transportation and possible off site independent of the mines.

3.7 Mining Rights

3.7.1 Overview

Coal resources in China are owned by the state as established in the PRC Mineral Resources Law. The law and related Administrative Measures on the Mineral Resources Production Registration, which governs certain aspects of mineral and coal resources controlled for exploitation (including the granting of new and the renewal of existing mining right permits), are administered by the Ministry of Land and Resources (MLR). Mining right permits and land use rights are granted by the MLR or relevant local mineral resource bureau before mining operations can be undertaken in defined mining right areas. Mining right permits are granted for specified periods of time, after which the rights may be extended upon application. Transfer of mining rights to a third party requires provincial or regional government approval.

3.7.2 Mining Rights Review

BOYD is not qualified nor have we completed an independent legal review of the status of SCTSG-EID mining rights. However, based on our review of the mining right certificates provided to us, it is our understanding that SCTSG-EID holds the mining rights (direct control as authorized by the responsible regulatory body) on their own behalf.

A summary of the mining right information follows:

Mining Right Area	Mining Right Certificate Number	Authorized Output Capacity (Mtpa)	Authorized Mining Elevation (m)	Mining Method	Area (km^2)	Mining Right Grant Date (month/yr)	Expiration (month/yr)
Bolong	C1400002010011220052710	1.20	1,240 – 810	UG*	5.986	12/2012	12/2014
Fuchang	C1400002011041220112071	0.60	1,150 – 880	UG*	1.8006	01/2013	01/2015
Jinxin	C1400002010091220074848	0.45	1,160 – 958	UG*	0.9524	01/2013	01/2015
Liaoyuan	C1400002009121220049012	0.60	1,420 – 820	UG*	1.9844	12/2012	12/2014
Xinfeng	C1400002009121220050446	0.90	1,210 – 780	UG*	2.1966	12/2012	12/2014

* UG = Underground

A portion of the No. 9 Seam at Bolong, and portions of the Nos. 4, 7, 8, and 9 seams at Jinxin are outside the authorized mining elevations listed on the mining right certificates. However, SCTSG-EID has provided a document from the Land and Resources Bureau of Shanxi Province that states that the elevations on these mining right certificates are in error and that SCTSG-EID controls all the coal within the mining right areas.

3.7.3 Mining Rights Permit Renewal

On the basis of documentation provided by SCTSG-EID, the Company has valid mining right permits for the present operating mines for the specified periods. It is reasonable to assume that the SCTSG-EID mining rights will be renewed upon expiration. According to PRC law, governing natural resources, the owner of the mining rights has priority to renew or extend its mining rights if mineable reserves remain at the expiration of the mining right period. By PRC law, the maximum holding period (term) for mining right permits is 30 years. The MLR or relevant provincial regulatory body has the legal authority to renew an existing mining right permit that is expiring. It is typical practice in other major coal-producing nations for governments to extend the term of the mining rights for the economic life of the reserves. According to the files issued by the government of Shanxi Province, SCTSG-EID should apply for long-term mining right certificates in accordance with concerned laws and statutes regarding mining right registration before the expiration dates of the current mining right certificates. We have assumed that mining rights will be renewable for the life of the reserves.

3.7.4 Land Use Rights

Generally the surface lands in the SCTSG-EID mining right areas belong to the PRC government. For mining right areas where underground mining methods are applied, land use rights, except for industrial areas, are not needed.

3.7.5 Resource Recovery

PRC laws and regulations governing the mining of coal resources require coal mine operators to attain overall resource recovery rates that may be uneconomical to achieve in practice. Failure to achieve applicable recovery rates as set by the responsible central government ministry in a timely manner can expose a coal producer to penalties such as revocation of the coal mine's production permit. A responsible person, typically the highest ranking geologist/engineer, prepares an annual report to the MLR detailing changes in resources over the year. Based on our discussions with SCTSG-EID officials, the coal production units take resource recovery seriously and employ measures to comply with mandated recovery rates, including secondary recovery mining activity in some instances. SCTSG-EID mine plans demonstrate a concern for maximizing resource recovery.

Following this page are:

Tables

Coal Resource Estimate

3.1: Bolong Mine

3.2: Fuchang Mine

3.3: Jinxin Mine

3.4: Liaoyuan Mine

3.5: Xinfeng Mine

TABLE 3.1

COAL RESOURCE ESTIMATE
BOLONG MINE
Gujiao City, Shanxi Province
People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
November 2012

		In-Place Resource (Mt)				Recoverable Reserves (Mt)				Marketable Reserves (Mt)			
Seam No.	Average Seam Thick (m)	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Processing Yield %	Proved	Probable	Total	% of Resources
						Within Authorized Mining Elevation							
02	1.6	1.59	1.72	–	3.31	0.87	0.97	1.84	94	0.81	0.92	1.73	9
2	2.3	2.43	1.94	–	4.37	1.57	0.90	2.47	95	1.49	0.86	2.35	12
4	0.9	0.83	1.19	–	2.02	0.50	0.79	1.29	92	0.46	0.73	1.19	6
8	4.0	10.53	11.10	–	21.63	6.13	5.70	11.83	92	5.65	5.25	10.90	55
9	1.4	3.20	3.32	–	6.52	2.02	1.89	3.91	93	1.86	1.78	3.64	18
Total		18.58	19.27	–	37.85	11.09	10.25	21.34	93	10.27	9.54	19.81	100
						Outside Authorized Mining Elevation							
9	1.3	0.59	0.66	–	1.25	0.36	0.34	0.70	94	0.34	0.32	0.66	100
						Total							
02	1.6	1.59	1.72	–	3.31	0.87	0.97	1.84	94	0.81	0.92	1.73	8
2	2.3	2.43	1.94	–	4.37	1.57	0.90	2.47	95	1.49	0.86	2.35	11
4	0.9	0.83	1.19	–	2.02	0.50	0.79	1.29	92	0.46	0.73	1.19	6
8	4.0	10.53	11.10	–	21.63	6.13	5.70	11.83	92	5.65	5.25	10.90	53
9	1.4	3.79	3.98	–	7.77	2.38	2.23	4.61	93	2.20	2.10	4.30	17
Total		19.17	19.93	–	39.10	11.45	10.59	22.04	93	10.61	9.86	20.47	100

Note: Figures reflect 100% control.

TABLE 3.2

COAL RESOURCE ESTIMATE
FUCHANG MINE
Gujiao City, Shanxi Province
People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
November 2012

		In-Place Resource (Mt)				Recoverable Reserves (Mt)				Marketable Reserves (Mt)			
Seam No.	Average Seam Thick (m)	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Processing Yield %	Proved	Probable	Total	% of Resources
8	4.3	5.94	1.19	–	7.13	3.44	0.61	4.05	92	3.15	0.56	3.71	71
9	1.5	2.16	1.12	–	3.28	1.18	0.45	1.63	93	1.08	0.43	1.51	29
Total		8.10	2.31	–	10.41	4.62	1.06	5.68	92	4.23	0.99	5.22	100

Note: Figures reflect 100% control.

TABLE 3.3

COAL RESOURCE ESTIMATE
JINXIN MINE
Gujiao City, Shanxi Province
People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
November 2012

		In-Place Resource (Mt)				Recoverable Reserves (Mt)				Marketable Reserves (Mt)			
Seam No.	Average Seam Thick (m)	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Processing Yield %	Proved	Probable	Total	% of Resources
						Within Authorized Mining Elevation							
7	0.9	0.19	0.04	–	0.23	0.14	0.02	0.16	94	0.13	0.02	0.15	9
8	4.0	0.95	1.44	–	2.39	0.47	0.60	1.07	93	0.43	0.57	1.00	59
9	1.5	0.24	0.80	–	1.04	0.17	0.40	0.57	96	0.16	0.39	0.55	32
Total		1.38	2.28	–	3.66	0.78	1.02	1.80	94	0.72	0.98	1.70	100
						Outside Authorized Mining Elevation							
4	2.5	0.57	0.45	–	1.02	0.32	0.20	0.52	96	0.32	0.18	0.50	30
7	0.9	0.02	0.08	–	0.10	0.01	0.05	0.06	83	0.01	0.04	0.05	3
8	3.9	–	1.48	0.30	1.78	–	0.82	0.82	96	–	0.79	0.79	47
9	2.0	–	0.63	0.15	0.78	–	0.35	0.35	94	–	0.33	0.33	20
Total		0.59	2.64	0.45	3.68	0.33	1.42	1.75	95	0.33	1.34	1.67	100
						Total							
4	2.5	0.6	0.5	–	1.0	0.3	0.2	0.52	96	0.3	0.2	0.50	15
7	0.9	0.21	0.12	–	0.33	0.15	0.07	0.22	91	0.14	0.06	0.20	6
8	4.0	0.95	2.92	0.30	4.17	0.47	1.42	1.89	95	0.43	1.36	1.79	53
9	1.5	0.24	1.43	0.15	1.82	0.17	0.75	0.92	96	0.16	0.72	0.88	26
Total		1.97	4.92	0.45	7.34	1.11	2.44	3.55	95	1.05	2.32	3.37	100

Note: Figures reflect 100% control.

TABLE 3.4

COAL RESOURCE ESTIMATE
LIAOYUAN MINE
Gujiao City, Shanxi Province
People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
November 2012

		In-Place Resource (Mt)				Recoverable Reserves (Mt)				Marketable Reserves (Mt)			
Seam No.	Average Seam Thick (m)	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Processing Yield %	Proved	Probable	Total	% of Resources
02	1.0	0.32	–	–	0.32	0.21	–	0.21	95	0.20	–	0.20	3
2	2.4	0.69	0.15	–	0.84	0.49	0.11	0.60	97	0.48	0.10	0.58	8
4	1.8	1.31	0.36	–	1.67	0.72	0.21	0.93	89	0.65	0.18	0.83	11
6	1.0	1.22	0.71	0.28	2.21	0.66	0.46	1.12	91	0.60	0.42	1.02	14
8	4.8	4.69	4.77	1.72	11.18	1.79	2.35	4.14	95	1.69	2.25	3.94	52
9	1.3	0.74	0.53	0.53	1.80	0.55	0.36	0.91	96	0.52	0.35	0.87	12
Total		8.97	6.52	2.53	18.02	4.42	3.49	7.91	94	4.14	3.30	7.44	100

Note: Figures reflect 100% control.

TABLE 3.5

COAL RESOURCE ESTIMATE
XINFENG MINE
Gujiao City, Shanxi Province
People's Republic of China
Prepared For
NORTH ASIA RESOURCES HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
November 2012

		In-Place Resource (Mt)				Recoverable Reserves (Mt)				Marketable Reserves (Mt)			
Seam No.	Average Seam Thick (m)	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Processing Yield %	Proved	Probable	Total	% of Resources
02	1.7	2.49	2.67	–	5.16	1.59	1.39	2.98	91	1.47	1.24	2.71	39
2	1.5	1.48	1.92	–	3.40	1.00	1.14	2.14	95	0.94	1.09	2.03	29
4	0.9	0.90	0.41	–	1.31	0.65	0.31	0.96	92	0.60	0.28	0.88	13
8	4.0	1.17	1.21	–	2.38	0.62	0.37	0.99	94	0.57	0.36	0.93	14
9	1.7	0.35	0.38	–	0.73	0.23	0.11	0.34	91	0.21	0.10	0.31	5
Total		6.39	6.59	–	12.98	4.09	3.32	7.41	93	3.79	3.07	6.86	100

Note: Figures reflect 100% control.

4.0 MINE DESIGN

4.1 Introduction

The five mines controlled by SCTSG-EID, namely, Bolong, Fuchang, Jinxin, Liaoyuan, and Xinfeng, are located approximately 7 km to 15 km west of Gujiao City, Shanxi Province. These operations were formed in 2008 from the consolidation of smaller mines having lower levels of mechanization and output capacities based on a review of resources and mining techniques by local government in 2006. The design capacity of the five mines ranges from 0.45 Mtpa to 1.2 Mtpa using FM LW mining methods; consolidation information is summarized as follows:

Mine	Design Capacity (Mtpa)	Consolidated From		Seams Mined in 2006-2008	Seams to be Mined After Consolidation
		Name	Capacity (Mtpa)		
Bolong	1.20	Tunchuan	0.60	2,4	02,2,4,8,9
		Hougou	0.09	02,2,4	
		Yingli	0.15	02,2,4,8,9	
		Baidao	0.09	02,03,2,4,8	
Fuchang	0.60	Changsheng	0.15	2,4	8,9
		Malan	0.15	2,8	
Jinxin	0.45	Jinggeduo	0.03	03,2+3	03,2+3,4,7,8,9
		Caiyuan	0.06	03,2+3,4	
Liaoyuan	0.90	Liaoyuan	0.15	2	6,8,9
		Nanjiashan	0.09	2,6,7,8,9,10	
Xinfeng	0.90	Wujiapo	0.09	2,4	02,2,4,8,9

Mine consolidation in Shanxi Province has become common practice in recent years as regulatory officials. Consolidation is done under direction of the central government, and is mandated in an effort to maximize reserve recovery and to enhance mining safety by modernizing the coal industry. The SCTSG-EID mines are currently are under construction and technical renovation and coal production has been idled. Test run of operations at these mines after mine renovation is generally scheduled in the first half of 2013. BOYD personnel visited the mine sites on 20 to 21 January 2011 and 15 to 16 November 2012.

The five SCTSG-EID mines have acquired mining right certificates from the local land and resources department. Mining right information is summarized in the table as follows:

Mining Right Area	Mining Right Certificate Number	Authorized Output Capacity (Mtpa)	Authorized Mining Elevation (m)	Mining Method	Area (km^2)	Mining Right Grant Date (month/yr)	Expiration (month/yr)
Bolong	C1400002010011220052710	1.20	1,240 – 810	UG*	5.986	12/2012	12/2014
Fuchang	C1400002011041220112071	0.60	1,150 – 880	UG*	1.8006	01/2013	01/2015
Jinxin	C1400002010091220074848	0.45	1,160 – 958	UG*	0.9524	01/2013	01/2015
Liaoyuan	C1400002009121220049012	0.60	1,420 – 820	UG*	1.9844	12/2012	12/2014
Xinfeng	C1400002009121220050446	0.90	1,210 – 780	UG*	2.1966	12/2012	12/2014

* UG = Underground

To support consolidation of the mines, new PDRs were completed in November 2010 by China International Engineering Design and Research Institute of Mine Co., Ltd. (for Bolong, Fuchang, and Xinfeng mines) and Shanxi Wenlong Coal Engineering Design Co., Ltd. (for Jinxin and Liaoyuan mines). In addition, ODRs for mining and development for each of the five mines, based on the PDRs and mainly addressing future five-year mine operating projections were completed in January 2011 by Coal Industry Hefei Design and Research Institute. Additional updates to future operation projections were prepared by SCTSG-EID and provided to BOYD in November 2012.

4.2 Mine Services

4.2.1 Mine Openings

According to the PDRs, mine openings for the five mines are as follows:

Opening	Length/ Depth (m)	Angle (degree)	Cross-section Area (m^2)	Ventilation Type	Use	Remarks
			Bolong			
Main Incline	526	18	9.3	Intake	Hoisting raw coal via belt conveyor; safety exit	Main incline of Tunchuan Mine
Service Incline	1,008	11	17.3	Intake	Hoisting material, supplies, parts, and personnel; safety exit	Under Construction
Air Return Shaft	345	90	15.9	Exhaust	Air return; safety exit	Under Construction
			Fuchang			
Main Incline	420	21	10.1	Intake	Hoisting raw coal via belt conveyor; safety exit	Main incline of Malan Mine
Service Incline	344	21	10.1	Intake	Hoisting material, supplies, parts, and personnel; safety exit	Service incline of Malan Mine
Air Return Shaft	217	90	15.9	Exhaust	Air return; safety exit	Main shaft of Changsheng Mine
			Jinxin			
Main Incline	356	21	11.3	Intake	Hoisting raw coal via belt conveyor; safety exit	Old main incline, to be extended
Service Incline	225	22	8.8	Intake	Hoisting material, supplies, parts, and personnel; safety exit	Old service incline
Air Return Shaft	68	90	7.1	Exhaust	Air return; safety exit	Old air return shaft

Opening	Length/ Depth (m)	Angle (degree)	Cross-section Area (m^2)	Ventilation Type	Use	Remarks
Liaoyuan						
Main Incline	819	23	13.2	Intake	Hoisting raw coal via belt conveyor; safety exit	Old main incline, to be extended
Service Incline	714	23	16.8	Intake	Hoisting material, supplies, parts, and personnel; safety exit	Under Construction
Air Return Shaft	142	90	19.6	Exhaust	Air return; safety exit	Old air return shaft, to be enlarged
Xinfeng						
Main Incline	633	18	15.3	Intake	Hoisting raw coal via belt conveyor; safety exit	TBC*
Service Incline	604	21	8.9	Intake	Hoisting material, supplies, parts, and personnel; safety exit	Old main incline
Travel Incline	476	25	6.2	Intake	Personnel travel; safety exit	Old service incline
Air Return Shaft	265	90	7.1	Exhaust	Air return; safety exit	Old air return shaft, to be enlarged

* TBC = To Be Constructed

As typical of many coal mines in China, three mine openings are utilized (except Xinfeng, in which a four-opening pattern was used) as primary mine accesses. The PDRs considered the existing openings of the old mines and projected new openings only when necessary. We believe reuse of the existing openings may reduce the capital and construction time considerably, although some of these openings need to be enlarged/re-supported before the new mines start operation. The design sizes of the openings appear adequate for their designated usage. Based on the configuration of the mine area, additional shaft opening(s) may be needed when the remote areas of the mines are mined.

4.2.2 Underground Coal Haulage

Underground coal transportation for the SCTSG-EID mines generally consists of a series of gateroad and main roadway belt conveyors that transport raw coal from the LW face operations and gate development faces to the central bunkers located at the main incline bottom of each mine. Technical parameters of the belt conveyors installed at various locations of each mine are as follows:

Location	Length (m)	Belt Width (mm)	Operating Speed (m/s)	Motor Power (kW)	Capacity (t/h)
		Bolong			
Belt conveyor gate – No. 02 Seam	1,000	800	2.0	90	400
Mining district – No. 02 Seam	670	800	2.5	2 x 75	250
Belt conveyor gate – No. 8 Seam	1,000	1,000	2.5	160	800
Mining district – No. 8 Seam	311	1,000	2.5	75	600
Main roadway – No. 8 Seam	956	1,000	2.5	2 x 200	600
Main incline	1,209	1,000	2.5	2 x 200	300
		Fuchang			
Belt conveyor gate	600	800	2.0	2 x 75	400
Main roadway	600	800	2.0	132	360
Bunker	63	800	2.0	55	360
Main incline	440	800	2.0	2 x 132	150
		Jinxin			
Belt conveyor gate	1,000	800	3.0	2 x 40	400
Main roadway – District I	530	800	2.0	75	400
Main roadway – District II	523	800	2.0	160	400
Main incline	357	800	2.0	75	100
		Liaoyuan			
Belt conveyor gate	1,000	800	3.0	90	450
Main roadway – dip	510	800	2.0	160	400
Main roadway – rise	890	1,000	2.0	2 x 160	400
Main incline	819	800	2.0	280	150
		Xinfeng			
Belt conveyor gate	1,200	1,000	2.5	2 x 160	1,000
Main roadway – dip	58	1,000	2.5	22	640
Mining district	295	1,000	2.5	22	640
Main incline	661	1,000	2.0	2 x 160	250

The belt designs appear to have adequate capacity to accommodate planned coal production from the mining operations.

4.2.3 Underground Material and Personnel Transport

The underground material transportation system consists primarily of narrow gauge (600 mm), 22 or 30-kg/m rail bed and electric-powered winches to move supplies, materials, and equipment in the service gate openings. Workers are transported by overhead monorail tram system installed in the service inclines (except Jinxin, where a man car is used for transportation of workers). Walking times from the pit-bottom to the working face varies depending on location of the production face. One-tonne capacity rail cars are used for underground transport of material. Normally, waste rock from development is hoisted to the surface through the service incline by winches and mine cars.

4.2.4 Mine Ventilation and Coalbed Methane

Methane emissions ranging from 2.02 to 3.89 m^3/t on a relative basis and 0.40 to 3.06 m^3/min on an absolute basis are reported for the five mines, which are classified as low methane gas type. The exhausting type ventilation systems generally have two main intake openings and one main return opening. The air-return shafts are equipped with two exhaust fans. Methane emissions and mine ventilation arrangements are summarized as follows:

	Projected Methane Emissions			Ventilation	
Mine	Relative (m^3/t)	Absolute (m^3/min)	Classification	Fan Power (kW)	Air Volume ($m^3/sec.$)
Bolong	3.09	1.03	Low	250	135
Fuchang	2.42	3.06	Low	160	56
Jinxin	3.89	1.11	Low	90	75
Liaoyuan	2.02	0.40	Low	132	90
Xinfeng	2.64	0.41	Low	185	89

4.2.5 Coal Dust and Spontaneous Combustion

Based on geological reports, the coal dust is explosion-prone in the five mines, and the coal seams have potential for spontaneous combustion. Preventive procedures, such as enhanced ventilation, proper sealing of gob areas, etc., have been recommended in the PDRs as the standard practices in the mine operations.

4.2.6 Water Management

The PDRs projected normal and maximum underground water inflow rate in the five mines based on historical monitoring data and exploration reports. Three pumps designed for each mine will be installed in the underground pumping stations; one operating, one on stand-by status, and a third under repair or undergoing maintenance. The underground water pumping facilities, employing three pump sets for each mine, are more than adequate to meet the mines' projected groundwater pumping requirements. Projected underground water inflow rates and pumping arrangement are summarized as follows:

	Projected Underground Water Inflow Rate (m^3/hour)			
Mine	**Normal**	**Maximum**	**Power of Pumps (kW)**	**Number of Pumps**
Bolong	120	150	185	3
Fuchang	27	33	45	3
Jinxin	10	15	30	3
Liaoyuan	60	90	160	3
Xinfeng	72	180	220	3

4.2.7 Electrical Power

According to the PDRs, each mine is designed to have two power supply sources (circuits), one active and the other source on standby as backup. A new transformer substation was constructed in 2012, 50 m northeast of the Bolong mine site, and the Xigou transformer station is located near the Fuchang mine site. These two substations are power sources for four mines including Bolong, Fuchang, Liaoyuan, and Xinfeng (the four are in close proximity). Jinxin, located approximately 15 km northeast of the other four mines, relies on the Suoyu and Yongshuqu substations as power sources. Incoming power to the mines is 10 kV for surface and underground distribution. Utilization voltages are 1,140 V for the LW faces and 660 V for development faces and other uses.

4.2.8 Mine Surface Facilities

Mine surface facilities provide accommodations for all aspects of the mining operation, including: administration and mine manager offices, materials and parts storage, machinery shops, electrical and maintenance areas, locker rooms and bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. New office building and living quarters, including dormitories for single men and the worker cafeterias, have been planned at the mine sites and are projected to be functional before the scheduled test runs.

4.3 Mining Operations

4.3.1 Work Schedule

LW face and development faces are scheduled to operate 300 to 330 days per year on a 7-day per week basis. Major festival periods and national holidays amount to 15 idle operating days annually. Mine and equipment examinations, repair periods, LW face moves, and mine site outages account for the balance of the available time. Labor staffing levels are low during the major festival periods, and the mines are idled for maintenance activities during these periods. The LW is scheduled for four 6 hour shifts per day, with three shifts of production and one shift of maintenance and face preparation. Development sections are scheduled for three 8 hour shifts per day, with support and maintenance performed as part of the cycle. The average worker typically works 275 days per year.

4.3.2 General Mine Layout

4.3.2.1 Bolong

The mineable coal seams in Bolong Mine include the Nos. 02, 2, 4, 8, and 9 seams, which will be developed by two mining levels. The main mining level is at the elevation of +976 m to service mining operations in the Nos. 8 and 9 seams and main roadways are developed in the No.8 Seam. The secondary mining level is at +1,057 m elevation to service mining operations in the upper seams, including Nos. 02, 2 and 4, for which the main roadways are developed in the No. 2 Seam.

The mine area is divided into eight mining districts; five in the main mining level and three in the secondary mining level. Two FM LW faces, one for each mining level, are employed to achieve the design capacity of 1.2 Mtpa.

4.3.2.2 Fuchang

The two mineable coal seams in Fuchang, Nos. 8 and 9, will be developed by one mining level +1,024 m in the No. 8 Seam, where three main roadways are developed. The mine area is divided into two mining districts, namely, District 81 in the No. 8 Seam, and District 91 in the No. 9 Seam. The southeast portion of the mine has the majority of the coal reserves. One FM LW face with sub-level caving capacity is designed to mine the No. 8 Seam with a 0.6 Mtpa design capacity.

4.3.2.3 Jinxin

Coal resources in the upper seams (Nos. 03, 2+3 and 4) at Jinxin have been developed extensively; the No. 7 Seam is partially mineable and in the northeast corner of the area. According to the PDR, the main coal seams to be mined are the Nos. 8 and 9 seams, which will be developed using two mining levels, one for each seam. The initial mining level is selected in the No. 8 Seam at +1038.5 m. In each seam, the area is divided into two mining districts by the mains running from northwest to southeast. One FM LW face is planned to mine the No. 8 Seam with a 0.45 Mtpa design capacity.

4.3.2.4 Liaoyuan

According to the Liaoyuan PDR, the major coal seams to be developed are the Nos. 6, 8 and 9 seams using a single level in the No. 8 Seam at + 982 m elevation. The mine area is divided into two districts by a line running north to south direction passing through the underground bunker. The main roadways (dipping along the seam gradient) are developed along west to east direction in the central portion of the mine. One FM LW face with sub-level caving capacity is designed to mine the No. 8 Seam with a 0.6 Mtpa design capacity.

4.3.2.5 Xinfeng

Nos. 02, 2, 4, 8, and 9 seams will be mined using two mining levels, one in the No. 2 Seam at +1,060 m elevation and the other in the No. 8 Seam at +960 m elevation. The initial FM LW face is projected in the No. 02 Seam. Each seam is divided into three mining districts. In the upper seams (Nos. 02, 2, and 4), the main roadways are developed in nearly west to east direction along the central portion of the mine; in the lower seams (Nos. 8 and 9), however, the main roadways are designed to be developed along the west boundary of the mine area, mainly due to the presence of igneous rock intrusion in the northern portion of the mine. One FM LW face is planned with a 0.9 Mtpa design capacity.

The layout of the mines, in our opinion, considers locations of existing openings and other available facilities, resource configurations, and other geological/technical conditions. The designs generally appear reasonable and appropriate in terms of saving mine construction time and recovering the coal resources in an effective manner.

4.3.3 LW Development

4.3.3.1 Bolong

LW panels vary in strike length according to reserve configuration, normally ranging from 300 m to 1,250 m. The face length and the strike length for the initial LW face in the No. 02 Seam (020101) are 120 m and 600 m, respectively. In the No. 8 Seam, the face length and strike length for the initial LW face (80101) are 150 m and 380 m, respectively. LW headgate road development is completed with four sections (faces) using roadheaders. Roadway advance rate is typically 14 m/day on a two-shift basis.

Main roadways are generally developed 3.6 m to 4.0 m in width and 2.2 m (No. 2 Seam) or 3.2 m (No. 8 Seam) in height. LW gate road layouts use a two opening design with adjacent faces (i.e., gate roads are common to adjacent LW blocks). Gates are spaced 20 m apart (center-center), with crosscuts spaced every 100 m. General gate dimensions in the No. 2 Seam are width of 3.2 m to 3.4 m and a height of 2.0 m, and in the No. 8 Seam width of 3.2 m to 3.8 m and height of 3.0 m to 3.4 m (tailgates accommodate 600 mm, 30 kg rail bed).

4.3.3.2 Fuchang

The southeast portion of the mine, which includes most of the coal reserves is divided into four 120-m long LW faces with strike lengths ranging from 930 m to 1,160 m. A roadheader and a drill and blast development face are used for LW headgate road development.

The main roadways are 3.6 m wide and 3.0 m high supported by bolts and shotcrete. General belt conveyor gate dimensions in the No. 8 Seam are designed for a width of 4.3 m and height of 3.0 m; the air-return gate is 3.6 m wide and 3.0 m high.

4.3.3.3 Jinxin

Due to the mine reserve configuration, LW panels are generally short along the retreating direction, ranging from 300 m to 450 m and the LW face length is 100 m to 130 m. LW gate road development is accomplished with two roadheader sections.

The main roadways are generally 4.0 m wide and 3.0 m to 3.5 m high, and are supported by bolts, cables, and shotcrete. The gates are 4.2 m wide and 3.5 m high. Most of the roadways and gates are developed in coal seams and the development face advance rate is typically 10 m/day, which in our opinion can meet the LW face retreat requirements.

4.3.3.4 Liaoyuan

LW faces at the northeastern part of the mine are generally 1,200 m to 1,400 m long; the configuration of this area permits four 130-m LW faces in each seam. The remaining areas of the mine, however, only accommodate shorter faces with length generally less than 500 m. Two roadheader sections are employed to develop the LW gate roads.

The main roadways accommodating track and belt conveyors generally are 4.2 m wide and 3.6 m high. The air return roadway is 3.5 m wide and 3.25 m high. Most of the roadways and gates are developed in coal seams and the proposed development face advance rate (typically 10 m/day) appear adequately to meet LW face retreat requirements.

4.3.3.5 Xinfeng

LW faces in the initial mining district of the No. 02 Seam are generally 900 m to 970 m long. The LW face length is designed at 150 m. Most of the roadways and gates are developed in the coal seams, and two roadheader sections are employed for roadway development. The roadways and gates are rectangular in shape measuring 4.0 m in width and 3.0 m in height. The development face advance rate is projected to be 17 m/day, which appears to be high but achievable.

Based on our review, LW development generally uses roadheader technology, which represents a higher mechanization level widely adopted by other coal mines in China. The roadheaders are domestically manufactured with mature application experiences from the Chinese mining industry. Projected advance rates appear reasonable and capable of satisfying LW face retreat requirements.

4.3.4 LW Operations

FM LW faces, equipped with hydraulic shield supports sourced domestically, are proposed in the PDRs for the five mines. Except for the Fuchang and Liaoyuan mines, where FM LW with sub-level caving faces are used, the other three mines use full-seam cutting FM LW faces. The face retreat rates are estimated to match the design capacity and do not necessarily reflect FM LW face retreat rate capabilities. LW face operating projections developed in the PDRs are as follows:

Seam	Face Length (m)	Avg. Face Cutting Height (m)	Cut Depth (m)	Operating Days	Cuts/ Day	Efficiency (%)	Retreating Meters/ Year
			Bolong				
No. 02	150	1.4	0.63	330	6	85	1,060
No. 8	150	4.0	0.8	330	6	85	1,350
			Fuchang				
No. 8	120	2.0	0.6	330	6	90	1,070
			Jinxin				
No. 8	120	3.9	0.6	330	5	80	790
			Liaoyuan				
No. 8	120	2.2	0.6	330	6	80	950
			Xinfeng				
No. 02	138	1.9	0.8	330	12	85	2,690

The LW retreating rate/output projections are generally reasonable and attainable based on our experience in China. Xinfeng's annual LW retreating distance is projected at 2,690 m, is significantly higher than the other mines, primarily due to the favorable resource configuration which allows longer (around 1,000 m) face strike lengths and fewer longwall face moves in the initial mining district. However, in mining areas where strike lengths are short, the LW retreating rate is expected to be lower, since more LW moves are needed, which will decrease LW operation time.

SCTSG-EID subsequently provided a modified mine design for Fuchang Mine. Under the revised mine design, the FM LW with the sub-level caving method was replaced with the full-seam cutting FM LW method. It is BOYD's opinion that this modification is appropriate since the average thickness of the No. 8 Seam (4.13 m) is appropriate for the use of the full-seam cutting FM LW method, and coal recovery is expected to be higher.

In addition to FM LW, the drill and blast mining method is projected in the SCTSG EID mines to recover coal resources where: (a) the coal is thin (0.7 m< thickness <1.2 m), or (b) the configuration of the resource area is not suitable for FM LW operations, including irregular-shaped areas and barrier pillars. LW, shortwall, or room-and-pillar layout may be used for drill and blast operations depending on the configuration of the area to be mined.

Based on our experience, a typical coal mine PDR generally only provides the mining design for the initial LW face(s), which is the case, in the PDRs for the five mines. The ODRs, however, present the life-of-mine layout and mining sequences, reviewed in this report and are used to estimate the coal resources/reserves based upon BOYD's independent assessment of the mining plans.

LW face equipment specifications summarized by seam are as follows:

		Shearer				AFC			
Mine	Seam	Mining Height (m)	Motor (kW)	Drum Diam. (m)	Cutting Depth (mm)	Length (m)	Capacity (tph)	Motor (kW)	Width (mm)
Bolong	No.2	1.25 – 2.5	200	1.3	630	150	250	2 x 75	630
Bolong	No.8	2.1 – 4.1	500	2.0	800	150	700	2 x 160	730
Fuchang	No.8	2.3 – 4.45	600	2.0	656	120	400	2 x 75	630
Jinxin	No.8	1.2 – 2.5	250	1.2	600	120	250	2 x 75	630
Liaoyuan	No.8	1.2 – 2.5	250	1.2	600	120	250	2 x 75	630
Xinfeng	No.02	1.1 – 2.4	456	1.3	800	138	450	2 x 90	730

		Shield				Crusher		
Mine	Seam	Support Height (mm)	Support Width (mm)	Work Resistance (kN)	Support Strength (MPa)	Capacity (tph)	Motor (kW)	Maximum Size (mm)
Bolong	No.2	1,000 – 2,300	1,500	4,000	0.48 – 0.64	600	55	1,000 x 650
Bolong	No.8	2,200 – 4,500	1,500	7,500	0.93	600	110	700 x 600
Fuchang	No.8	2,900 – 4,700	1,500	10,000	1.10	800	75	700 x 650
Jinxin	No.8	1,600 – 4,100	1,500	6,600	1.00	800	75	700 x 650
Liaoyuan	No.8	1,600 – 2,400	1,500	5,400	1.00	800	90	700 x 650
Xinfeng	No.02	1,000 – 2,300	1,500	4,000	0.45 – 0.61	1,000	110	900 x 920

		Stage Loader			Belt Conveyor			
Mine	Seam	Length (m)	Capacity (tph)	Motor (kW)	Capacity (tph)	Speed (m/s)	Width (mm)	Motor (kW)
Bolong	No.2	25	400	40	400	2.0	800	2 x 45
Bolong	No.8	40	800	132	800	2.5	1,000	2 x 80
Fuchang	No.8	25	500	75	400	3.0	800	2 x 75
Jinxin	No.8	25	400	40	400	3.0	800	2 x 40
Liaoyuan	No.8	25	400	40	450	3.0	800	90
Xinfeng	No.02	30	630	75	1,000	2.5	1,000	2 x 160

Based on our experience, at the design capacities of the mines, domestic FM LW equipment appears capable of satisfying the output and operational requirements at relatively lower capital expenditures compared with imported equipment.

4.4 Work Safety

Based on our site visits and review of the PDRs, the mines follow appropriate practices for the type of hazards expected. All mines employ underground monitoring systems comprised of multiple stations recording methane content that are remotely monitored in surface control rooms. Air quantities appear adequate for diluting methane which is liberated during mining. Based on BOYD's observations during site visits, the current mines appear to be operating in a safe manner. On the LW faces visited, monitoring station and hand-held methane monitors indicated relatively low levels of methane on the LW faces. Other customary safety practices such as coal dust suppression, spillage control, and adequate roof and rib support were also observed during the BOYD site visits.

Based on flame-length tests, coal dust generated by the mining operations is classified as having explosive potential if ignited. Standard measures to control dust include:

- Reducing float dust as much as possible by using water sprays in the development and LW face areas (equipment-mounted typically), along belt conveyor installations and underground transfer points (bunkers, chutes, etc.), and by shearers and roadheaders.
- Limiting ventilation air velocities to minimize fugitive dust pick-up.
- Removal of coal debris along belt conveyor lines and in the development faces with washing of roadways as required.
- Wet drilling techniques for development and LW coal face blasting.
- Periodic cleaning and re-whitening of roadways as needed.
- Installation of self-dumping hanging water bags in gates and other roadways.
- Water injection in coal seams prior to mining if it is necessary.

Methane control is not a significant operating concern at the SCTSG-EID mines due to the expected low rate of gas liberation. The upper lying coal seams (Nos. 02, 2, and 8) are rated as having potential for spontaneous combustion. Proper sealing of gob areas and appropriate ventilation designs are required to prevent the oxidation process and resulting spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection and mud injection, are also planned.

Bolong Mine is at potential risk for water inflow from the Ordovician System limestone strata, especially at the southwest portion of the mine where all the mineable seams are lying below the water elevation of the Ordovician limestone. The risk of significant water inflows does not appear to be high. However, the Bolong PDR recommends hydrological test work be conducted to determine in situ water pressure in the Ordovician limestone layers. The other mines have little risk of water inflow from the Ordovician limestone. The PDRs recommend evaluation and drainage of water accumulations in mined areas in the upper seams when the lower seams are being mined, which has been routinely required by industry laws.

Work safety associated with roof control is addressed in the PDRs. Proper roof control measures, including prompt support setup in roadway development and prudent roof management during roof weighting in the LW face, are proposed.

According the PDRs, the mines plan to implement safety training programs covering proper work procedures and work practices at all of their operations to provide for worker safety and establish a good basis for the safety systems to support expanded future mine operations.

Provisions for safety training in the PRC are largely guided by the State Administration of Worker Safety (SAWS). SAWS is in ultimate charge of worker safety at the national level and oversees officials at the provincial, coal mine bureau, and coal producer levels. The State Administration of Coal Mine Safety (SACMS) provides regulatory oversight of the mine site safety inspectors. The safety inspectors act independently of coal mine management. A safety training center is maintained at the coal producer level for training lower level personnel.

A work safety office, headed by a major mine management personnel and staffed by various safety monitoring and inspection personnel, is proposed for each mine in the PDRs.

4.5 Preparation Plant/Coal Processing

It is our understanding that no coal preparation plant (CPP) is currently available or projected to be built at any of five mine locations. According to SCTSG-EID, a CPP, currently owned by Taiyangshen Coal Processing Co., Ltd. and located 8 km northwest of Gujiao City, is planned to be purchased by SCTSG-EID to process coal produced by the five mines. The Taiyangshen CPP has a processing capacity of 3.0 Mtpa using dense media technology. BOYD has not been provided nor have we reviewed design documents for this CPP. For CPR purposes, we have assumed future mine output will be sold on a raw screened basis at the mien gate. Any off mine site coal transportation and off site coal washing operation are considered to be independent of the mining operations.

Since the design output capacity from the five mines totals 3.75 Mtpa, which exceeds the 3.0 Mtpa capacity of the Taiyangshen CPP, part of the coal will be sold on a raw basis after the ROM is hand-picked.

Raw coal from the mines is conveyed to the surface and then screened to +50 mm and –50 mm sizes (except Jinxin Mine, where coal screening is not planned); the refuse in the +50 mm size coal is hand-picked and removed. Coal at both sizes is mixed and transferred to coal silos from where the coal is transported to customers by trucks.

Hand-picked refuse yield is estimated at 3% to 5% of raw coal output. The refuse is temporarily stored at a refuse silo before transport by truck to the designated refuse storage site that also accommodates the waste rock generated from underground development.

The mines, located approximately 15 km away from Gujiao City, have convenient railway and highway transportation. The Gujiao-Chakou Highway passes the northern portion of the Bolong Mine area. Roads also connect to the major towns in the region. The rail spur line for Malan Mine, connecting to Taiyuan, is approximately 2 km from Bolong. The transportation infrastructures appear to be adequate to satisfy coal transportation requirements.

4.6 Coal Quality

Coal output from the five mines, generally characterized as low to medium ash, low to high sulfur, fat coal or coking coal (Chinese Coal Classification FM and JM), is generally sold locally to coking plants. Raw coal quality characteristics, based on exploration data, are as follows:

Bolong

		Coal Seam				
Coal Quality Characteristics	**Basis**	**No. 02**	**No. 2**	**No. 4**	**No. 8**	**No. 9**
Moisture (%)	ad	0.75	0.93	0.82	0.93	0.89
Ash (%)	d	21.46	20.03	29.28	20.29	26.87
Sulfur (total) (%)	d	0.53	1.54	0.49	2.71	1.30
Volatile Matter (%)	daf	30.67	29.20	29.17	26.14	25.09
Calorific Value (Kcal/kg)	Gr.v.d.	7,590	8,200	8,110	8,540	8,230
Chinese Coal Classification		FM, JM	FM, JM	FM, JM	FM, JM	FM, JM

Fuchang

		Coal Seam				
Coal Quality Characteristics	**Basis**	**No. 02**	**No. 2**	**No. 4**	**No. 8**	**No. 9**
Moisture (%)	ad	0.85	0.84	0.78	0.64	0.81
Ash (%)	d	26.53	36.95	27.82	17.69	27.17
Sulfur (total) (%)	d	0.40	0.83	2.10	2.80	0.95
Volatile Matter (%)	daf	30.32	32.40	27.25	26.59	27.21
Calorific Value (Kcal/kg)	Gr.v.d.	–	–	–	7,300	–
Chinese Coal Classification		FM	FM	FM	FM, JM	FM, JM

Jinxin

		Coal Seam					
Coal Quality Characteristics	**Basis**	**No. 03**	**No. 2+3**	**No. 4**	**No. 7**	**No. 8**	**No. 9**
Moisture (%)	ad	–	0.46	0.44	0.54	0.33	0.34
Ash (%)	d	24.00	14.00	26.00	16.09	14.00	20.00
Sulfur (total) (%)	d	0.60	1.00	0.40	1.00	2.00	1.20
Volatile Matter (%)	daf	24.00	23.00	22.00	23.84	19.00	21.00
Calorific Value (Kcal/kg)	Gr.v.d.	8,190	8,340	8,050	8,300	8,530	8,160
Chinese Coal Classification		JM	JM	JM	JM	JM	JM

Liaoyuan

Coal Quality Characteristics	Basis	Coal Seam No. 6	No. 8	No. 9
Moisture (%)	ad	0.76	0.66	0.66
Ash (%)	d	29.58	18.01	25.67
Sulfur (total) (%)	d	2.21	2.58	1.46
Phosphor	d	0.015	0.043	0.012
Volatile Matter (%)	daf	27.02	23.21	23.93
Y (mm)		10 – 27	21 – 41	25 – 44
Caking Index, G		51 – 66	82 – 96	91 – 102
Chinese Coal Classification		JM	FM	FM

Xinfeng

Coal Quality Characteristics	Basis	Coal Seam No. 02	No. 2	No. 4	No. 8	No. 9
Moisture (%)	ad	0.81	0.85	0.83	0.78	1.02
Ash (%)	d	24.44	17.95	26.77	31.02	23.32
Sulfur (total) (%)	d	0.60	1.25	0.59	1.37	3.11
Volatile Matter (%)	daf	25.41	21.78	22.77	29.44	18.57
Calorific Value (Kcal/kg)	Gr.v.d.	5,970	6,960	–	–	–
Y (mm)		29	17	11	37	–
Caking Index, G		90	66	–	–	–
Chinese Coal Classification		FM	JM, FM, PM	JM, FM, SM,WY	FM	FM, PM

Raw coals with these qualities are generally readily saleable to the local coking plants. We expect the coal qualities will be further improved if the proposed CPP is acquired and utilized.

4.7 Staffing

Mine staffing projection in the PDRs is shown as follows:

Bolong

	Personnel						
Category	**Shift 1**	**Shift 2**	**Shift 3**	**Shift 4**	**Day**	**Payroll Factor***	**Total**
Underground	105	105	105	84	399	1.45	579
Surface	23	23	23	–	69	1.35	93
Management	11	11	6	–	28	1.00	28
Service	11	10	4	–	25	1.00	25
Other	7	6	4	–	17	1.00	17
Total	157	155	142	84	538		742

Fuchang

	Personnel						
Category	**Shift 1**	**Shift 2**	**Shift 3**	**Shift 4**	**Day**	**Payroll Factor***	**Total**
Underground	59	59	59	50	227	1.45	329
Surface	11	11	9	–	31	1.35	42
Management	8	7	4	–	19	1.00	19
Service	7	6	2	–	15	1.00	15
Other	6	5	4	–	15	1.00	15
Total	91	88	78	50	307		420

Jinxin

	Personnel						
Category	**Shift 1**	**Shift 2**	**Shift 3**	**Shift 4**	**Day**	**Payroll Factor***	**Total**
Underground	47	46	46	26	165	1.45	240
Surface	12	11	11	7	41	1.35	56
Management	7	6	6	1	20	1.00	20
Service	5	5	5	3	18	1.00	18
Other	2	2	2	1	7	1.00	7
Total	73	70	70	38	251		341

Liaoyuan

	Personnel						
Category	Shift 1	Shift 2	Shift 3	Shift 4	Day	Payroll Factor*	Total
Underground	53	53	53	31	190	1.45	275
Surface	19	16	12	–	47	1.35	64
Management	9	8	6	–	23	1.00	23
Service	9	7	5	–	21	1.00	21
Other	3	3	2	–	8	1.00	8
Total	93	87	78	31	289		391

Xinfeng

	Personnel						
Category	Shift 1	Shift 2	Shift 3	Shift 4	Day	Payroll Factor*	Total
Underground	80	80	80	79	319	1.45	463
Surface	18	18	16	–	52	1.35	70
Management	10	9	7	–	26	1.00	26
Service	13	12	3	–	28	1.00	28
Other	9	8	6	–	23	1.00	23
Total	130	127	112	79	448		610

All Mine Composite

	Personnel						
Category	Shift 1	Shift 2	Shift 3	Shift 4	Day	Payroll Factor*	Total
Underground	344	343	343	270	1,300	1.45	1,886
Surface	83	79	71	7	240	1.35	325
Management	45	41	29	1	116	1	116
Service	45	40	19	3	107	1	107
Other	27	24	18	1	70	1	70
Total	544	527	480	282	1,833		2,504

* Payroll factor provides coverage for seven-day per week operation, injuries, and sickness.

Projected average labor productivity at full design output ranges from 1,820 to 2,180 (average 1,990) raw tonnes/employee-year for underground workers and from 1,320 to 1,620 (average 1,500) tonnes/employee-year for the total mine workforce. Proposed staffing for the five mines is high and related productivity appears to be low based on our experience with similar mines in the region. The PDR staffing is based on four 6-hour shifts daily (three operating and one maintenance); in practice, we believe the mine will be staffed for three 8-hour shifts daily (two operating and one maintenance).

Chinese design institute labor force projections are assumed to provide full staffing requirements and exclude third-party contract services personnel. It is generally accepted that many underground mines, including those in the international coal industry, rely on workers who are not full-time regular employees. The use of temporary workers for mine support and underground construction tasks, while not referenced in the PDRs following typical design institute practice, is widespread in the Chinese coal industry. It is unclear based on our experience if contract services personnel would be required at these mines.

4.8 Capital Expenditures

According to the PDRs, projected capital spending totals RMB991.75 million for the proposed consolidation mines as summarized below:

	Projected Capital Expenditures (RMB – millions)					
Category	**Bolong**	**Fuchang**	**Jinxin**	**Liaoyuan**	**Xinfeng**	**Total**
Mine Development	86.31	42.42	30.64	60.09	54.84	274.30
Civil Engineering	68.35	18.41	25.69	27.88	62.20	202.53
Equipment	42.50	21.27	25.06	34.43	25.61	148.86
Installation	31.71	12.24	19.27	22.91	20.37	106.50
Other	69.35	20.90	13.23	18.56	27.17	149.21
Contingency (7%)	20.88	8.07	7.80	11.22	13.31	61.28
Working Capital	18.00	9.00	3.70	4.87	13.50	49.07
Total	337.10	132.31	125.38	179.97	217.00	991.75

The Other category includes design fee, construction management fee and miscellaneous fees.

At full design output capacities (3.75 Mtpa in total), capital spending approximates RMB220/raw tonne to RMB300/raw tonne of output, or an average of RMB264/raw tonne. With the nature of the consolidation being considered (many facilities from former old mines can be reused), the planned level of capital spending (excluding coal resources fee) is moderate, according to our PRC coal industry experience and the planned mine scale. Proposed capital spending appears sufficient to complete the mine consolidation activity.

As of BOYD's site visit in November 2012, the capital expenditures for completed and ongoing mine construction, civil engineering and equipment installation projects for the mines, as provided by SCTSG-EID are summarized as follows:

	Capital Expenditures (RMB – millions)	
Mine	**Completed**	**Ongoing**
Bolong	62.54	15.62
Fuchang	37.06	11.13
Jinxin	49.96	33.82
Liaoyuan	24.68	24.54
Xinfeng	58.09	38.66

4.9 Operating Costs

Projected mine operating costs at full operation from the PDRs range from RMB176/tonne to RMB189/tonne (average RMB185/tonne), as shown below. The PDRs provide brief supporting calculations for the various line item cost estimates.

	Operating Cost (RMB/Raw Tonne)					
Category	**Bolong**	**Fuchang**	**Jinxin**	**Liaoyuan**	**Xinfeng**	**Composite**
Materials/Supplies	28.0	30.6	23.8	25.0	28.0	27.4
Repairs	4.9	3.8	3.15	3.0	4.8	4.2
Power/Fuel	18.0	14.3	13.13	9.9	13.7	14.5
Salary	30.1	39.8	37.6	30.4	31.2	32.9
Welfare	4.2	5.5	5.3	6.0	9.1	6.0
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	20.0	20.0	20.0	20.0	20.0
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	27.7	24.00	28.6	29.0	25.0	26.8
Subtotal – Cash	148.0	153.0	146.6	138.3	146.8	146.8
Depreciation	14.5	10.1	10.0	9.4	10.4	11.4
Amortization	1.3	1.3	1.6	2.9	1.9	1.7
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	40.8	36.4	36.6	37.3	37.3	38.2
Total	188.7	189.4	183.1	175.6	184.0	184.9

Projected operating costs appear to be reasonable. Operating cost projections are further reviewed in Chapter 5.

4.10 BOYD Observations

BOYD conducted underground visits of the mines under construction. Our field tour included the inclines, pit bottom areas and other underground areas under development. Based on our mine tour, the underground conditions of the mines were favorable, and observed to be clean and dry. Various methods including stone lining, roof bolting, shotcrete, cables, etc., were used for roof support. Although timber frames were used in the support of some roadways, the ground pressure did not appear high and the roadways appeared to be stable. In certain areas where the roof strata above the coal seam are weaker, a thin layer of top coal was left to isolate the roof material from moisture and deterioration.

Due to the consolidation status of the SCTSG-EID mines, no historical operating and limited safety and coal sales data are available. The mines reportedly have been idle since 2009.

5.0 FUTURE OPERATIONS

5.1 Introduction

The five SCTSG-EID mines are presently under construction to consolidate pre-existing mines. ODRs for mining and development for the mines, based on the PDRs and mainly addressing future five-year mine operating projections, were completed in January 2011 by Coal Industry Hefei Design and Research Institute and updated by SCTSG-EID in November 2012. BOYD utilized the ODRs and data provided by SCTSG-EID to review the future operation plans for the five mines.

5.2 Future Mine

5.2.1 Output

According to available schedules, mine consolidation construction is projected to be completed in the first half of 2013, followed by three months of test runs before the full schedule mine operations commence. Based on design output rates, the reserve bases for the five mines are adequate to support projected production for the period 2013-2017. BOYD has not identified significant geological or mining-related issues during our review that would prevent the mines from achieving projected raw coal output levels. The five-year plan projections presented in the ODRs reflect completion of the present phase of significant mine capitalization and transition to full mine operation.

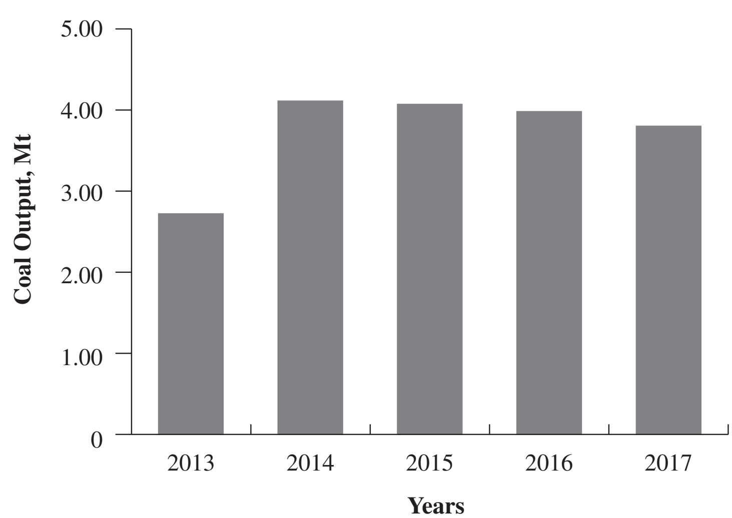
The 2013 to 2017 output projections from the ODRs are summarized as follows:

	Projected ROM Output (million tonnes)				
Source	**2013**	**2014**	**2015**	**2016**	**2017**
	Bolong				
FM LW	0.54	1.22	0.98	1.15	0.98
Drill & Blast	–	–	0.11	–	0.11
Development	0.25	0.14	0.14	0.12	0.07
Total	0.79	1.36	1.22	1.27	1.15
	Fuchang				
FM LW	0.50	0.61	0.61	0.61	0.61
Drill & Blast	–	–	–	–	–
Development	0.07	0.01	0.08	0.07	0.07
Total	0.58	0.62	0.68	0.68	0.68

Source	Projected ROM Output (million tonnes) 2013	2014	2015	2016	2017
			Jinxin		
FM LW	0.42	0.44	0.42	0.38	0.43
Drill & Blast	–	–	–	–	–
Development	0.10	0.05	0.05	0.10	0.02
Total	0.52	0.50	0.47	0.48	0.45
			Liaoyuan		
FM LW	–	0.58	0.62	0.58	0.57
Drill & Blast	0.19	–	–	–	–
Development	0.07	0.06	0.06	0.06	0.06
Total	0.27	0.64	0.68	0.64	0.64
			Xinfeng		
FM LW	0.45	0.93	0.97	0.70	0.81
Drill & Blast	–	–	–	0.13	–
Development	0.11	0.07	0.05	0.08	0.07
Total	0.56	0.99	1.02	0.91	0.88
			All Mines Total		
FM LW	1.91	3.77	3.59	3.42	3.39
Drill & Blast	0.19	–	0.11	0.13	0.11
Development	0.61	0.33	0.37	0.44	0.30
Total	2.72	4.11	4.07	3.98	3.80

Note: Figures may not add due to rounding.

Projected ROM Output – All Mines



Coal output in 2013 includes coal produced from development and test runs of FM LW faces during that period. SCTSG-EID projects that the mines attain design output capacities by the second to the third quarter of 2013 and the design output level is maintained in subsequent years. Supporting technical data, including the mining and development sequence for 2013-2017 period, were provided by SCTSG-EID and reviewed. Drill and blast methods are projected to recover coal resources where the configuration is not suitable for FM LW techniques. Drill and blast designs for these areas, independent of the PDRs, were also provided to BOYD. It is BOYD's opinion that the projected output targets are generally achievable, particularly considering that any shortfall in one mine could be offset by additional production in one or more of the other four mines.

5.2.2 Construction Schedule

As of the date of this report, remaining construction periods for the mines range from 6 months to 10 months, excluding any potential idle times. According to SCTSG-EID, the construction work began in early 2011 and is projected to be completed in the first half of 2013, followed by three months of test runs. Formal operations of the mines are projected to start at the conclusion of test runs. Construction schedules provided by SCTSG-EID are summarized as follows:

Mine	Construction Projections Period (months)	Construction Projections Finish Date	Test Run Period (months)	Operation Starting Date
Bolong	10.0	31/5/2013	3.0	1/9/2013
Fuchang	6.0	31/1/2013	3.0	1/5/2013
Jinxin	7.0	28/2/2013	3.0	1/6/2013
Liaoyuan	9.0	30/4/2013	3.0	1/8/2013
Xinfeng	10.0	31/5/2013	3.0	1/9/2013

SCTSG-EID projected the time needed for various activities during mine construction including preparation of sites and materials, mine openings rehabilitation/construction, pit-bottom work, roadway development, equipment installation and testing, etc. In our opinion, the projected construction schedules are attainable with competent management, skilled construction staffing, and the absence of any unforeseen extraordinary delay beyond management's control.

5.2.3 Staffing

Mine staffing projections for the target mines' operations in the period from 2013 to 2017 as shown in the ODRs provided by SCTSG-EID are as follows:

Bolong

	Projected Personnel					
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Underground						
Mining	240	192	216	240	247	254
Development	210	168	189	210	216	223
Support	154	123	139	154	159	163
Subtotal-Underground	604	483	544	604	622	640
Surface coal handling						
Transportation	38	30	34	38	39	40
Coal handling	28	22	25	28	29	30
Subtotal-Surface coal handling	66	53	59	66	68	70
Surface support						
Management	20	16	18	20	21	21
Technical personnel	12	10	11	12	12	13
Other support	32	26	29	32	33	34
Subtotal-Surface support	64	51	58	64	66	68
Others	8	6	7	8	8	8
Total	742	594	668	742	764	787

Fuchang

	Projected Personnel					
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Underground						
Mining	120	96	108	120	124	127
Development	160	128	144	160	165	170
Support	58	46	52	58	60	61
Subtotal-Underground	338	270	304	338	348	358
Surface coal handling						
Transportation	20	16	18	20	21	21
Coal handling	10	8	9	10	10	11
Subtotal-Surface coal handling	30	24	27	30	31	32
Surface support						
Management	16	13	14	16	16	17
Technical personnel	14	11	13	14	14	15
Other support	16	13	14	16	16	17
Subtotal-Surface support	46	37	41	46	47	49
Others	6	5	5	6	6	6
Total	420	336	378	420	433	445

Jinxin

	Projected Personnel					
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Underground						
Mining	100	80	90	100	103	106
Development	120	96	108	120	124	127
Support	36	29	32	36	37	38
Subtotal-Underground	256	205	230	256	264	271
Surface coal handling						
Transportation	22	18	20	22	23	23
Coal handling	10	8	9	10	10	11
Subtotal-Surface coal handling	32	26	29	32	33	34
Surface support						
Management	12	10	11	12	12	13
Technical personnel	8	6	7	8	8	8
Other support	25	20	23	25	26	27
Subtotal-Surface support	45	36	41	45	46	48
Others	8	6	7	8	8	8
Total	341	273	307	341	351	361

Liaoyuan

	Projected Personnel					
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Underground						
Mining	120	96	108	120	124	127
Development	98	78	88	98	101	104
Support	65	52	59	65	67	69
Subtotal-Underground	283	226	255	283	291	300
Surface coal handling						
Transportation	36	29	32	36	37	38
Coal handling	18	14	16	18	19	19
Subtotal-Surface coal handling	54	43	49	54	56	57
Surface support						
Management	12	10	11	12	12	13
Technical personnel	6	5	5	6	6	6
Other support	30	24	27	30	31	32
Subtotal-Surface support	48	38	43	48	49	51
Others	6	5	5	6	6	6
Total	391	313	352	391	403	414

Xinfeng

	Projected Personnel					
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Underground						
Mining	130	104	117	130	134	138
Development	224	179	202	224	231	237
Support	118	94	106	118	122	125
Subtotal-Underground	472	378	425	472	486	500
Surface coal handling						
Transportation	38	30	34	38	39	40
Coal handling	28	22	25	28	29	30
Subtotal-Surface coal handling	66	53	59	66	68	70
Surface support						
Management	20	16	18	20	21	21
Technical personnel	12	10	11	12	12	13
Other support	32	26	29	32	33	34
Subtotal-Surface support	64	51	58	64	66	68
Others	8	6	7	8	8	8
Total	610	488	549	610	628	647

All Mine Composite

Category	Projected Personnel					
	PDR	2013	2014	2015	2016	2017
Underground						
Mining	710	568	639	710	731	753
Development	812	650	731	812	836	861
Support	431	345	388	431	444	457
Subtotal-Underground	1,953	1,562	1,758	1,953	2,012	2,070
Surface coal handling						
Transportation	154	123	139	154	159	163
Coal handling	94	75	85	94	97	100
Subtotal-Surface coal handling	248	198	223	248	255	263
Surface support						
Management	80	64	72	80	82	85
Technical personnel	52	42	47	52	54	55
Other support	135	108	122	135	139	143
Subtotal-Surface support	267	214	240	267	275	283
Others	36	29	32	36	37	38
Total	2,504	2,003	2,254	2,504	2,579	2,654

SCTSG-EID's staffing projections in 2015 matches the ODRs, but is lower in 2013 (20% less) and 2014 (10% less) and higher in 2016 (3% higher) and 2017 (6% higher). It is BOYD's opinion that it is reasonable to assume similar staffing numbers for the same output level (drill and blast mine operations are carried out by the same crew for FM LW operations). The projected labor productivity for the mines appears low in our opinion (i.e., there is the potential for either higher output or reduced employment levels).

5.2.4 Capital Expenditures

Projected sustaining capital expenditures for the five mines for the period 2013 to 2017 as shown in the ODRs provided by SCTSG-EID are summarized below:

Bolong

	Projected Capital Expenditures (RMB – millions)					
Category	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Civil Engineering	0.80	1.20	–	3.60	1.90	7.50
Mine Development	–	6.00	8.00	4.50	6.00	24.50
Electromechanical Equipment	0.60	0.30	3.60	1.20	1.60	7.30
Production Equipment	0.48	0.62	1.20	6.40	0.72	9.42
Monitoring Equipment	1.20	–	–	–	0.60	1.80
Office Equipment	0.45	0.90	0.30	0.60	0.30	2.55
Longwall Move	6.00	8.00	6.00	6.00	10.00	36.00
Other	12.00	2.00	1.80	3.60	4.20	23.60
Total	21.53	19.02	20.90	25.90	25.32	112.67

Fuchang

	Projected Capital Expenditures (RMB – millions)					
Category	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Civil Engineering	0.60	0.40	0.30	2.60	0.60	4.50
Mine Development	6.00	0.80	0.50	0.30	–	7.60
Electromechanical Equipment	0.20	0.40	0.60	0.80	0.60	2.60
Production Equipment	0.24	0.24	0.36	1.20	0.24	2.28
Monitoring Equipment	0.60	–	–	–	0.50	1.10
Office Equipment	0.20	0.30	0.20	0.20	0.30	1.20
Longwall Move	2.00	–	2.00	2.00	2.00	8.00
Other	2.00	3.00	5.00	4.00	3.60	17.60
Total	11.84	5.14	8.96	11.10	7.84	44.88

Jinxin

	Projected Capital Expenditures (RMB – millions)					
Category	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Civil Engineering	1.20	1.00	0.80	2.00	2.20	7.20
Mine Development	6.00	1.20	1.50	7.07	0.80	16.57
Electromechanical Equipment	0.80	0.50	1.80	0.60	0.40	4.10
Production Equipment	0.24	0.24	0.60	1.80	0.36	3.24
Monitoring Equipment	0.60	–	–	–	0.20	0.80
Office Equipment	0.30	0.60	0.15	0.20	0.10	1.35
Longwall Move	2.00	4.00	6.00	8.00	6.00	26.00
Other	0.50	0.50	0.80	0.80	1.50	4.10
Total	11.64	8.04	11.65	20.47	11.56	63.36

Liaoyuan

	Projected Capital Expenditures (RMB – millions)					
Category	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Civil Engineering	0.60	0.40	0.60	2.00	1.90	5.50
Mine Development	2.00	1.60	1.20	3.00	3.00	10.80
Electromechanical Equipment	0.20	0.15	2.00	0.60	0.80	3.75
Production Equipment	0.30	0.24	0.60	2.80	0.24	4.18
Monitoring Equipment	0.80	–	–	–	0.40	1.20
Office Equipment	0.20	0.60	0.10	0.30	0.15	1.35
Longwall Move	2.00	4.00	4.00	2.00	2.00	14.00
Other	4.00	1.80	2.60	3.20	3.80	15.40
Total	10.10	8.79	11.10	13.90	12.29	56.18

Xinfeng

	Projected Capital Expenditures (RMB – millions)					
Category	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Civil Engineering	0.60	0.80	0.30	2.40	0.45	4.55
Mine Development	0.50	0.80	8.00	6.00	5.00	20.30
Electromechanical Equipment	0.30	0.45	1.80	0.90	0.80	4.25
Production Equipment	0.36	0.48	0.80	3.00	0.36	5.00
Monitoring Equipment	1.00	–	–	–	0.60	1.60
Office Equipment	0.30	0.60	0.20	0.40	0.20	1.70
Longwall Move	3.00	4.50	4.50	6.00	4.50	22.50
Other	3.00	2.00	1.80	3.60	4.20	14.60
Total	9.06	9.63	17.40	22.30	16.11	74.50

All Mine Composite

	Projected Capital Expenditures (RMB – millions)					
Category	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Civil Engineering	3.80	3.80	2.00	12.60	7.05	29.25
Mine Development	14.50	10.40	19.20	20.87	14.80	79.77
Electromechanical Equipment	2.10	1.80	9.80	4.10	4.20	22.00
Production Equipment	1.62	1.82	3.56	15.20	1.92	24.12
Monitoring Equipment	4.20	–	–	–	2.30	6.50
Office Equipment	1.45	3.00	0.95	1.70	1.05	8.15
Longwall Move	15.00	20.50	22.50	24.00	24.50	106.50
Other	21.50	9.30	12.00	15.20	17.30	75.30
Total	64.17	50.62	70.01	93.67	73.12	351.59

Note: Numbers may not add due to rounding.

Based on projected raw coal output, the sustaining capital spending projections average RMB18 per raw tonne and are adequate in our opinion to support future output projections. Projected capital spending does not include the capital for mining right purchase, totaling RMB677.6 million of which RMB230.3 million remain to be paid as shown:

	Mining Right Fee (RMB – millions)					
		Paid by			Pay-Off Plan	
Mine	**Total**	**Former Owner**	**SCTSG-EID**	**Balance**	**2013**	**2014**
Bolong	239.3	46.8	44.4	148.0	74.0	74.0
Fuchang	138.5	33.2	40.8	64.5	32.2	32.2
Jinxin	84.4	3.8	80.6	–	–	–
Liaoyuan	130.9	15.4	115.5	–	–	–
Xinfeng	84.6	29.1	37.7	17.8	8.9	8.9
Total	677.6	128.3	318.9	230.3	115.2	115.2

Note: Numbers may not add due to rounding.

According to the pay-off contracts between SCTSG-EID and the local government, the outstanding amount is arranged to be paid by the end of the first quarter of 2014.

In addition, RMB23.96 million planned to cover compensation for moving the villages at the mines is detailed as follows:

Mine	Village/ Facility	Number of Families	Average Compensation per Family (RMB'000)	Total Compensation Planned (RMB million)
Bolong	Xiashigou	22	300	6.60
Fuchang	Jijiazhuang (Brick Factory)	1	800	0.80
Jinxin	Mazita*	–	–	–
Liaoyuan	Nanjiashan	15	250	3.75
Xinfeng	Nanshe	18	350	6.30
	Wujiapo	21	310	6.51
Total		77		23.96

* Mazita Village has been moved before the mine consolidation.

It is BOYD's opinion that the planned average compensation level for the resident families is adequate. The village moves are recommended to be scheduled well in advance to avoid any delay of underground LW operations.

5.2.5 Operating Costs

Projected mine operating costs at the design coal output levels for the period 2013 to 2017 from the ODRs are shown below. The ODRs provides brief supporting calculations for the various line item cost estimates.

Bolong

	Projected Operating Cost (RMB/Raw Tonne)					
		ODR				
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Materials/Supplies	28.0	29.1	30.3	31.5	32.8	34.1
Repairs	4.9	5.1	5.3	5.6	5.8	6.0
Power/Fuel	18.0	18.7	19.5	20.2	21.1	21.9
Salary	30.1	31.3	32.5	33.8	35.2	36.6
Welfare	4.2	4.4	4.6	4.7	4.9	5.1
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	30.0	30.0	30.0	30.0	30.0
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	27.7	28.8	30.0	31.2	32.4	33.7
Subtotal – Cash	148.0	162.5	167.2	172.1	177.1	182.4
Depreciation	14.5	15.1	15.7	16.3	16.9	17.6
Amortization	1.3	1.4	1.4	1.5	1.5	1.6
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	40.8	41.4	42.1	42.8	43.5	44.2
Total	188.7	203.9	209.2	214.8	220.6	226.6

Fuchang

	Projected Operating Cost (RMB/Raw Tonne)					
		ODR				
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Materials/Supplies	30.6	31.0	32.3	33.5	34.9	36.3
Repairs	3.8	6.6	6.9	7.1	7.4	7.7
Power/Fuel	14.3	11.2	11.6	12.1	12.6	13.1
Salary	39.8	42.1	43.8	45.6	47.4	49.3
Welfare	5.5	5.9	6.1	6.4	6.6	6.9
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	20.0	20.0	20.0	20.0	20.0
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	24.0	28.7	29.9	31.1	32.3	33.6
Subtotal – Cash	153.0	160.5	165.6	170.8	176.2	181.9
Depreciation	10.1	11.1	11.5	12.0	12.4	12.9
Amortization	1.4	15.2	15.8	16.4	17.0	17.7
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	36.4	51.2	52.3	53.3	54.5	55.7
Total	189.4	211.7	217.8	224.1	230.7	237.5

Jinxin

	Projected Operating Cost (RMB/Raw Tonne)					
		ODR				
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Materials/Supplies	23.8	24.8	25.7	26.8	27.8	29.0
Repairs	3.15	3.3	3.4	3.5	3.7	3.8
Power/Fuel	13.13	13.7	14.2	14.8	15.4	16.0
Salary	37.6	39.1	40.7	42.3	44.0	45.7
Welfare	5.3	5.5	5.7	5.9	6.2	6.4
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	20.0	20.0	20.0	20.0	20.0
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	28.6	29.8	31.0	32.2	33.5	34.8
Subtotal – Cash	146.6	151.0	155.7	160.5	165.5	170.7
Depreciation	10.0	10.4	10.8	11.3	11.7	12.2
Amortization	1.6	1.6	1.7	1.7	1.8	1.9
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	36.6	37.0	37.5	38.0	38.5	39.1
Total	183.1	188.1	193.2	198.5	204.0	209.8

Liaoyuan

	Projected Operating Cost (RMB/Raw Tonne)					
		ODR				
Category	PDR	2013	2014	2015	2016	2017
Materials/Supplies	25.0	26.0	27.0	28.1	29.2	30.4
Repairs	3.0	3.2	3.3	3.4	3.6	3.7
Power/Fuel	9.9	10.3	10.7	11.1	11.6	12.0
Salary	30.4	31.6	32.9	34.2	35.6	37.0
Welfare	6.0	6.2	6.5	6.7	7.0	7.3
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	20.0	20.0	20.0	20.0	20.0
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	29.0	30.2	31.4	32.6	33.9	35.3
Subtotal – Cash	138.3	142.5	146.8	151.2	155.9	160.7
Depreciation	9.4	9.8	10.2	10.6	11.0	11.5
Amortization	2.9	3.0	3.1	3.2	3.3	3.5
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	37.3	37.8	38.3	38.8	39.4	39.9
Total	175.6	180.2	185.0	190.0	195.2	200.6

Xinfeng

	Projected Operating Cost (RMB/Raw Tonne)					
		ODR				
Category	PDR	2013	2014	2015	2016	2017
Materials/Supplies	28.0	29.1	30.3	31.5	32.8	34.1
Repairs	4.8	5.0	5.2	5.4	5.6	5.8
Power/Fuel	13.7	14.6	15.2	15.8	16.4	17.1
Salary	31.2	32.4	33.7	35.1	36.5	38.0
Welfare	9.1	9.4	9.8	10.2	10.6	11.0
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	20.0	20.0	20.0	20.0	20.0
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	25.0	14.5	15.0	15.6	16.3	16.9
Subtotal – Cash	146.8	140.0	144.2	148.6	153.1	157.9
Depreciation	10.4	10.8	11.2	11.6	12.1	12.6
Amortization	1.9	2.0	2.1	2.1	2.2	2.3
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	37.3	37.7	38.2	38.8	39.3	39.9
Total	184.0	177.8	182.5	187.4	192.5	197.8

The composite projected operating costs are summarized as follows:

Composite

	Projected Operating Cost (RMB/Raw Tonne)					
		ODR				
Category	**PDR**	**2013**	**2014**	**2015**	**2016**	**2017**
Materials/Supplies	27.4	28.4	29.5	30.7	31.9	33.2
Repairs	4.2	4.8	5.0	5.2	5.4	5.6
Power/Fuel	14.5	14.5	15.1	15.7	16.4	17.1
Salary	32.9	34.3	35.7	37.1	38.6	40.1
Welfare	6.0	6.3	6.5	6.8	7.0	7.3
Environmental Recovery Guarantee Fund	5.0	5.0	5.0	5.0	5.0	5.0
Sustainable Development Fund	20.0	23.2	23.2	23.1	23.2	23.3
Development Fund for Mine Transition	10.0	10.0	10.0	10.0	10.0	10.0
Other Expenses	26.8	25.7	26.8	27.7	29.0	30.1
Subtotal – Cash	146.8	152.2	156.8	161.3	166.5	171.7
Depreciation	11.4	12.0	12.5	12.9	13.5	14.1
Amortization	1.7	4.1	4.2	4.4	4.5	4.7
Safety Fund Fee	15.0	15.0	15.0	15.0	15.0	15.0
Production Maintenance Fee	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal – Non-Cash	38.2	41.1	41.6	42.3	43.0	43.7
Total	184.9	193.3	198.4	203.6	209.5	215.5

Operating cost projections include an inflation factor of 4% per year. Our comments on the operating cost projections are as follows:

- Materials/Supplies costs are adequate as projected in the ODRs based on our experience with Chinese mines with similar output levels and operating conditions.

- Power costs, estimated according to calculations reflecting major power usage from equipment and facilities over the course of a typical operating year, appear to reasonably reflect the mine facilities and equipment complement. The power rate factor (power required to produce one tonne of output) has a high fixed component for an established mine infrastructure and equipment complement.

- Workforce salaries and welfare as calculated from the ODR projections at approximately RMB55,000 per year, appear adequate to attract a workforce from the surrounding region. Welfare expense is calculated at 14% of salaries.

- Equipment maintenance (repair) costs are adequate as projected in the PDRs and ODRs for initial mine operation and adequately reflect higher operating costs over time as the equipment ages, according to our experience with similar mines.

- The Environment Recovery Guarantee Fund and Development Fund for Mine Transition are the mandatory cash fees, RMB10/tonne and RMB5/tonne, respectively (the ODRs appear to mistakenly revert the amount applicable to each fund). However, these two funds can be reserved (escrowed) and used by the mine under the supervision of government for specific mine projects.

- The Sustainable Development Fund is collected by the local government and is treated as cash cost. According to Shanxi Provincial Implementation Regulations on Collection and Use of Coal Sustainable Development Fund (Tentative Edition) (issued on March 10, 2007), the fund (RMB20/tonne) references non-tax government revenues paid by coal mining enterprises to the provincial financial department in accordance with regulations. The fund is designed to establish an ecological recovery and compensation mechanism for damage to the environment resulting from coal mining operations. The fund is also intended to provide seed money to assist the province's coal-centered industries in adjusting after the mines are depleted. In March 2011, an escalation of RMB3/tonne to the Sustainable Development Fund is applied and the funds collected from this escalation will be earmarked for supporting the water diversion (from the Yellow River to Shanxi Province) project. The fund is collected on a monthly basis according to the standards for various coal types and authorized mine production capacity adjustments. The amount shown in the ODR of Bolong, RMB30/tonne, is higher than the RMB23/tonne standard.

- The Other Expenses category generally includes other mine-specific general and administrative costs, selling costs, labor benefit-related costs, resource compensation fee, etc. The ODRs did not provide a breakdown for this category. Based on our experience, the projected monies appear adequate, pending a breakdown of cost components. The resource compensation fee is projected at RMB6.8/tonne of raw coal production in the PDRs.

- Safety Fund and Production Maintenance ("Keep Simple Production") fees are considered as non-cash cost accruals (according to GAAP) for income tax calculations, although the monies may be utilized for mine-related projects.

- Depreciation costs are calculated using the straight-line method for fixed assets according to established asset depreciation lives and salvage value estimations.

- The overall projected operating costs appear reasonable. The most recent coal pricing for this region of China indicates a free on board (FOB) mine price for coking coal and fat coal of RMB770 to RMB1,000 per tonne (net of VAT). Based on our review, the SCTSG-EID mines would be profitable and generate significant cash margins at projected sales volume and operating costs.

6.0 ENVIRONMENTAL OVERVIEW

6.1 Introduction

Mining and related activities are inherently disruptive to the environment. The SCTSG-EID mines are underground operations. The location in which the SCTSG-EID mines operate is characterized by hilly areas accounting for over 95% of the surface land. Except for the surface footprint for the mines' facilities for offices, change-rooms, shafts, inclines, coal handling and stockpile areas, etc., the mines have minimal impact on the surface overlying the mines. Adverse impacts are largely related to surface subsidence resulting from LW mining, generation and disposal of coal refuse materials resulting from coal processing (ROM screening), community by-products (e.g., handling of sewage), fugitive dust, and noise pollution.

BOYD personnel visited SCTSG-EID mining right areas in January 2011 and November 2012 and various data related to environmental protection were provided by SCTSG-EID. The focus of BOYD's mine sites field visits were air pollution, waste water, surface subsidence, solid wastes and noise pollution. At time BOYD conducted the site visits, the five mines were undergoing consolidation construction and no mining operations were underway.

6.2 Guidelines of the World Bank

The World Bank's explicit standards regarding environmental protection relating to mining activities are set forth in the Environmental, Health and Safety Guidelines for Mining (EHSM) and Environmental, Health and Safety General Guidelines (EHS). The World Bank guidelines and principles support the view that coal mining activities affect the environment and require that mitigation measures must be taken to protect the environment and reduce the impact of coal mining activities. Responsible environmental management on the part of the mining enterprises includes establishing the policies and practices companies must employ to protect the environment and minimize the impact of mining and related activities. While many PRC environmental regulations are also included in the EHSM, the EHSM guidelines vary in the application of specific guideline requirements. The PRC environmental regulations in some instances specify stricter environmental measures. Based on our site visits, document review, and our experience, we are satisfied that the SCTSG-EID mines recognize the company's environmental responsibilities. The company's control measures and environmental management system are consistent with PRC regulations and generally meet EHSM guidelines, although they may be at variance with specific guidelines.

6.3 Environmental Protection Regulations

The primary domestic environmental protection laws and regulations of the PRC and Shanxi Province that this environmental review considers, include:

- Environmental Protection Law.
- Law on the Prevention and Control of Atmospheric Pollution.
- Law on Prevention and Control of Water.
- Law on Prevention of Solid Waste Environmental Pollution.
- Law on Prevention and Control of Noise Pollution.
- Regulations on the Administration of Project Construction Environmental Protection.
- Environmental Impact Assessment Law.
- Technical Guidelines for Environmental Impact Assessment.
- Technical Policies on Mine Environmental Protection and Control.
- Environmental Protection Standards (HJ446-2008).
- Clean Production Standard for Coal Mining and Preparation Industry.
- Interim Regulations on Coal Industry Environmental Protection.
- The Law of the People's Republic of China on the Coal Industry.

Additional governing environmental plans, regulations and guidelines can be found in the following:

- The Eleventh Five-Year Plan for the Development of the Coal Industry (issued by the National Development and Reform Commission on 22 January 2007).

- The Coal Industry Policy (issued by the National Development and Reform Commission in Proclamation No. 80 in 2007).

- The Circular on Strengthening the General Planning of Coal Mining Areas and the Environmental Impact Assessment of Coal Mine Construction Items (issued by the State Environmental Protection Administration in File HB No.129 [2006] on 6 November 2006).

- The Circular of the General Office of the State Council on Advancing the Opinions of the Ministry of Land and Resources and Other Departments on Integrating Mineral Resources (issued by the General Office of the State Council in File GBF No.108 [2006] on 31 December 2006).

- The Circular of the State Council on Rectification and Standardization of Development Order of Mineral Resources in a Comprehensive Way (issued by the State Council in File GF No.28 [2005] on 18 August 2005).

- The Approval of the National Development and Reform Commission on Large Coal Production Base Construction (issued by the National Development and Reform Commission in File FGN N0.352 [2006] on 2 March 2006).

- The Circular on Printing and Distributing the Guiding Opinions on Expediting Structural Adjustment of the Coal Industry to Deal With Surplus Production Capacity (jointly by seven ministries and commissions of the National Development and Reform Commission, the State Environmental Protection Administration, etc, in File FGYX No.593 [2006] on 10 April 2006).

- The Technical Policy on Mine Ecological Environmental Protection and Pollution Control (issued by three ministries and commission of the State Environmental Protection Administration, etc, in File HF No.109 [2005] on 7 September 2005).

- Several Opinions of the State Council on Promoting the Healthy Development of the Coal Industry (issued in File GF No.18 [2005] on 7 June 2005).

- The Circular of the National Development and Reform Commission on Problems Relating to Strengthening of Coal Industry Basic Construction Items (issued in File FGN No.2605 [2005] on 8 December 2005).

- The Opinions on Energy Saving and Emission Reduction in Coal Industry (issued in File FGN No.1456 [2007] on 3 July 2007).

The principal environmental protection laws and rules of Shanxi Province, as they relate to mining operations, pertain to the following areas:

- The Regulations of Shanxi Province on Environmental Protection (Revised Edition, issued on 30 July 1997).

- The Regulations of Shanxi Province on Withdraw and Use of Guarantee Deposit for Environmental Rehabilitation and Treatment (Tentative Edition) (issued in File JZF No.41 [2007] on 15 July 2007).

- Shanxi Provincial Implementation Regulations on Collection and Use of Coal Sustainable Development Fund (Tentative Edition) (issued on 10 March 2007).

- Shanxi Provincial Regulations on Assessment of Environmental Behavior of Enterprises (issued on 2 January 2008).

- Shanxi Provincial Standards for Rating Environmental Behavior of Enterprises (issued on 15 April 2009).

Environmental impact assessments were being conducted in the SCTSG-EID mines prior to the commencement of construction at each mine to meet the requirements of the Environmental Impact Assessment Law, and environmental protection is an integral part of the mine preliminary design. Environmental protection acceptance reviews will be conducted prior to the commissioning of mine operations.

6.4 Environmental Management

According to the environmental protection regulations, environmental protection management organizations need to be established with specially assigned personnel from the mine management teams, tasked with the responsibility of enacting necessary environmental protection policies and environmental management systems for the mines. SCTSG-EID plans to enact the environmental protection management approach, the Implementation Plan for Mining Area Comprehensive Environmental Treatment, as well as the environmental protection systems relating to pollution prevention, surface subsidence remediation, environmental facilities management, and soil and water conservation.

Primary responsibilities of the environmental organization are as follows:

- Supervising and reviewing the implementation of laws and regulations relating to environmental protection as well as environmental standards.

- Organizing the departments to review long-term and annual plans regarding environmental protection related to the mines and supervising and monitoring subsequent implementation.

- Understanding the treatment of environmental pollution related to the mines and developing corresponding rectification measures.

- Conducting planning and management of environmental protection in the mining areas, determining areas of responsibility and assigning personnel to their responsibilities, implementing environmental protection measures, executing cleaner production systems, creating a pleasant surface environment and developing a favorable enterprise image.

- Implementing the mine director responsibility system pertaining to environmental protection. The related departments are required to maintain close coordination for implementation.

- Organizing reviews of environmental protection in the mining areas and prepare an annual summary of environmental protection.

It is BOYD's opinion that once the environmental organizations are established at the mines, detailed environmental monitoring and reporting programs should be developed and performed on a routine basis.

6.5 Surface Subsidence

LW mining is the principal method of coal extraction used throughout the Chinese coal industry and in the SCTSG-EID mines. Underground mining activities are mainly manifested by the following: surface subsidence, landscape impacts, and ground water resource degradation. Surface subsidence occurs when the extent of coal seam extraction is sufficient to produce failure of the overlying strata extending to the surface. Strata failures often produce cracks and depressions on the overlying surface.

SCTSG-EID has implemented a surface subsidence prevention and treatment plan as follows for its mines:

- Following the requirements of environmental impact assessment, land reclamation, ecological restoration, and soil and water conservation are conducted.

- Surface protection sites, such as villages, roads, and industrial sites, are protected by maintaining protection pillars in the underground workings. Villages situated in the mine plan areas will be relocated prior to LW mining to areas not affected by mining activities. Budgets for village moves have been developed.

- Surface cracks are remediated to reduce rainwater and soil erosion, and prevent permeation of surface water. Based on width, relatively small cracks are plowed and leveled to restore the original landscape; relatively large cracks are filled and leveled to restore the original landscape. After the mining-induced impacts stabilize, crops, and surface vegetation are planted.

- Relatively steep slopes with gradients of more than 45 degrees are prone to collapse or sliding due to mining activities. During the mining activities, water drainage ditches are constructed along the edges of potential land or slope slides to minimize the impact of rainfall on the land or slope slides preventing the loss of soil and the occurrence of land or slope sliding. After the mining impacts stabilize, slope protection works should be constructed around landslides, with slope slide prevention engineering conducted as well. Comprehensive treatment measures taken consist mainly of vegetation slope protection and secondly of engineering slope protection.

- On previously disturbed farmlands, land reclamation or afforestation should be conducted based on the degree of disturbance and in compliance with relevant regulations.

6.6 Soil and Water Conservation

In accordance with the PRC Soil and Water Conservation Law, effective methods are planned to avoid, or to minimize, the loss of soil and water. Examples include construction of cinder dams in refuse disposal sites and retaining walls in steep slope areas, land reclamation of surface depressions, design and management of disposal sites whose reclamations (backfilling and cultivation) are planned after mine closure, etc.

Treatment measures adopted by the mines for soil and water conservation are essentially alike and are summarized as follows:

- Consolidation of Soil and Water Conservation during Construction: Disturbance of farming lands and vegetation is minimized during construction to control the loss of water and soil.

- Site Landscaping: In order to minimize disturbance due to fugitive dust and noise from the mine site, trees and shrubs are planted along the border between the mine construction site and villages. To achieve better working environments for employees, landscaping projects are conducted within and around the mining area.

- Treatment of Mining Impacts: For land, farmlands, and vegetation disturbed due to the impacts of mining activities, land reclamation planning is conducted based upon the sequence of mining districts and in compliance with related requirements of the Regulations on Land Reclamation and the Law of The People's Republic of China on Soil and Water Conservation. Land reclamation expenses are increased to encourage land users to conduct the reclamation, with the support and coordination of the township authorities. Refuse material generated from the mines is used as fill material for reclamation projects.

6.7 Solid Waste Disposal

Solid wastes generated during mine operation include waste rock from both underground development and surface coal handling, residue from boilers, solids from sewage processing, and domestic garbage. Our site observations indicate solid waste disposal plans at the SCTSG-EID mines are in accordance with international practice standards. Refuse discharge quantities are not large on a company basis and operations' disposal plans are similar. Typically, the refuse generated during mining and screening are disposed of in the surface refuse disposal sites. On occasion, a portion of the refuse material is used in site construction and road building. Refuse material in the designated disposal sites is compacted and covered with loess until the designated land reclamation height is attained.

6.8 Water Pollution Prevention and Control

Mine Water Treatment and Utilization: Mine water treatment facilities are planned at the coal mines utilizing flocculation, sedimentation, and filtration for treatment of mine water. The treated mine water is re-used for underground spray water purposes, mine firefighting, and afforestation/re-vegetation. For most of the coal mines, virtually all of the mine water is fully reutilized.

Domestic Sewage Treatment and Utilization: Domestic sewage treatment facilities are planned at the mine sites. The Bolong and the Fuchang mines employ integrated secondary biological treatment equipment; the other mines use the technique of secondary biological landfill disposal. Treated domestic sewages conform to the requirements of the Integrated Wastewater Discharge Standard and related discharge standards, and are mainly used in afforestation/re-vegetation.

6.9 Air Pollution Control

The SCTSG-EID mines are located in small towns or residential settlements and it is common for the Chinese coal industry to develop the areas around the mines for accommodations support services and amenities for mine personnel. Due to the geological characteristics of the area, local residential quarters are scattered in distribution with towns or residential quarters maintaining their own boilers for centralized heating. Emissions from the coal-fired boilers and fugitive dust generated during coal processing, handling, and transportation constitute the main sources of air pollution. Local authorities require implementation of the following environmental protection measures for air pollution control:

- Boilers and hot-blast stoves utilized in the mines should be equipped with de-dusting and de-sulphurization devices.

- Wind-prevention and dust suppression meshes should be erected.

- Stoves employed in the mines should equipped with multi-tube dust collectors.

Once the SCTSG-EID mines are in operation, air pollution control measures should be adjusted based on the actual air quality monitoring results to meet environmental protection requirements.

6.10 Noise Abatement

The main noise pollution sources in the coal mines are: fan rooms, boiler fan blowers, crushers, and vibrating screens, with the equipment noise levels generally ranging from 90 to 100 decibels (dB). The mine designs have adopted noise reduction measures pertinent to the above-mentioned equipment, according to the requirements in the environmental impact statements. Operations and equipment that tend to generate comparatively higher decibels of noise are located at some distance from office complexes and living areas.

6.11 Land Reclamation and Environmental Liabilities

According to environmental protection laws and regulations, mine operators are obligated to perform in environmental remediation, rehabilitation, removal of mine facilities to be abandoned after mine closure, and land reclamation (including equipment purchase). SCTSG-EID reported that Land Reclamation Plans for the five mines have been reviewed and approved by the Land and Resources Bureau of Shanxi Province in 2011. An estimated budget totaling RMB85.3 million for the five mines was planned, which appears reasonable for land reclamation and environmental liabilities, and is spread over the whole mine service life periods till mine closure. This amount is not included in the projected Capital Expenditures as shown in Chapter 5 of this CPR.

6.12 Capital Expenditures for Environmental Protection

SCTSG-EID recognizes its environmental responsibilities and is actively adopting environmental protection measures. A breakdown of planned environmental protection expenditures by mine is as follows:

	Projected Capital Expenditures, (RMB – millions)					
Category	**Bolong**	**Fuchang**	**Jinxin**	**Liaoyuan**	**Xinfeng**	**Total**
Underground Water Processing Station	1.71	1.03	0.34	0.56	0.69	4.34
Domestic Sewage Disposal Station	0.65	0.62	0.16	0.20	0.43	2.07
Refuse and Garbage Disposal Yard	0.94	0.70	0.13	0.16	0.18	2.11
Greening	0.72	0.35	0.07	0.09	0.13	1.34
Noise Abatement	0.24	0.13	0.03	0.03	0.06	0.49
Smoke Treatment	0.28	0.13	0.06	0.05	0.15	0.67
Coal Dust Treatment	1.23	1.36	0.07	0.29	0.33	3.27
Dust Suppress and Water Spray at Surface Sites	13.04	4.22	0.62	0.95	1.04	19.88
Total	18.82	8.55	1.48	2.34	3.00	34.18

Projected capital expenditures RMB34.18 million account for approximately 3.4% of the total consolidation capital budget (RMB991.75 million) for the five mines, which in our opinion, is within the typical range for such mine projects.

6.13 Environmental Report Filing

SCTSG-EID reported that in order to follow the environmental protection regulations, the company is in the process of preparing the following reports which will be filed as required once completed:

- Environmental Impact Assessment (EIA) Report.
- Water and Soil Conservation Plan.
- Land Reclamation Plan.
- Mine Ecological Environment Recovery and Management Plan.
- Application for Discharge of Pollutants.
- Mine Geological Environment Protection and Management Plan.

As of BOYD's site visit in November 2012, the Environmental Impact Assessment Report for Jinxin Mine has been reviewed and approved by the provincial authorities. Revisions to EIAs related to the other four mines (based on government review opinions) have been completed and are pending final approvals.

6.14 Conclusions

Environmental protection plans of the SCTSG-EID operations are in compliance with relevant PRC and Shanxi Province laws and regulations. SCTSG-EID has made diligent efforts to incorporate responsible environmental protection policies and practices into the mine designs. The planned capital expenditures for environmental protection appear reasonable. Since most of the reports related to environmental protection are under preparation, BOYD's opinion is subject to our future review of these documents once they are completed to further assess the environmental protection aspects of the mine consolidation projects.

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 a 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:

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

7.2 General Assessment

BOYD has reviewed the SCTSG-EID mine plans for 2012 to 2017 and believes the designed output rates are attainable. However, there is a moderate risk that forecasted growth in output may not be reached in the time frame projected. It is not uncommon for new mine projects to be delayed for a multitude of reasons.

As a result of our independent assessment of the mining operations as a whole, BOYD concludes the target mines are low to medium in overall risk for the following reasons:

- Risk is mitigated by the diversity of production sources; while production may be temporarily interrupted at one mine, the impact on total company performance is minor.
- All the five mining right areas are under consolidation construction, which increases the potential of exposure to start-up delays and issues.

- While faulting is known to occur in some of SCTSG-EID's mining areas, it is recognized in mine plans and assigned productivity levels. The overall ranking of the geologic setting of SCTSG-EID coal areas is moderate (i.e., not geologically complex).

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

- The SCTSG-EID mining right areas are located in established coalfields where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.

- As a company, SCTSG-EID 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, which all underground coal mine operators experience, BOYD has not identified any extraordinary known risk issues related to the future operation of the SCTSG-EID mines 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 SCTSG-EID).

- SCTSG-EID mines generally produce coals with various level of sulphur content, classified principally as FM and JM according to the Chinese coal classification system, which are highly needed by the coking industry. 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 SCTSG-EID mines.

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

7.3 Geologic Risk

7.3.1 General Geologic Risk

The SCTSG-EID portfolio of mining properties includes five mines under construction, with all mines located in an established producing coalfield: the Xishan Coalfield. On a global basis, the geologic setting of the coal deposits controlled by SCTSG-EID are judged to be moderate (i.e., not geologically complex). All areas projected to be mined during the seven-year risk assessment period are well defined by exploratory drilling and/or mining experience.

7.3.2 Unforeseen Geologic Anomalies

Unforeseen geological anomalies that extend over large areas could disrupt underground 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 perhaps years) 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. SCTSG-EID mining right areas, particularly areas to be mined within the seven-year risk assessment period, are reasonably defined by both drilling and mining experience. This minimizes the risk of unforeseen geologic anomalies.

SCTSG-EID's mining right areas are subject to fault occurrences of varying displacements, which are the principal source of geologic anomalies affecting mining. In mining thus far, prehistoric burn areas have been prevalent but reasonably delineated by existing exploration. SCTSG-EID mines have not experienced significant sandstone channel features. Routine exploration and reconnaissance using drilling, geophysical logging, and seismic surveying methods is successful in identifying larger displace faults, but only partially successful in defining minor displacement faults in advance of mining. In SCTSG-EID's favor is that significant faulting patterns can be traced from seam to seam, allowing known faults in one seam to be incorporated into mine plans for underlying seams long in advance of actual operations. 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.

Risk Assessment

Severity:	Moderate
Probability:	Unlikely to Possible
Overall:	Low

7.4 Reserves

The estimated Marketable Reserves of SCTSG-EID are 43.4 Mt in total, and most of the mines have a relatively short remaining mine life (all less than 20 years and three less than 10 years).

Mine	Estimated Marketable Reserves (Mt) (as of 30 September 2012)	Design Capacity (Mtpa)	Estimated* Remaining Mine Life (years)
Bolong	20.5	1.20	17
Fuchang	5.2	0.60	9
Jinxin	3.4	0.45	7
Liaoyuan	7.4	0.60	12
Xinfeng	6.9	0.90	8
Total	43.4	3.75	

* SCTSG-EID mine lives are estimated from recoverable reserves.

Risk Assessment

Severity: Moderate (Minor – Major)
Probability: Possible
Overall: Medium

7.5 Operational Risks – Naturally Occurring Events

7.5.1 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 or trains to dispatch coal to market, etc.).

7.5.2 Earthquakes

Available geologic background data report the general location of the SCTSG-EID mining right areas is not known to be highly seismic active and there is little history of serious earthquake activity.

Risk Assessment

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

Severity:	Minor to Major
Probability:	Unlikely
Overall:	Low

7.6 Operational Production Risks

There are two primary types of operational risks associated with underground coal mining: production and event.

7.6.1 Routine Operational Risks

The most common routine operational risks are as follows:

- Roof control issues and roof falls.
- Poor mining conditions (poor roof, floor, ribs).
- Water accumulations/soft floor conditions.
- Ventilation disruptions and concentrations of methane gas.
- 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 SCTSG-EID'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.

The reader should be cautioned that forward mine planning does not use productivity parameters and cost experience (including routine interruptions to the mining process), which can only be gained with experience.

Risk Assessment

Severity:	Moderate
Probability:	Possible
Overall:	Medium

7.6.2 Longwall Subsidence

SCTSG-EID mining operations utilize LW mining practices which by their design cause subsidence of the overlying strata. The damage caused by LW subsidence is an issue in many countries and regions where LW mining techniques are utilized, and mining companies are sometimes restricted as to where LW mining operations can be performed. Generally, the surface lands above the LW mines are devoid of densely populated residential areas, or large commercial or industrial structures. Consequently, undermining of structures is not a significant issue in the case of SCTSG-EID, and the company is in the position of remediating damages to the occasional structure that may be undermined. Minor surface drainages are likewise undermined after measures are taken to either relocate the course of the drainage or lining for the stream floor. In our view, SCTSG-EID is essentially unrestricted in its LW planning except for the aquifer zones, which, when and where present, require special planning.

Proper mine design and planning can either avoid or minimize the damages from subsidence in protected surface areas. While subsidence is a by-product of LW mining, it can be controlled and mitigation actions taken by the mine operator to remediate surface damages.

Risk Assessment

Severity:	Minor to Moderate
Probability:	Possible
Overall:	Low

7.7 Event Risks

The second type of risk is categorized as event risk. Items in this category are rare, but significant occurrences that are confined to an individual mine and ultimately have a pronounced impact on production activities and corresponding financial outcomes for that mine. Following such events, all mines are subject to increased inspection/examinations and subsequent penalties and/or actions imposed by the PRC regulatory authorities. Examples of production-related event risks are:

- Major underground fires.
- Explosions.
- Flooding of the Underground Workings.

Operations Risks – Naturally Occurring Events (Section 7.5) also fall into the "event risk" category.

7.7.1 Major Underground Fires

The potential for major underground fires is significant in any underground coal mining operation due to the combustible nature of the material being mined and the industrial setting with machinery using combustible diesel fuel and lubrications. Fires generally occur from explosions (see below), equipment fires, belt conveyor system fires, or spontaneous combustion. Equipment fires rarely result in major mine fires due to on-board extinguisher systems and in-mine firefighting gear. A major event due to an out-of-control equipment fire is a potential but small risk.

Belt conveyor fires pose a higher order risk due to their extended and generally untended expanse. Belt conveyors by definition have moving parts which can be prone to friction. Monitoring systems and effective belt patrol and maintenance programs are critical to avoiding major events. These practices also result in improved belt availability and performance. Because of the potential for fires, belt conveyors are monitored for products of combustion and potential event-prone areas such as transfer points have water spray installations designed to engage if a high temperature is detected. Generally these measures are adequate to avoid belt fires, but the potential is always present if the systems are not managed properly.

The last major source of mine fires is spontaneous combustion, which is a common occurrence throughout the world mining industry. Spontaneous combustion typically occurs in areas that are not well-ventilated, where the combination of self-heating and oxygen is adequate to support a sustained heating until a fire breaks out. In well ventilated areas, the heat is carried away; in tightly sealed areas the oxygen supply does not support sustained combustion. LW gob areas are especially susceptible to spontaneous combustion incidents. If not controlled, the combustion can inflame the surrounding workings and also ignite methane, if present.

Most of the coal seams in the SCTSG-EID mines are rated as having potential for spontaneous combustion. This is well-recognized by the company and mine plans take this into account. Proper sealing of gob areas and appropriate ventilation designs may reduce the oxidation process and prevent spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection and mud injection, are planned by SCTSG-EID. Eliminating gob ventilation also serves to minimize the potential for gob fires due to spontaneous combustion.

The potential for spontaneous combustion incidents will remain a significant risk issue for SCTSG-EID, but operating experience to date indicates that present practices are effective.

Risk Assessment

Severity:	Minor to Major (depending on mine)
Probability:	Possible
Overall:	Medium

7.7.2 Explosions

Coal mine explosions typically are initiated by methane ignitions followed by coal dust explosions. Coal dust itself does not typically ignite, although under certain conditions it is possible. The coals mined by SCTSG-EID mines are generally rated as explosive in a dust form as is the case for nearly all coals in the world. The key to preventing explosions is the prevention of methane ignitions. In this regard, SCTSG EID is fortunate in that the mines in the principal mining right areas have relatively low in situ methane content.

Methane content typically increases with depth, as mining operations in the principal mining right areas proceed, methane levels are likely to increase. SCTSG-EID mines are expected to take state mandated precautions for avoiding methane ignitions, including:

- Monitoring of airways for potential buildup of methane levels.
- Use of flame-proof enclosures for electrical controls and power-related components.
- Use of methane monitors and automatic de-energizing circuits on LW face equipment.
- Ban of personal smoking materials.
- Routine sealing of areas where mining has been completed.
- Installation of water curtains in the event an ignition occurs.

Ventilation systems are designed to effectively remove methane from the mines at concentrations that are intrinsically safe (less than 1% of atmosphere). SCTSG-EID mines are expected to utilize rock dust as an explosion deterrent.

If diligent practices are pursued, the risk of explosion can be minimized. The occasions of explosions have been relatively rare (although not eliminated) in the advanced international underground coal mining industries. Given present practices, the risk of an explosion is remote in our view.

Risk Assessment:

Severity:	Minor to Major depending on mine
Probability:	Unlikely
Overall:	Low

7.7.3 Floods

Risk from floods occurring in the underground mine workings can take two forms. One possibility is intercepting unmapped flooded workings. These incidents have periodically occurred in every major coal mining country, including the United States. Due to the relatively recent history of mining in the SCTSG-EID operating regions, past mining is relatively well charted and mining activity can leave protective barriers about abandoned mines with confidence. An accidental flooding from uncharted works has a low probability of occurring in the SCTSG-EID mines.

A second risk arises from the potential inflow of groundwater contained in faults and fissures and from surface and ground water entering the mine as a result of LW subsidence. SCTSG-EID is highly cognizant of the potential disruption to mining activities and takes appropriate precautions to avoid significant inrushes of water from these sources. Standard precautions typically include:

- Barriers left adjacent to known high displacement faults.
- Protection barriers maintained under large bodies of surface water and known high volume aquifers.
- Dewatering of aquifers through surface drilling or advance drilling underground if the potential for high water flow is significant.

Due to the concerns evident in discussions with engineering and geologic personnel, we would rate the potential for disruption to mining operations from inrushes of water as minor. Water inflows experienced at the SCTSG-EID mines are typical of the region and are within the capabilities of well-designed pumping stations. The underground mines have sufficient water-handling systems. All mines have designed effective pumping systems with redundant primary sump pumps that control water inflows from the coal seam and overlying/underlying strata.

Risk Assessment

Severity:	Minor to Major
Probability:	Unlikely
Overall:	Low

7.8 External Risk – Regulation

Various levels of government are involved in the promulgation and enforcement of regulations under which the SCTSG-EID mines 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 SCTSG-EID, 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 SCTSG-EID 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 at some mines, 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 SCTSG-EID comply with the PRC and the World Bank's requirements for environmental protection related to coal mining activities.

Coal reserves will decline as mine production continues. The ability of SCTSG-EID to increase or sustain projected output levels over time is heavily dependent on future acquisitions and mine expansions, all of which are subject to PRC government approval and permitting. In the interim, assets 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, tariffs, and the national rail system. To our knowledge, SCTSG-EID plans to pay off an outstanding amount of mining right fee (RMB257.5 million in total) by the end of 2012. In addition, RMB23.96 million has been planned to cover the compensations for moving the villages at the mines.

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

Risk Assessment

Severity:	Minor to Moderate
Probability:	Unlikely
Overall:	Low

7.9 Market Risk

Achieving SCTSG-EID cash flow projections over the seven-year risk assessment period depends on sustaining and expanding coal sales at prices specified in the company's forward business plans.

BOYD has reviewed the mine plans for 2012 to 2017 from the PDRs and ODRs and believes the plans are generally achievable. We have not identified significant geological or mining-related issues during our review that would prevent the SCTSG EID mines from achieving projected raw coal output levels in time. However, there is moderate risk that forecasted growth in output may not be reached in the time frame projected. It is not uncommon for new mine projects and expansions to be delayed for a multitude of reasons.

A substantial 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 SCTSG-EID'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.

There appears to be sufficient markets regionally for the sale of both coke and the middlings coal product. The sustained growth of the Chinese economy is expected to continue over the risk assessment study period.

Risk Assessment

Severity:	Minor to Moderate
Probability:	Unlikely
Overall:	Low

7.10 Summary of BOYD's Risk Assessment (2012 to 2018)

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

The following is the text of a report prepared for the purpose of incorporation in this circular received from Greater China, a competent evaluator, in connection with its valuation as at 30 September 2012 of the fair value of 49% interest in the Coal Mines.

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GLOSSARY& DEFINITIONS

Bolong Mine	One of the coal mines included in the Mineral Assets which has a total marketable reserve of 20.47Mt and design capacity of 1.2Mtpa
CAGR	Compound annual growth rate
Capex	Capital expenditure
Chapter 18	Chapter 18 of the Listing Rules
Company or Commissioning Entity	North Asia Resources Holdings Limited, a company listed on the main board of the SEHK
CPI	Consumer price index
CPR	Competent Person's Report on the mining operation of the Mineral Assets prepared by John T. Boyd Company dated 21 November 2012
DCF	Discounted cash flows method
FOT	Free on Truck, being loaded onto the buyer's truck at seller's cost
Fuchang Mine	One of the coal mines included in the Mineral Assets which has a total marketable reserve of 5.22Mt and design capacity of 0.6Mtpa
Greater China	Greater China Appraisal Limited
GDP	Gross domestic product
Guideline Public Companies	Public companies which have a similar line of business with and comparable to the Target Company
IMF	International Monetary Fund

Indicated Resources	That part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
Inferred Resources	That part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity
Jinxin Mine	One of the coal mines included in the Mineral Assets which has a total marketable reserve of 3.37Mt and design capacity of 0.45Mtpa
JORC Code	The Australasian Code for Reporting of Mineral Resources and Ore Reserves (2004 edition) as published by the Joint Ore Reserves Committee
km	Kilometres
ktpa	Thousand tonnes per annum
Liaoyuan Mine	One of the coal mines included in the Mineral Assets which has a total marketable reserve of 7.44Mt and design capacity of 0.6Mtpa
Listing Rules	The rules governing the listing of securities on the SEHK
Material/Materiality	Means that the contents and conclusions of a report, any contributing assessment, calculation or the like and data and information are of such importance that their inclusion or omission from a valuation may result in a reader reaching a different conclusion than would otherwise be the case
MCAPM	Modified capital asset pricing model

Measured Resources	That part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence
Mineral(s)	Any naturally occurring material found in or on the Earth's crust, that is useful to and/or has a value placed on it by humankind, excluding crude oil, natural gas coal-based methane, tar sands and oil shale which are classified as Petroleum
Mineral Assets	the interest of five coal mines named Bolong Mine, Fuchang Mine, Jinxin Mine, Liaoyuan Mine and Xinfeng Mine which are held by the Target Company
Mt	Million tonnes
Mtpa	Million tonnes per annum
PRC or China	People's Republic of China
Probable Reserve	The economically mineable part of an Indicated, and in some circumstances, a Measured Resource
Proved Reserve	The economically mineable part of a Measured Resource
RMB	Renminbi, the official currency of the PRC
R_d	Cost of debt
R_e	Cost of equity
SEHK	Stock Exchange of Hong Kong Limited
Shanxi Coal	Shanxi Coal Transportation and Sales Group Energy Investment and Development Co. Ltd.
t	Tonne
tph	Tonnes per hour

Target Company	Lexing Holdings Limited
Target Group	Target Company and its subsidiaries
Transparent/Transparency	For the purposes of the VALMIN Code, these qualities must apply to the data and information used as the basis of a "Valuation" or a "Technical Assessment", including the assessment of resources/reserves, mining, processing and marketing issues, the valuation approach adopted and the methodology or methodologies used, all of which must be clearly set out in the report
USD	United States Dollar, the official currency of the United States
VALMIN Code	Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, 2005 Edition
Valuation Date	30 September 2012
WACC	Weighted average cost of capital
Xinfeng Mine	One of the coal mines included in the Mineral Assets which has a total marketable reserve of 6.86Mt and design capacity of 0.9Mtpa
Xishan Coalfield	A coalfield located around the town of Gujiao City in Shanxi Province, the PRC

25 March 2013

The Board of Directors
North Asia Resources Holdings Limited
Units 2001-2, 20th Floor
Li Po Chun Chambers
189 Des Voeux Road
Central, Hong Kong

RE: VALUATION OF FIVE COAL MINES HELD BY LEXING HOLDINGS LIMITED

Dear Sirs/Madams,

At your request, Greater China Appraisal Limited ("Greater China") was engaged to assist you in the valuation analysis pertaining to the Fair Market Value of the interest of five coal mines named Bolong Mine, Fuchang Mine, Jinxin Mine, Liaoyuan Mine and Xinfeng Mine (the "Mineral Assets"), which are indirectly held by Lexing Holdings Limited (the "Target Company"), and 100% equity interest in the Target Company as at 30 September 2012 (the "Valuation Date").

It is our understanding that our analysis will be used by the management of North Asia Resources Holdings Limited (the "Company" or the "Commissioning Entity") solely for a proposed acquisition only, details of which are set out in the circular dated 25 March 2013 issued by the Company to the shareholders, of which this valuation report forms part. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes without our express written consent.

This report describes the basis of valuation, valuation methodologies considered and applied, our analysis, limiting conditions and presents our opinion of value. This report is prepared in accordance with Chapter 18 ("Chapter 18") of the Listing Rules of the Stock Exchange of Hong Kong Limited ("SEHK"), and is in conformance with the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the "VALMIN Code"), 2005 Edition, 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.

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.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Mineral Assets Valued	The interest of five coal mines named Bolong Mine, Fuchang Mine, Jinxin Mine, Liaoyuan Mine and Xinfeng Mine which are indirectly held by ther Target Company through its subsidiary named Shanxi Coal Transportation and Sales Group Energy Investment and Development Co. Ltd. ("Shanxi Coal").
Mineral Assets Owner and Operator	Shanxi Coal
Mineral Assets Locations	Approximately between 7 kilometres ("km") and 15 km west of Gujiao City in Shanxi Province, the PRC
Current Status of the Mineral Assets	Undergoing technical enhancement and development. Operation is on hold and the production is projected to commence in 2013.
Other Valuation Subject	100% equity interest in the Target Company
Valuation Date	30 September 2012
Reporting Date	25 March 2013
Value Conclusion	Preferred value of the Mineral Assets: RMB5,541,000,000 Preferred value of 100% equity interest in the Target Company: RMB4,259,000,000

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 and 100% equity interest in the Target Company as at the Valuation Date for the proposed acquisition.

Intended users of this valuation report are the management of the Company, the Company's auditors, the SEHK, the Company's investors and potential investors. Many of these readers will not necessarily have a strong knowledge of the mining industry and relevant terminologies.

SCOPE OF VALUATION

The valuations of the Mineral Assets and 100% equity interest in the Target Company are on Fair Market Value basis in compliance with the VALMIN Code. This report has been written in a narrative form designed for a wide range of readers who have no experience in the coal mining industry.

The Fair Market Value estimates developed in this report, and the underlying projections and calculations developed to derive and support the estimate, are dependent on opinions and analysis of the valuer. Reliance on this valuation is at the readers' own risk. This valuation report should not be used to replace any due diligence work. The liability of Greater China is limited to that contained in the contractual agreement with the Company.

BASIS OF VALUATION

For the purpose of this valuation, we adopted Chapter 18 and the VALMIN Code.

Major exploration and mining countries in the world (notably Australia, Canada and South Africa) have established codes for the evaluation of mineral properties in addition to their codes for defining Mineral Reserves and Mineral Resources. The following are codes allowed to use under Chapter 18.

TABLE 1 – Codes accepted under Chapter 18

Country	Code	Subject	Date	Status
Canada	NI43-101	MRMR	2005	Final
	CIMVAL	Valuation	2003	Final
Australia	**JORC**	**MRMR**	**2004**	**Final**
	VALMIN	**Valuation**	**2005**	**Final**
South Africa	SAMREC	MRMR	2007	Final
	SAMVAL	Valuation	2009	Final

MRMR = Mineral Resources and Mineral Reserves

According to the VALMIN Code, the Fair Market Value of mineral assets is defined as:

"the amount of money (or the cash equivalent of some other consideration) 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".

According to the VALMIN Code, mineral assets can be defined as:

"all property including but not limited to real property, intellectual property, mining and exploration tenements held or acquired in connection with the exploration of, the development of and the production from those tenements together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of minerals in connection with those tenements."

According to the VALMIN Code, value should be selected as the most likely figure from within a range after taking account of risk and the possible variation in ore grade, metallurgical recovery, capital and operating costs, commodity prices, exchange rates and the like.

PREMISES OF VALUE

Premises of value relate to the concept of valuing a subject in the manner which would generate the greatest return to the owner of the asset, taking into account what is physically possible, financially feasible and legally permissible, although this report does not constitute a legal advice. Premises of value include the following:

– **Going concern:** appropriate when the business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;

– **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;

– **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation; and

– **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of the entire business itself.

The valuations of the Mineral Assets and 100% equity interest in the Target Company are prepared on a going concern basis.

VALUATION DATE

The Valuation Date is as at 30 September 2012 and this valuation report is issued on 25 March 2013.

THE COMMISSIONING ENTITY

The Commissioning Entity is a limited liabilities company incorporated in Bermuda with offices at Units 2001-2, 20th Floor, Li Po Chun Chambers, 189 Des Voeux Road, Central, Hong Kong.

The Commissioning Entity has advised that it has made reasonable enquiries in order to establish that Greater China and its advisor is competent in the fields in which they were required to work under this assignment, and are experienced in the type of Mineral Assets required to be valued.

The Commissioning Entity has advised Greater China and its advisor that some of the information made available for the purposes of the assignment is confidential, and appropriate confidentiality undertakings have been put in place. It has also provided a warranty in writing that all relevant technical or other project information has been provided to Greater China and its advisor, and that, to the best of its knowledge and belief; it is complete, true and accurate in every respect.

STATEMENT OF COMPLIANCE

The evaluations have been prepared in accordance with Chapter 18 and the VALMIN Code and are, to the best of our knowledge, compliant with these codes. This statement is made in accordance with a requirement under these codes.

STATEMENT OF COMPETENCE

Within the terms of Chapter 18 18.21 – 18.22 and the VALMIN Code, our consultant Mr. George Edwards is regarded as Competent Person, which means that he possesses relevant education, qualifications, experience and professional expertise so as to have a reputation that gives authority to statements made in relation to these valuation matters.

For this particular exercise, our consultant Mr. George Edwards is also regarded as Competent Evaluator which fulfil the requirement under Chapter 18 18.23.

– Mr. George Edwards has more than ten years relevant and recent general mining experience;

– Mr. George Edwards has at least five years relevant and recent experience in the assessment and valuation of mineral assets or securities; and

– Mr. George Edwards holds all the necessary licenses.

For this particular exercise, Mr. Ferry Choy and Mr. Kenneth Ng are the team members of this valuation project. Both of them have substantial experience in business valuation covered a wide range of different industry sectors including mining, infrastructure, manufacturing and information technology.

In this valuation, Mr. Kenneth Ng developed the financial model and conducted analysis under the guidelines and supervisions of Mr. Ferry Choy and the Competent Evaluator. Mr. Ferry Choy is the project manager of this valuation project. He is responsible for over-viewing this valuation project and compiling the valuation report under the guidelines and supervisions of the Competent Evaluator.

A statement of their respective qualifications are appended as Appendix A.

STATEMENT OF INDEPENDENCE

Both Greater China and its consultant state that they are Independent of the Commissioning Entity. Independence means in this context that Greater China and its advisor are able to satisfy any relevant legal tests of independence and are, and may be perceived to be, willing and able to undertake an impartial assessment and valuation and to prepare a valuation report that is free of bias.

To this end, Greater China and its consultant warrant that they do not have any pecuniary or beneficial interest in:

– The Commissioning Entity;

– The offerer or target companies in the case of the sale of assets of the Commissioning Entity;

– The Target Company;

– The Mineral Assets that is the subject of the valuation; and

– The outcome of the valuation.

SOURCES OF INFORMATION

Our analysis and conclusions of value on the Mineral Assets and 100% equity interest in the Target Company were based on our discussions with the management of the Target Company and the Company, as well as our review of key transaction documents and records, including:

– Competent Person's Report (the "CPR") on the mining operation of the Mineral Assets prepared by John T. Boyd Company dated 21 November 2012;

– Announcements made by the Company in relation to its acquisition of the entire issued shares of the Target Company dated 8 October 2012, 29 November 2012 and 14 December 2012;

– Corporate structure chart of the Target Company as at the Valuation Date;

– Consolidated audited financial statements of the Target Company for the year ended 31 December 2011; and

– Consolidated management account of the Target Company as at the Valuation Date.

In completing the valuations, we have relied heavily on the CPR, which was prepared independently and in accordance with the JORC and the VALMIN Codes. The CPR was prepared by Mr. Ronald L. Lewis, whom possesses more than ten years of experience in the exploration and mining industries and is qualified as a Competent Person under Chapter 18, and his team.

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

SITE INSPECTION

A site visit to the Mineral Assets was conducted on 17 April 2012, and during the site visit, the following tasks were carried out as part of our analysis process:

– Tour of mining areas, processing plants, administrative offices, and various other auxiliary facilities; and

– Interviews with relevant department managers from different operational and supporting departments.

The visiting team included Mr. Ferry Choy, Mr. Kenneth Ng and Mr. George Edwards.

ECONOMIC OVERVIEW

In conjunction with the preparation of this valuation opinion, we have reviewed and analysed the current national economic condition from where the profits of the mine will be derived, and how the value of the mine may be impacted.

China

Economic Growth

Over the past several years, China's economy increased at a rapid growth rate, averaging about 10% per annum. Affected by the financial crises in the United States and the European Union's on-going debt crisis, the global economy slowed down. The growth of China's GDP was unavoidably affected by the global economic downturn and the tightening of China's monetary measures.

TABLE 2 – Real GDP Annual Growth Rate and Inflation of China from 2008 to 2011

	2008	2009	2010	2011
Real GDP Annual Growth Rate *(%)*	9.6	9.2	10.4	9.2
Inflation *(%)*, Average Consumer Price	6.3	(0.7)	3.3	5.4

Source: National Bureau of Statistics of China, China Statistical Yearbook 2011

Even though there is a slowdown in the China's economic development, China's economy is still considered as one of the world's fastest growing economies. According to the National Bureau of Statistics of China, the country recorded an annual GDP of RMB47,156 billion in 2011, representing a compound annual growth rate ("CAGR") of approximately 16.87% during the period from 2006 to 2011 when compared to the GDP of RMB21,631 billion in 2006.

According to the World Economic Outlook published by International Monetary Fund ("IMF") in April 2012, China has become the second largest economy in the world after the United States. If China sustains its current growth rate, it will become the largest economy (by nominal GDP) perhaps as early as 2020[1].

TABLE 3 – World GDP

	GDP – Billions of the United States Dollar ("USD")						
Country	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**	**2017F**
United States	15,094	15,610	16,221	16,941	17,784	18,705	19,705
China	7,298	7,992	8,777	9,642	10,581	11,599	12,714
Japan	5,869	5,981	6,061	6,208	6,372	6,531	6,696
Germany	3,577	3,479	3,581	3,664	3,741	3,817	3,893
France	2,776	2,712	2,787	2,885	2,984	3,089	3,198
Brazil	2,493	2,450	2,521	2,691	2,872	3,064	3,268

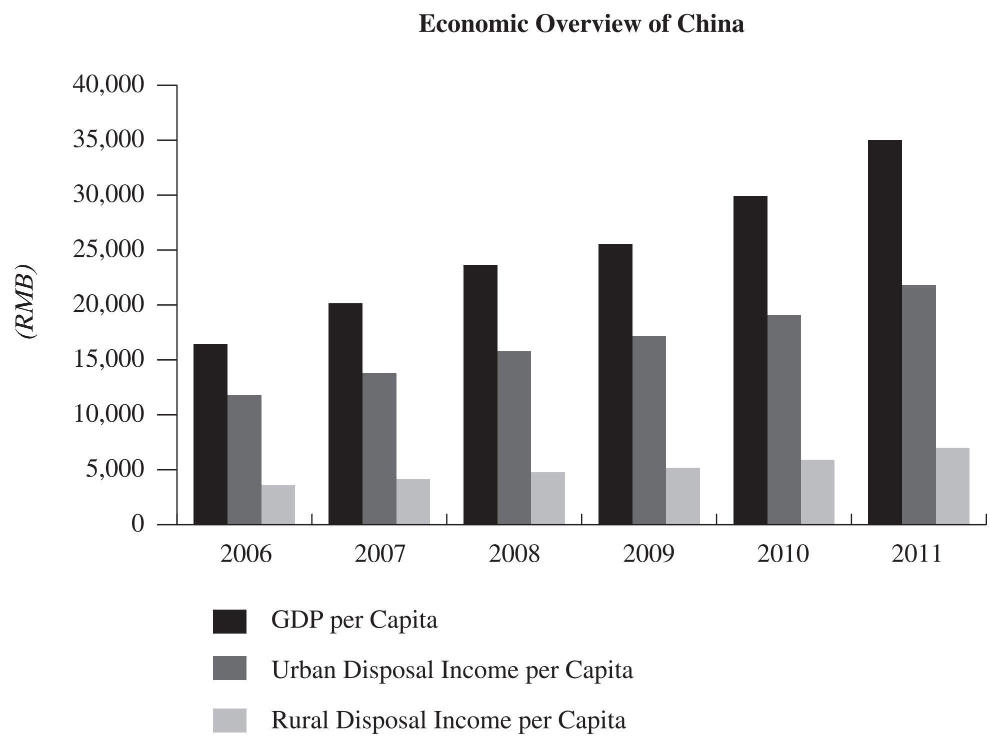
Source: IMF

1 Adam, Shamim (14 November 2010). "China to Exceed U.S. by 2020, Standard Chartered Says". Bloomberg Businessweek

Along with the rapid economic growth, disposable income level has grown significantly over the past few years. According to the National Bureau of Statistics of China, annual disposable income per capita of urban households in China has increased from RMB11,759 in 2006 to RMB21,810 in 2011, representing a CAGR of approximately 13.15%; annual disposable income per capita of rural households has increased from RMB3,587 in 2006 to RMB6,977 in 2011, representing a CAGR of approximately 14.23%.

The following diagram shows the GDP per capita, annual urban and rural disposal income per capita, and household consumption per capita from 2006 to 2011:

FIGURE 1 – Economic Overview of China

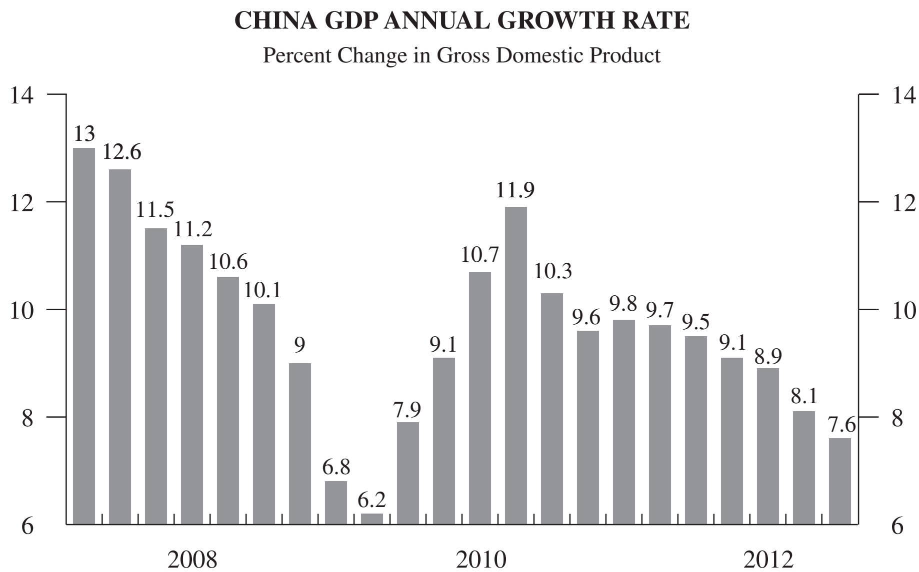


Source: National Bureau of Statistics of China, China Statistical Yearbook 2011

As there are renewed concerns about European Sovereign debt crisis in mid-May to June this year, the momentum of China's economic development has notably slowed down in the mid of 2012.

The following diagram shows the GDP annual growth rate from 2007 to 2Q 2012:

FIGURE 2 – China GDP Annual Growth Rate



Source: www.tradingeconomics.com & National Bureau of Statistics of China

To avoid the hard landing of China's economy and to achieve the target GDP growth rate of 7.5% the Chinese government has adopted a series of monetary policies and fiscal policies to sustain the economic growth. The People's Bank of China has embarked on reductions in the required reserve ratio for banks and recently implemented two interest rate cuts in June and July this year. In addition, gradual easing of credit conditions, targeted spending on some infrastructure projects, tax incentives for consumers to spend on automobiles and appliances, and more lending to small businesses, have also been carried out.

Inflation

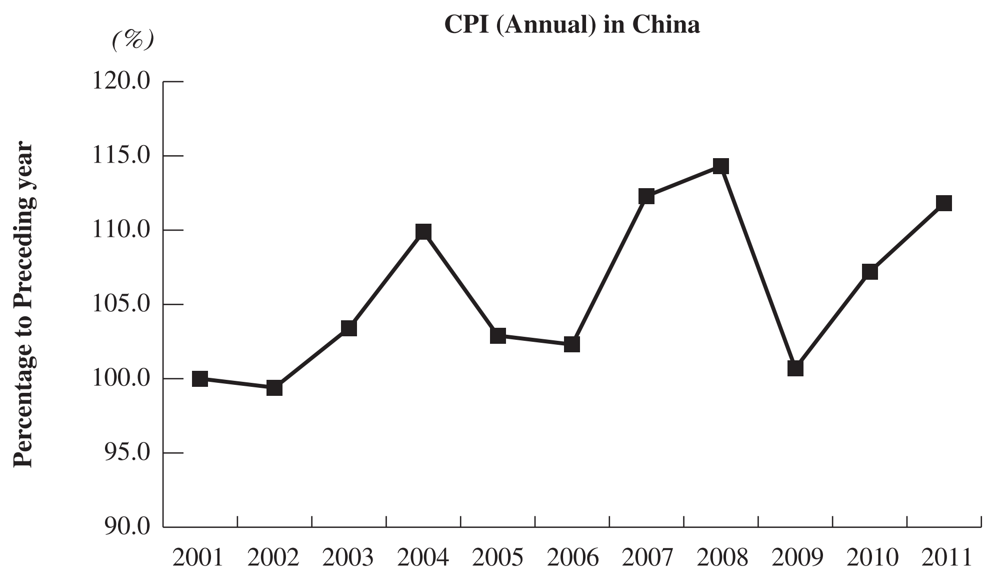
Managing inflation risk has been one of the key missions for China's government from 2010 onwards. However, entering 2012, in view of the slow recovery in United States economy and weakening demand from European market, especially those countries with deep debt troubles, China's economy, as reflected by China's GDP growth rate, can only develop at a pace of less than 8% annually. As such, the pressure of inflation was relieved.

The latest economic data released by National Bureau of Statistics of China also indicated that the inflation rate was reported at 1.9% in September 2012, as compared with 4.1% in the end of 2011. The inflation has been returned to a more acceptable level, which is within the 2012 inflation target of 4% set by Premier Wen Jiabao in the annual parliament meetings in March 2012. Together with the softer food and commodity prices, China's inflation should maintain its declining trend.

According to the China Economic Outlook published by the IMF in April 2012, the average inflation in China is expected to be 3.32% in 2012 and remains at about 3.0% in 2013 and onwards.

The chart below shows the historical CPI-Food trend in China:

FIGURE 3 – CPI-Food Trend in China (Index Value, Preceding Year = 100)



Source: National Bureau of Statistics of China & China Statistical Yearbook 2011

TABLE 4 – Annual Inflation Forecast

	Inflation, Average Consumer Prices *(%)*				
	2012F	**2013F**	**2014F**	**2015F**	**2016F**
World	4.04	3.66	3.44	3.36	3.29
Emerging and developing economies	6.20	5.58	5.07	4.81	4.60
China	3.32	3.04	3.00	3.00	3.00

Source: World Economic Outlook of September 2011 (by country group), IMF

Currency

Due to the slowing of external global economic environments and easing of inflation pressure in China, the currency exchange rate of RMB/USD in 2012 is expected to remain the same as in 2011. For the years of 2013 and 2014, according to the forecast released by Bloomberg on 31 July 2012, it is forecasted that RMB will appreciate against USD by around 2.38% and 0.65% respectively, which are slower than that of 2011, with an appreciation rate of around 5%.

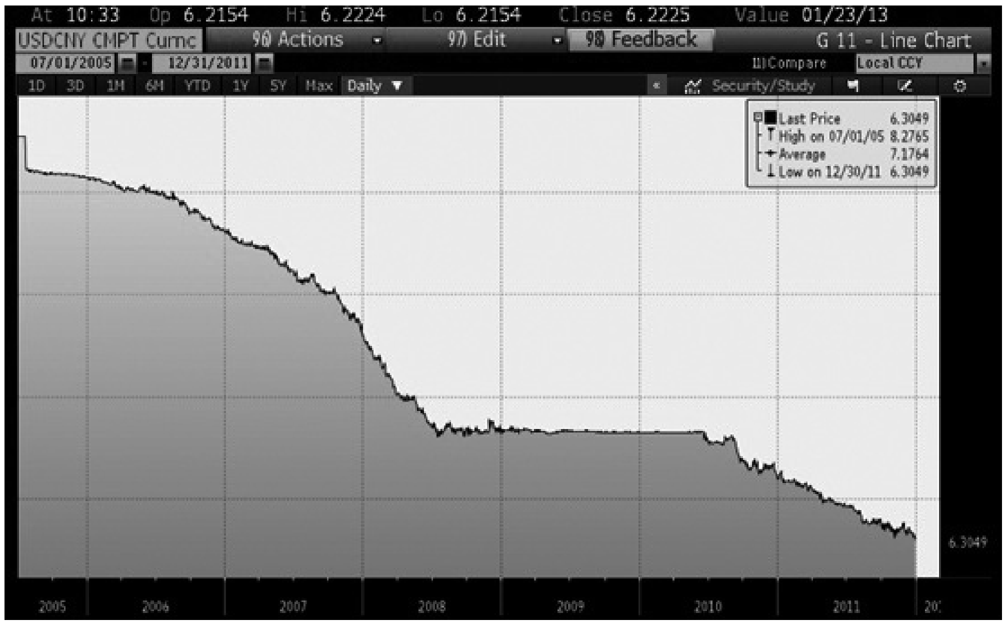
TABLE 5 – The currency exchange rate of RMB/USD forecasts

	2011 Actual	**2012 Forecast**	**2013 Forecast**	**2014 Forecast**
RMB/USD	6.30	6.30	6.15	6.11
Change	5%	0%	2.38%	0.65%

Source: Bloomberg Forecast on 31 July 2012

The following diagram shows the trend in reference to exchange rate of RMB per USD from 2001 to 2011:

FIGURE 4 – Trend in the Reference RMB/USD Exchange Rate



Source: Bloomberg

In the last decade, RMB/USD appreciated continuously, representing a CAGR of approximately 2.68%.

INDUSTRY OVERVIEW

Xishan Coalfield, where the five mines of the Mineral Assets are located, is said to contain the best quality hard coking coals in Shanxi Province and in the PRC. These coals are used by major steel companies such as Baosteel, a listed company in the PRC, and are exported to steel companies such as NKK, a listed company in Japan, and POSCO, a listed company in Korea. This coal was said to be equivalent in quality to the Bowen Basin prime coking export coal in Queensland, Australia.

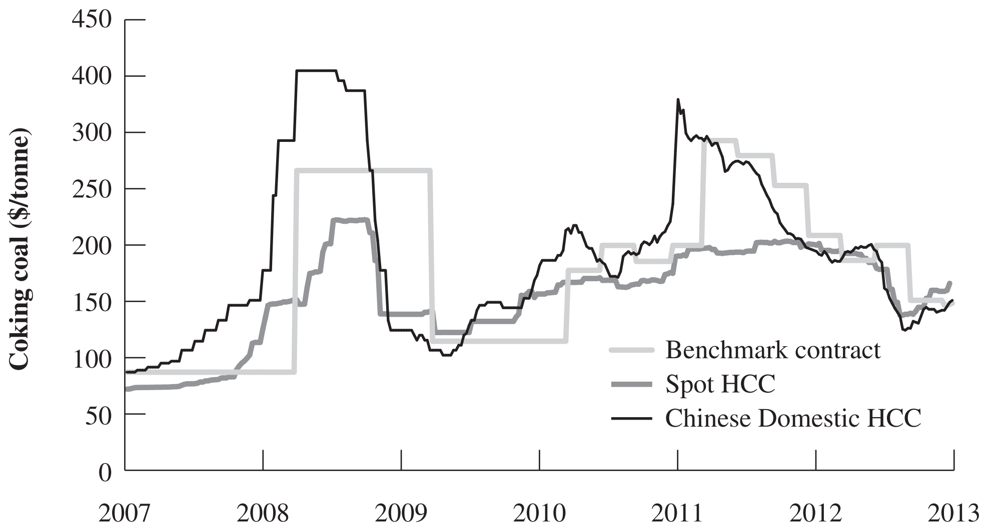
Traditionally, Shanxi coking coals are supplied to the domestic markets and surplus coking coals are exported in significant tonnages. In recent years there has been shortage of Shanxi coking coals and the shortfall of coking coals has been imported from overseas; a few minimal tonnage export contracts are still in place. This indicates that stated confidence in selling whatever can be produced is well founded. Some potential buyers with coal preparation plants, ranging from 1 million tonnes per annum ("Mtpa") to 10Mtpa cleaning capacity, were said to be situated from 2km to 45km from these mines and we were shown a map with their locations and capacities.

Figure 5 shows coking coal prices in China between January 2006 and November 2012 for Shanxi coal and it shows an increasing trend. The management of the Target Company expects this upward trend will continue in the future, but Figure 6 below shows that the current international coking coal prices are trending downwards.

FIGURE 5 – Coking Coal Prices in China

Source: Bloomberg

FIGURE 6 – Coking Coal Prices in China and International Market



Source: Macquarie Commodities Research

COMPANY OVERVIEW

North Asia Resources Holdings Limited (the "Company" or "Commissioning Entity")

The Company, formerly named Green Global Resources Limited, is a mineral exploration and development company currently focused in Mongolia. Its principal business is focused on strategic investments in the mining sectors. The shares of the Company are listed on the main board of the SEHK under the stock code 0061.

Lexing Holdings Company (the "Target Company")

The Target Company is a company incorporated in the British Virgin Island. The Target Company owns a 49% of interest in Shanxi Coal which operates five coal mines in Shanxi Province, the PRC.

Shanxi Coal Transportation and Sales Group Energy Investment and Development Co., Ltd. ("Shanxi Coal")

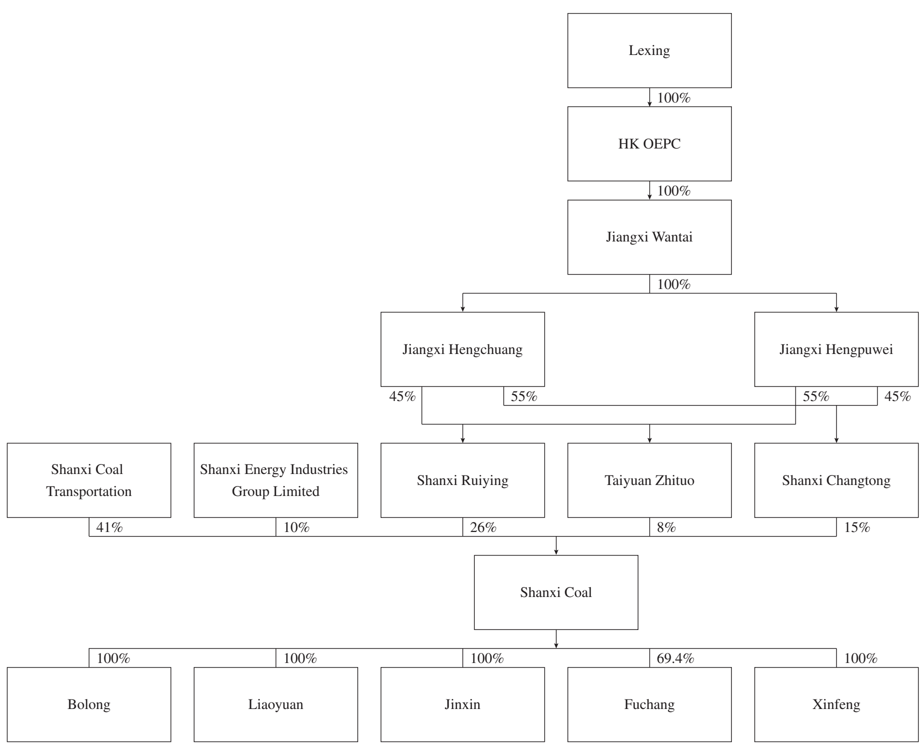
Shanxi Coal is a company established in the PRC and indirectly owned as to 49% by the Target Company. Shanxi Coal has controlling interest of five coal mines named Bolong Mine, Fuchang Mine, Jinxin Mine, Liayuan Mine and Xinfeng Mine in Shanxi Province, the PRC.

The five coal mines were consolidated in 2008 from smaller underground coal mines in compliance with the requirements of the PRC government. The five operating coal mines were under technical enhancement and development as at the Valuation Date.

OWNERSHIP OF THE MINERAL ASSETS

The chart below shows the ownership structure of the Mineral Assets and Target Company as at the Valuation Date.

FIGURE 7 – Ownership of the Mineral Assets as at the Valuation Date



We are confirmed by the management of the Target Company that as at the Valuation Date, the minority equity interest of Fuchang is privately owned by Mr. Wu Fuhai, a Chinese citizen.

BUSINESS OVERVIEW

Coal in this area is normally sold as unwashed raw coal, since customers generally have their own coal preparation plants. Although the coal seams were formed in both the Permian Age (upper seams) and the Carboniferous Age (lower seams), washed coal in this area is reasonably consistent in quality, with 10% total moisture maximum, 10% ash maximum and 1% sulphur maximum (lower seams have higher sulphur levels). Coking properties of the individual seams vary within the Chinese classification categories of Fat Coal, Coking Coal and 1/3 Coking Coal, each of which may be used to make coke. Shanxi Coal Transportation and Sales Group, which owns 41% equity interest in the Target Company, is the second largest coal wholesaler in Shanxi Province, and they produce a major portion of this wholesale tonnage.

The marketing plan is to sell unwashed raw coals, mainly to customers such as Shanxi Xishan Coal & Electric Power Co. Ltd., Shanxi Gujiao China Resources Coal & Chemical Corporation Ltd., Shanxi Gujiao Apollo Coal Industrial Corporation Ltd. and Shanxi Coal Transportation and Sales Group. With reference to an indicative sales contract provided by the management of the Target Company, coals from these five mines were said to have been sold to such buyers in the past.

Qualities of the individual coal seams were confirmed to be as set out in the CPR for raw coals and for washed coals. A visit was made to a typical coal preparation plant and to a coal rail loading and storage facility. Some removal of out of seam dilution material will be achieved at these five mines by screening and hand picking. The CPR and the management of the Target Company also estimate about 50% of such material will be removed by screening and hand picking, based on the past operational experience. Marketable resources were said to be based on such unwashed coal products. Coals from the different mines are planned to be trucked to customers in a haphazard pattern, when they are produced, since the resulting washed coals were said not to have major differences in quality, based on the past operational experience. Seams will be mined from the top seam occurring in each mine down through the sequence of the two to five seams occurring, and to be mined, in each mine.

THE MINERAL ASSETS

The Mineral Assets owned by the Target Company comprise five coal mines named Bolong Mine, Fuchang Mine, Jinxin Mine, Liaoyuan Mine and Xinfeng Mine. Details of each mine are presented as follows:

1. Location, Access and Infrastructure

The five coal mines are located approximately between 7km to 15km west of Gujiao City, Shanxi Province, the PRC. Major roads and railways for coal transportation are available to access all five mines in order to dispatch the coal to market.

2. Property Ownership

The five coal mines were owned by the Target Company as at the Valuation Date. The interest of ownership of the five mines can be referred to in Figure 7 above.

3. Climate and Physiography

Shanxi Province has a relatively high topography with mountains ranging in the southeast blocking off ocean air currents. Therefore, it has a low temperature, less rainfall, large difference in temperature between the day and the night and especially has strong winds and sand storms in the spring time.

4. History of Exploration and Production

The five coal mines comprising the Mineral Assets were consolidated from 11 smaller coal mines in 2008. The table below shows the beginning year of mine development and operations of these smaller mines.

TABLE 6 – Year of Mine Development and Operations

	Bolong Mine	Fuchang Mine	Jinxin Mine	Liaoyuan Mine	Xinfeng Mine
Number of small mines before consolidation	4	2	2	2	1
Beginning of Mine Development*	1987	1983	1994	1986	1991
Beginning of Operation*	1988	1985	1994	1988	N/A

* *Information of the earliest development of mine among all small mines before consolidation*

5. Geology

The five coal mines are located in the Xishan Coalfield. Four mining areas are adjacent to each other (Bolong Mine, Fuchang Mine, Liaoyuan Mine and Xinfeng Mine). Jinxin Mine is located approximately 11km to the northeast of these adjacent mining areas.

Geological data was sighted, and it was confirmed, that John T. Boyd Company had seen drilling information which was said to have been entered into a computer software programme to generate JORC reserves and resources. Maps showing iso-quality variations were generated for each mine area and were said to have been shown to John T. Boyd Company. Maps were sighted showing total mine workings, including longwall blocks of 120m face widths (mainly) up to 200m face widths and longwall block lengths from 400m to 2km, using four legs per hydraulic chock. Odd shaped and small blocks were planned to be mined mainly using the Wongawilli System of mining developed in Australia. We were advised that roadways for the longwall blocks will be developed using drill and blast techniques, not continuous miners, and they were mindful of the need to have blocks developed before completing mining of previous blocks. It was said that the Target Company would normally spend about one month at the completion of each longwall block to refurbish equipment before using it on a new longwall block. Barriers around previous workings were said to be required and were noted on plans, to ensure that future mining will not break through into old workings, which may cause major problems with water or gas, which has built up in the old workings, bursting into the current workings.

6. Mineral Resources and Mineral Reserves

The table below shows the resources and reserves information of the Mineral Assets as at the Valuation Date.

TABLE 7 – Resources and Reserves Information

Mineral Assets	**Million Tonnes (Mt)**
Measured Resources	44.60
Indicated Resources	40.27
Inferred Resources	2.98
TOTAL RESOURCES	**87.85**
Proved Recoverable Reserves	25.69
Probable Recoverable Reserves	20.90
TOTAL RECOVERABLE RESERVES	**46.59**
Proved Marketable Reserves	23.82
Probable Marketable Reserves	19.54
TOTAL MARKETABLE RESERVES	**43.36**
Bolong Mine	
Proved Marketable Reserves	10.61
Probable Marketable Reserves	9.86
Total Marketable Reserves	20.47
Fuchang Mine	
Proved Marketable Reserves	4.23
Probable Marketable Reserves	0.99
Total Marketable Reserves	5.22
Jinxin Mine	
Proved Marketable Reserves	1.05
Probable Marketable Reserves	2.32
Total Marketable Reserves	3.37

Mineral Assets	**Million Tonnes (Mt)**
Liaoyuan Mine	
Proved Marketable Reserves	4.14
Probable Marketable Reserves	3.30
Total Marketable Reserves	7.44
Xinfeng Mine	
Proved Marketable Reserves	3.79
Probable Marketable Reserves	3.07
Total Marketable Reserves	6.86

7. Mine Life Analysis

The lives of mines vary significantly due to different reserves and production capacity of each mine.

TABLE 8 – Life of Mines

	Bolong Mine	**Fuchang Mine**	**Jinxin Mine**	**Liaoyuan Mine**	**Xinfeng Mine**
Expected Start of Production	Q3 2013	Q2 2013	Q2 2013	Q3 2013	Q3 2013
End of Production*	2029	2020	2020	2025	2020

* *Based on the production schedule in the CPR.*

8. Mining and Processing Operations

The Target Company will utilize the fully mechanized longwall mining method for the operation. Details of production capacity can be referred to in Table 11 below.

9. Production Forecast & Business Plan

The management of the Target Company confirmed that the raw coal will be sold at the mine mouth, free-on-truck and we assumed the amount sold will be equal to the production capacity of each mine throughout the mining period. The production capacity of each mine can be referred to in Table 11 below.

These fives coal mines were consolidated in 2008 from smaller underground mines in accordance with the requirement by the PRC government. The combined design coal mines are expected to begin operation at design output capacities by the second to the third quarter of 2013.

Belt widths are approved so that the Target Company cannot produce more than they are approved to produce. Mine entry inclines of 5m internal width and 4.2m internal height were observed at the mines visited; one incline was for men and materials and one for the coal conveyor. The inclines observed during inspections were either 11 degs or 18 degs dips, but the management of the Target Company confirmed that other higher dips existed. Bolting of roof and walls was observed in unfinished inclines, with chemical resins available for use in unstable strata to ensure the anchoring of the bolts.

Mine developments were generally behind the original schedules by a few months, which were said to be primarily due to delays in receiving routine approvals by the authorities, and this was frustrating people who are trying to complete mine developments, since they were unable to progress plans while waiting for these approvals.

10. Site Visit

We conducted a site visit to the Mineral Assets on 17 April 2012 and we met the mine management team at each mine. Detailed information was provided in various forms, including maps and tables, and during question and answer sessions. Retired senior personnel have been retained as advisors – they had played a significant management role in overseeing much of the past developments in this area, including mines, coal preparation plants, stockpile areas, rail loading facilities and roads. Their status and respect was evident at all times, as was their detailed knowledge of all mines and plants.

Safety systems were observed at each mine, with introductions to relevant officials. We signed records when we entered and left the fenced off incline areas and we were given appropriate clothing, boots, hard hats, cap lamps, self-rescue devices and personal methane monitors, even though the mines were said to have low levels of methane. Methane monitors were observed underground in roadways and were said to be connected to a central area control room, from where they could shut down mining if dangerous methane levels were detected. In the experience of our consultant, Mr. George Edwards, who has been visiting mines in Shanxi Province since 1976, such controlling systems would improve the safety of mining. This was the first time that serious efforts were observed to formally improve safety in small mine areas.

11. Photos

Please refer to Appendix B for photos of the Mineral Assets.

VALUATION METHODOLOGIES

The valuation of any asset can be broadly classified into one of three approaches, namely cost approach, market approach and income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed the most relevant will then be selected for use in the Fair Market Value analysis of that asset. While there are many methods that can be used to determine the Fair Market Value of a company or project comprise of tangible or intangible assets, this specific assignment dictates that certain methodologies are inappropriate for this purpose. We will begin by discussion of each of the methods under the three approaches and provide reasons for unsuitable methods and conclude the methods that will be used in this valuation.

FIGURE 8 – Different Valuation Methodologies

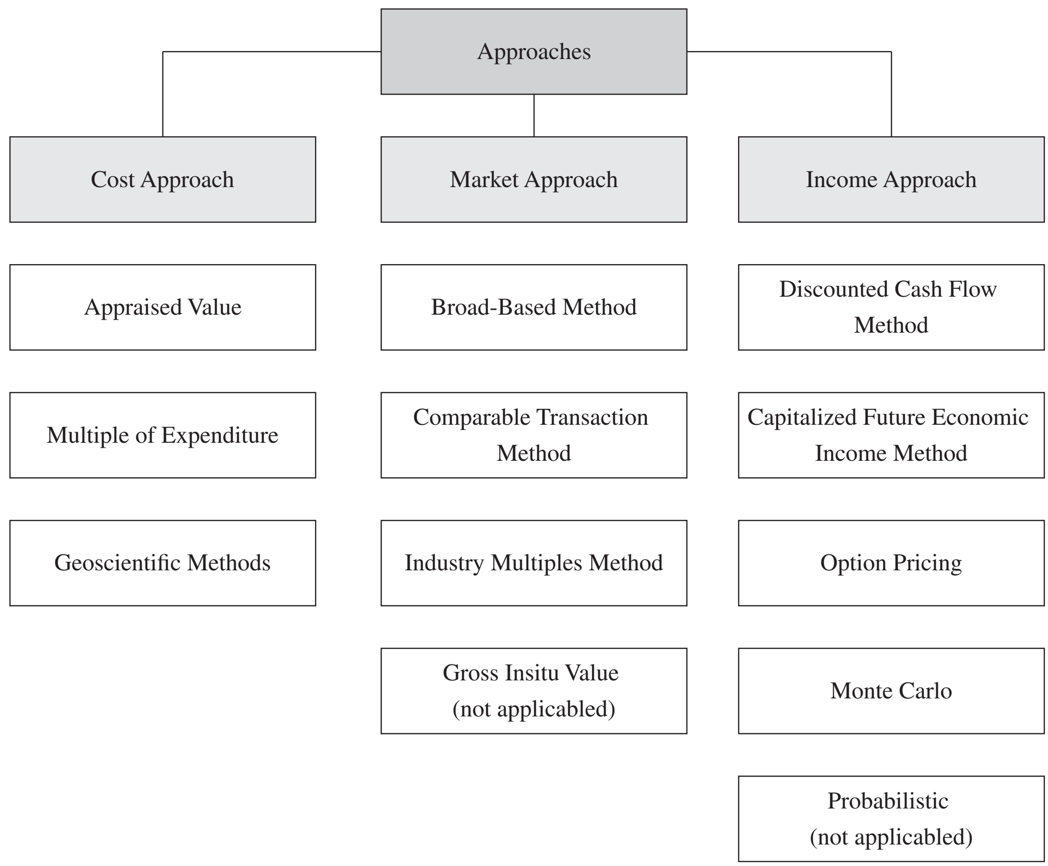


TABLE 9 – Applicable Valuation Approaches for Different Stages of Mining Operation

	Valuation Approach		
Stage of Mining Operation	**Cost**	**Market**	**Income**
Exploration Properties Mineral property that has been acquired, or is being explored, for mineral deposits.	Yes	Yes	No
Mineral Resource Properties Mineral property which contains a mineral resource that has not been demonstrated to be economically viable by a feasibility study or prefeasibility study.	Some cases	Yes	Some cases
Development Properties Mineral property that is being prepared for mineral production (or which is not yet financed or under construction) and for which economic viability has been demonstrated by a feasibility study or prefeasibility study.	No	Yes	Yes
Production Properties Mineral property with an operating mine, with or without a processing plant, which has been fully commissioned and is in production.	No	Yes	Yes

Cost Approach

Cost approach is based on the principle of contribution to value. It evolves from the cost principle of accounting, on which most business financial statements are based. It is also known as the asset-based approach. The fundamental accounting principle is the book value of assets minus the book value of liabilities equals the book value of the business owners' equity. In valuation, the fundamental valuation principle is the current value of assets minus the current value of liabilities equals the current value of the business or project owners' equity. They are economics identities. Based on the purpose and objective of the valuation, the valuer will apply the appropriate standard of value to the subject equity interest. If an asset-based approach is used, the valuer will apply a corresponding appropriate standard of value to all of the assets and liabilities of the subject company or project. One of the most commonly used methods is the appraised value method for which the Fair Market Value of the mineral asset approximates the amount of exploration expenditure incurred/likely to be incurred. Asset accumulation method is also widely used in which valuer restates all of the assets and liabilities of the subject company from their historical cost basis to the appropriate standard of value.

Market Approach

While there are many ways to determine the value of mineral assets, one of the most reliable and the most likely to be accepted to resolve legal disputes is based on the price as determined by actual market transactions.

In market approach, 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. For market approach to be used, there must be a sufficient number of comparable companies/transaction to make comparisons, or, alternatively, the industry composition must be such that meaningful comparisons can be made.

There are several different methods and variations under this approach:

Broad-based Method: It consists of determining the value of mineral assets by comparing it with the values of similar mineral assets under similar circumstances. This method is more difficult when applied to mineral assets because the underlying mineral assets have a number of unique characteristics that make it complicated to perform direct comparisons between different situations; characteristics such as quality and quantity of each mineral, mining and processing systems and costs, production quantities and products, and location and schedule of mining.

Comparable Transaction Method: Value is determined on a per unit basis, such as value per tonne. Differences in the mineral and property characteristics are reflected in the unit value of the mineral.

Industry Multiples Method: This method involves comparing the value of two or more publicly traded companies on the basis of stock price. If one of the companies is not publicly traded, financial and performance ratios taken as indicators of stock worth can be determined and compared.

Income Approach

Income approach is based upon the economic principle of anticipation (sometimes also called the principle of expectation). In income approach, the value of the subject investment is the present value of the economic income expected to be generated by the investment. This is a general way of determining a Fair Market Value of a mineral asset by converting anticipated benefits into a present value amount.

In 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.

Major methods commonly used under this approach are Discounted Cash Flows Method ("DCF") and Capitalized Future Economic Income Method.

Methods Considered but Rejected

Cost Approach

The Mineral Assets are identified to be in the development stage. As indicated in Table 9, it is not appropriate to apply cost approach to value a mineral asset/security at the development stage. Therefore, we considered but rejected cost approach to arrive at the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company as at the Valuation Date. The explanations for rejecting this approach as a whole are as follows:

– The amount of exploration expenditure incurred/to be incurred does not truly reflect the value of the Mineral Assets on the basis of the followings:

  • Expenditure that has been incurred does not provide tangible evidence of residual or future value;

  • Expenditure that is likely to be incurred is not always indicative of future value; and

  • It is not always the case that expenditure can be incurred efficiently and be fully reflected in the value of the Mineral Assets.

– It does not address technical or economic aspects of the prospects of the commodity market and financial market, economic conditions or country risk; and

– Each mineral reserve and resource is unique as it varies from the geological structure of the mineral assets to mineral grading, etc. The values of the Mineral Assets and 100% equity interest in the Target Company depend on their underlying values. The value of the Mineral Assets, and hence the equity interest in the Target Company, is determined by the amount of reserves/resources in the mine deposits from which economic benefits can be derived, rather than the appraised value of the cost of obtaining the Mineral Assets.

Market Approach – Broad-based Method

It is very difficult to apply the Broad-based Method to mining assets. We considered but rejected this method to be applied to this valuation to arrive at the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company as of the Valuation Date for the following reasons:

– Market approach is the approximate transaction price of a company/business/asset. Direct comparison of natural resources is often difficult;

– Mining assets often consist of a number of unique characteristics that make direct comparisons complicated, such characteristics include, but are not limited to quality and quantity of each mineral, mining and processing systems and costs, production quantities and products, and location and schedule of mining; and

– Available public information in relation to the 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 value of the transaction.

Market Approach – Comparable Transaction Method

This method is based on the premise that similar properties trade for similar values and that it is possible to establish a value based on known transaction prices for properties comparison. This is a primary method under Market Approach and must be considered in priority to other methods whenever applicable.

We have considered but failed to implement this method to arrive at the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company as at the Valuation Date for all five underground coal mines.

We analysed all transactions worldwide involving coal asset for a period from 1 September 2011 to 30 September 2012. These transactions include share purchase, acquisition, divestitures and joint venture. A total of 212 transactions are identified[2] and details of these transactions, including deal type, announcement date, name of target, acquirer and seller, announced total value, payment type and deal status are obtained. Rounds of screening have been performed on these transactions. Reasons for rejecting the use of these transactions for comparisons include insufficient data, undesirable transaction status (i.e. pending, terminated or otherwise non-complete), different type of coal (i.e. not coking coal), unqualified core business (i.e. core business is not coal mining) and non-arm length transactions. After this process, only two valid transactions are identified.

Due care was exercised in the selection of completed market transactions by using reasonable criteria in deciding whether a particular market transaction can be used to arrive at the Fair Market Value of the Mineral Assets, and hence 100% equity interest in the Target Company, at the Valuation Date.

After carefully implementation of this method and thorough analysis of the output, we have considered but rejected this method to arrive at the Fair Market Value of the Mineral Assets as at the Valuation Date for the following reasons:

– Only two valid and recent transactions were identified and adopted in our analysis. In addition, coal quality and development stage of these two transactions have not been disclosed. Statistically, such small number of comparable transactions (i.e. data points) will create bias in the analysis and is insufficient to draw any conclusion from it;

– Lack of specific information on the coal quality and development stage of these comparable transactions leads to inaccuracy in implementing necessary adjustments; and

– Large number of assumptions in all aspects of the transactions is needed to ensure comparability of the transactions with the Mineral Assets.

Therefore, we rejected the use of comparable transaction method in arriving at the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company as at the Valuation Date.

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2 Bloomberg database

Method Considered and Applied

Market Approach – Industry Multiples Method

The premise behind the industry multiples method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry. This is regarded as a secondary method under Market Approach and since the primary method of Comparable Transaction Method is rejected, we have considered if this method is appropriate to arrive at the Fair Market Value of the Mineral Assets.

Industry multiples method is finally considered as one of the methodologies used to arrive at the Fair Market Value of the Mineral Asset and 100% equity interest in the Target Company as at the Valuation Date since it can provide additional information to investors about the value of the Mineral Asset and the Target Company, and hence indicated whether the offer of acquiring the Mineral Asset and hence the Target Company is reasonable when compared with other companies in the coal mining industry. We have considered and accepted this method because:

– A sufficient number of guideline public companies ("Guideline Public Companies") can be identified; and

– It provides additional information to the investors about the value of the Mineral Asset when comparing with other Guideline Public Companies.

Income Approach – DCF Method

After careful consideration of the DCF method under income approach, we arrived at the conclusion that this method is suitable for the purpose of this valuation and therefore, we have adopted the DCF method as one of the methodolgies to arrive at the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company as at the Valuation Date. We have considered and accepted this method because:

– Economic benefit streams of the Mineral Assets can be identified and ascertained based on the production schedule and planned capital expenditure to be incurred provided by the management of the Target Company, as well as other cost estimates as detailed in the CPR; and

– This method is commonly used in and widely accepted for the valuation of mineral assets and resources projects, especially for those which are in production or pre-production stage with well-rounded production plan.

GENERAL ASSUMPTIONS OF VALUATION

A number of assumptions have to be established in order to sufficiently support our conclusion of the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company. The assumptions adopted in the valuation are:

– there will be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in the PRC;

– there will be no major change in the current taxation law in the PRC, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;

– there will be no material change in interest rates or foreign currency exchange rates from those currently prevailing;

– future revenue growth for the Target Company will conform to those forecasted by the management of the Target Company;

– cost expenses and other profit margins will conform to those forecasted by the management of the Target Company and the CPR;

– depreciation policy of the Target Company is subject to its individual accounting policy; and

– the Target Company will retain competent management, key personnel, and technical staff to support on-going operations.

INCOME APPROACH – DISCOUNTED CASH FLOW METHOD ("DCF")

Major Assumptions under DCF Method

Income approach is an economic measure reflecting the Fair Market Value of the business. Our development of the Fair Market Value under income approach will be performed by using the DCF methodology, which requires a number of parameters, including revenue and expense forecasts, working capital requirement and capital expenditure requirement. 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 streams to be discounted, and (2) the discount rate.

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

$$PV = \frac{E_1}{(1+k)} + \frac{E_2}{(1+k)^2} + \frac{E_3}{(1+k)^3} + \ldots + \frac{E_n}{(1+k)^n}$$

– E_1, E_2, E_3, etc. = Expected economic income in the 1st, 2nd, 3rd periods, and etc.

– E_n = Expected economic income in the nth or last period

– k = Discount Rate

In the valuation of the Mineral Assets, the management of the Company has provided us with the CPR which indicates the amount of mineral resources and reserves, a detailed mining schedule, production schedule, and other relevant costs data. Provided below is a brief description and analysis of the major assumptions applied in the valuations of the Mineral Assets and 100% equity interest in the Target Company.

Mineral Resources and Reserves

According to the confidence in the geological interpolation, the integrity of the drill hole data, the spatial continuity of the mineralization the data quality, geological continuity confidence in the geological model and regression slope parameters, the resource classification is sub-divided into measured, indicated and inferred resource categories in accordance with the JORC Code. Additionally, proved and probable reserves are defined by considering the mining, processing, infrastructure, environmental, costs, exchange rate and coal prices under the JORC Code. The financial projection and the related assumptions contained in our valuation are prepared by the management of the Target Company.

Resources and reserves have been developed by the CPR and are in accordance with the regulations and guidelines of the JORC Code. Bolong area contains approximately 47% of the total marketable reserves among the Mineral Assets. In addition, 94% of the total marketable reserves are contained in the four adjacent mining areas namely Bolong, Fuchang, Liaoyuan, and Xinfeng. The following are details extracted from the CPR.

Despite planned sale of unwashed run-of-mine coal, quality control is important. Although the management of the Target Company stated that there are some automatic sampling systems installed in the preparation plant, sampling is mainly by hand sampling. The management of the Target Company stated that the washed coking coals contain generally 10% total moisture max, 10% ash max and 1.0% sulphur max and the coking properties are suitable to make coke.

TABLE 10 – Reserve and Resources Information Used in the Valuation

Reserves/Resources

Mineral Assets	**Million Tonnes (Mt)**	%
Measured Resources	44.60	50.80%
Indicated Resources	40.27	45.83%
Inferred Resources	2.98	3.37%
TOTAL RESOURCES	**87.85**	**100%**
Proved Marketable Reserves	23.83	54.94%
Probable Marketable Reserves	19.54	45.06%
TOTAL MARKETABLE RESERVES	**43.36**	**100%**
Marketable Reserves – Bolong Mine	20.47	47.21%
Marketable Reserves – Fuchang Mine	5.22	12.04%
Marketable Reserves – Jinxin Mine	3.37	7.77%
Marketable Reserves – Liaoyuan Mine	7.44	17.16%
Marketable Reserves – Xinfeng Mine	6.86	15.82%
TOTAL MARKETABLE RESERVES	**43.36**	**100%**

Production Capacity and Schedule

There were consolidation constructions underway as at the Valuation Date; the mines will start operation in 2013. There are five-year projection plans illustrated in the CPR for the period 2013 – 2018 and they are shown as below.

TABLE 11 – Production Capacity

(Mtpa)	2013	2014	2015	2016	2017	2018+
Bolong Mine	0.79	1.36	1.23	1.27	1.16	1.27
Fuchang Mine	0.57	0.62	0.69	0.68	0.68	0.68
Jinxin Mine	0.52	0.49	0.47	0.48	0.45	0.45
Liaoyuan Mine	0.26	0.64	0.68	0.64	0.63	0.63
Xinfeng Mine	0.56	1.00	1.02	0.91	0.88	0.88
All Mines Total	**2.70**	**4.11**	**4.09**	**3.98**	**3.80**	**3.91**

Commodity Prices

Coal prices applied in the valuation of the Mineral Assets are as follows:

TABLE 12 – Commodity Prices

(RMB/tonne)	2012	2013	2014	2015	2016	2017
Projected Coal Price	1,000	1,030	1,061	1,093	1,126	1,159
Coal Price applied in the Valuation	700	979	1,008	1,038	1,069	1,101

From the opinion of our consultant, Mr. George Edwards, the selling price of coal produced in trial operation would be usually discounted by up to 30% of market price, due to factors such as contamination and inclusion of oxidised coal from past mining areas, therefore we applied RMB700 per tonne (30% discount of coking coal spot price) as the selling price of coal produced in 2012. The forecast of the above prices is assumed to have a 3% growth per annum which matches the long-term growth rate of the PRC, so prices in real terms (i.e. without inflation) will remain unchanged. The current local market spot price is supported by recent sales contract provided by the management of the Target Company.

The management of the Target Company confirmed that the mined coal will be sold without any processing procedure which includes washing procedure to reduce the ash content of coal. Our valuation is based on the local raw coking coal price in the PRC which obtained from the management of the Target Company. The value conclusion will be affected significantly if there are any variation between the actual selling price and the projected selling price.

Basis of Revenue

Based on the production schedule and projected coal price mentioned above, we can estimate the revenue of the Mineral Assets for the period 2013 – 2018. The projected revenues of the Mineral Assets that belong to Shanxi Coal are as follows:

TABLE 13 – Projected Revenue

(million RMB)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Bolong Mine	773	1,371	1,277	1,358	1,278	1,441
Fuchang Mine	387	434	497	505	520	535
Jinxin Mine	509	494	488	513	496	510
Liaoyuan Mine	254	645	706	684	694	715
Xinfeng Mine	548	1,008	1,059	973	969	998
All Mines Total	**2,471**	**3,951**	**4,027**	**4,033**	**3,956**	**4,199**

* *sum of individuals may not equal the total amount due to rounding*

Basis of Operating Costs

Operating cost such as materials costs, power costs, workforce salaries and welfares, equipment maintenance costs, safety costs, etc. were estimated by John T. Boyd Company and stated in the CPR. We referred to the cost projections stated in the CPR to perform the valuation of the Mineral Assets. We considered additional cost for the provision for land reclamation and environmental liabilities for the period from 2013 to 2021.

We considered additional general and administrative costs (the "Additional G&A Costs") which are not related to the individual mining operation of different mines under the Mineral Assets incurred by Shanxi Coal and the Target Company in the valuation of equity interest in the Target Company. The Additional G&A Costs are incurred for the overall management purpose.

Basis of Capital Expenditure

Capital expenditure for the Mineral Assets was estimated by John T. Boyd Company and stated in the CPR. We adjusted the amount of capital expenditure which is liable to the Target Company by multiplying the effective interest held by the Target Company of each mine as at the Valuation Date to obtain its projected capital expenditure respectively. The capital expenditures for the Mineral Assets include development of the mines, civil engineering, purchase and installation of equipment, monetary compensation for relocating the villages at the Mineral Assets, and other contingencies. All these expenditures will be incurred in 2012. Besides, the CPR also estimated the sustaining capital expenditures of each mine for the period 2013 – 2017.

Capital expenditures applied in the valuation of the Mineral Assets are as follows:

TABLE 14 – Projected Capital Expenditure

(million RMB)	**Bolong**	**Fuchang**	**Jinxin**	**Liaoyuan**	**Xinfeng**	**Total**
Mine Development	46.2	16.2	0.0	28.9	13.1	**104.4**
Civil Engineering	40.1	4.7	0.1	16.3	20.0	**81.2**
Equipment	11.8	5.8	9.2	11.9	8.8	**47.5**
Installation	21.9	4.0	0.1	16.6	7.5	**50.0**
Other Contingencies	12.2	15.9	5.2	9.1	20.6	**63.1**
Total	**132.2**	**46.7**	**14.5**	**82.6**	**70.0**	**346.1**

* *sum of individual figures may not equal the total amount due to rounding*

Basis of Working Capital Requirement

Required working capital in 2012 was estimated by John T. Boyd Company and stated in the CPR. The required working capital for the period 2013 until the end of mines were projected by the management of the Target Company in consideration of financial ratios including days sales outstanding, days payable outstanding, other current assets-to-sales ratio and other current liabilities-to-sales ratio.

DETERMINATION OF DISCOUNT RATE

For this particular valuation, we considered to use the weighted average cost of capital ("WACC") as the discount rate.

We developed the cost of equity ("R_e") and the cost of debt ("R_d") for the valuation of the Mineral Assets and the Target Company based on data and factors relevant to the economy, the industry, and the Target Company as at the Valuation Date. These costs were then weighted in terms of the median of the capital structure of the Guideline Public Companies to arrive at the WACC.

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

We considered market and industry data to develop the WACC for the Target Company.

The traditional formula for calculating the WACC is:

$$\mathbf{WACC = (\%D) \times (R_d) \times (1 - Tax\ Rate) + (\%E) \times (R_e)}$$

where	WACC:	Weighted Average Cost of Capital;
	%D:	Weight of Interest Bearing Debt;
	R_d:	Cost of Debt;
	%E:	Weight of Equity; and
	R_e:	Cost of Equity.

Development of Cost of Equity ("R_e")

We considered the Modified Capital Asset Pricing Model ("MCAPM") to calculate the cost of equity of the Target Company.

Modified Capital Asset Pricing Model

MCAPM, as applied in the valuation model, can be summarized as follows:

$$\mathbf{R_e = R_f + Beta \times ERP + RP_s + RP_u}$$

where	R_e:	Cost of Equity;
	R_f:	Risk Free Rate;
	Beta:	A measure of systematic risk;
	ERP:	Equity Risk Premium;
	RP_s:	Size Premium; and
	RP_u:	Specific Company Adjustment.

Risk Free Rate ("R_f")

R_f was found by looking at the yields of the Chinese government bond. Ideally, the duration of the security used as an indication of R_f should match the horizon of the projected cash flows that were being discounted, which will be matured in 2029 in the present case. We relied on the 17-Year Chinese Government Bond with a yield of 3.74% as at the Valuation Date.

Equity Risk Premium ("ERP")

We adopted the recent 30 years equity risk premium of the market where the subject company is located and relied on International Equity Risk Premia Report Handbook 2012 published by Ibbotson Associates. For those markets that are not covered by the said publication, the equity risk premium of the United States market is multiplied by the relative volatility between S&P 500 Index and equity indices of respective country where the subject company is located to obtain the equity risk premium. The volatility of the United States equity market is obtained from Stocks, Bonds, Bills, and Inflation: 2012 Yearbook. The volatility of other equity indices is obtained from Bloomberg.

Beta

In the MCAPM 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 nine identified Guideline Public Companies which are the same set of companies we selected for aforementioned Industry Multiples Method, details of which are listed in the Table 15 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 median of Guideline Public Companies' capital structure.

Selection of Guideline Public Companies

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

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. The following is the list of the Guideline Public Companies that we have reviewed in connection with the valuation of the Mineral Assets and the Target Company.

TABLE 15 – Guideline Public Companies

Company	Ticker		Description
China Shenhua Energy Company Limited	1088 HK	–	It owns and operates an integrated coal transportation network consisting of dedicated rail lines and port facilities.
China Coal Energy Company Limited	1898 HK	–	It operates thermal coal and coking coal mines in the PRC.
Gansu Jingyuan Coal Industry and Electricity Power Company Limited	000552 CH	–	It explores, processes and sells coal in the PRC.
SDIC Xinji Energy Company Limited	601918 CH	–	It engages in coal mining, coal processing and power generation in the PRC.
Anhui Hengyuan Coal-Electricity Group Company Limited	600971 CH	–	It operates coal mining and processing in the PRC.
Shanghai ACE Company Limited	600652 CH	–	It operates coal mining and processing coal in the PRC.
Guizhou Panjiang Refined Coal Company Limited	600395 CH	–	It operates coal mining and coal processing in the PRC. Products include raw coal, refined coal, blended coal and other related products.

Shougang Fushan Resources Group Limited	639 HK	–	It produces and sells coking coal products and side products in the PRC; and
		–	It is engaged in mining of coking coal and production and sale of raw and clean coking coal.
Yanzhou Coal Mining Company Limited	1171 HK	–	It operates underground mining and coal preparation business in the PRC; and
		–	Its products are sold in domestic and international markets.

As at the Valuation Date, the beta median would be:

Median Un-Levered Beta	Median Re-levered Beta
1.08	1.19

Size Premium ("RP_s")

RP_s, 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. In the case of the Target Company, we applied the small company premium of 1.77% in excess of MCAPM for companies in the 7th decile 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: 2012 Yearbook.

Specific Company Adjustment ("RP_u")

RP_u for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to the Target Company.

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

In the case of the Target Company, the Mineral Assets have not yet been operating at their optimal capacity. The management of the Target Company expects the capacity will be fully achieved in 2013 which is in line with the opinion in the CPR. We believe a rational investor would require a higher return in order to compensate for this uncertainty and an additional 1% in return on equity is a fair level to account for such risk. Therefore, we applied 1% on RP_u in our valuation.

Cost of Equity ("R_e") Conclusion

As at the Valuation Date, the cost of equity would be:

TABLE 16 – Cost of Equity

MCAPM

Risk Free Rate ("R_f")	3.74%
Beta	1.19
Equity Risk Premium ("ERP")	9.20%
Size Premium ("RP_s")	1.77%
Specific Company Adjustment ("RP_u")	1.00%
Cost of Equity ("R_e")	**17.34%**

Cost of Debt ("R_d")

In general, cost of debt represents the interest rate incurred by the Target Company when it finances its debt which could be in the form of borrowing or issuing bond/note. In this case, the Target Company has debt financing or direct borrowing with incurred interest rate range from 6.10% to 12.32% as at the Valuation Date. After revision of its latest borrowing cost and interest rate level in the PRC as at the Valuation Date, we applied 10% as estimated assemble financing rate of the Target Company as at the Valuation Date. And we believe it is a reasonable level for a private company to borrow in the PRC.

Weighted Average Cost of Capital ("WACC")

WACC is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprises' capital structure. We have "levered" the Target Company as if it mirrored the median percentage of debt as the Guideline Public Companies on the assumption that over time, the Target Company will approach an optimal capital structure with 11.57% of debt, which is the less expensive form of capital than equity, to remain competitive. Subsequent to the calculations of the R_e and the R_d, the calculation of the WACC, or the discount rate, therefore becomes:

TABLE 17 – Weighted Average Cost of Capital

Percentage of Interest Bearing Debt (%D)	11.57%
× Market Cost of Debt ("R_d")	10.00%
× (1 – Tax Rate)	75.00%
Weighted Cost of Debt	**0.87%**
Percentage of Equity (%E)	88.43%
× Cost of Equity ("R_e")	17.34%
Weighted Cost of Equity	**15.33%**
WACC	**16.20%**
Discount Rate Applied (rounded)	**16.00%**

MARKET APPROACH – INDUSTRY MULTIPLES METHOD

Industry multiples method is considered as one of appropriate method to reflect Fair Market Value of the Mineral Asset and 100% equity interest in the Target Company.

Our development of the Fair Market Value under the industry multiples method is determined by price-to-earnings ("P/E") ratio of each of Guideline Public Companies. The appropriate valuation multiple is determined and adjusted for the unique aspects of the subject being valued. This multiple is then applied to the subject being valued to arrive at an estimate of value for the appropriate ownership interest.

In this valuation, we have used P/E ratio as the valuation multiple. P/E is an appropriate valuation multiple for this valuation because it measures the amount of value can be created by a unit of earning. We researched and analysed the estimations of earnings in 2013 of nine Guideline Public Companies and eight of them could be concluded.

TABLE 18 – Market Capitalisation as at Valuation Date and Estimation of Earnings in 2013

Company	Ticker	Market Capitalisation as at Valuation Date *(in millions)*	Estimation of Earnings in 2013* *(in millions)*
China Shenhua Energy Company Limited	1088 HK	RMB462,361	RMB47,364
China Coal Energy Company Limited	1898 HK	RMB88,453	RMB8,629
Gansu Jingyuan Coal Industry and Electricity Power Company Limited	000552 CH	RMB2,825	RMB65
SDIC Xinji Energy Company Limited	601918 CH	RMB21,372	RMB1,472
Anhui Hengyuan Coal-Electricity Group Company Limited	600971 CH	RMB13,880	RMB838
Shanghai ACE Company Limited	600652 CH	RMB2,584	N/A
Guizhou Panjiang Refined Coal Company Limited	600395 CH	RMB30,387	RMB1,520
Shougang Fushan Resources Group Limited	639 HK	HKD11,134	HKD1,689
Yanzhou Coal Mining Company Limited	1171 HK	RMB74912	RMB5,282

* *Source from Bloomberg*

TABLE 19 – Industry Multiples

Company	Ticker	Industry Multiple – Implied P/E in 2013
China Shenhua Energy Company Limited	1088 HK	9.76x
China Coal Energy Company Limited	1898 HK	10.25x
Gansu Jingyuan Coal Industry and Electricity Power Company Limited	000552 CH	43.19x
SDIC Xinji Energy Company Limited	601918 CH	14.52x
Anhui Hengyuan Coal-Electricity Group Company Limited	600971 CH	16.56x
Shanghai ACE Company Limited	600652 CH	N/A
Guizhou Panjiang Refined Coal Company Limited	600395 CH	20.00x
Shougang Fushan Resources Group Limited	639 HK	6.59x
Yanzhou Coal Mining Company Limited	1171 HK	14.18x
	Median	14.35x
	Mean	16.88x

Median of implied P/E in 2013 had been adopted and the estimated value was calculated by multiplying the projected net income in 2013 by Shanxi Coal which is about RMB1,347 million. We have developed Fair Market Value of Mineral Assets and 100% equity interest in the Target Company based on this selected multiple and we came up with the values of RMB9,473,000,000 and RMB8,273,000,000, respectively.

SENSITIVITY ANALYSIS

We have examined the sensitivity of the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company in relation to changes in some of the core model parameters, such as the discount rate, coal selling price, production cost, capital expenditure and inflation.

Table 20 below shows the Fair Market Value of the Mineral Assets and 100% equity interest in the Target Company under different scenarios. In each scenario, only one parameter is changed while other parameters are held constant.

TABLE 20 – Sensitivity Analysis

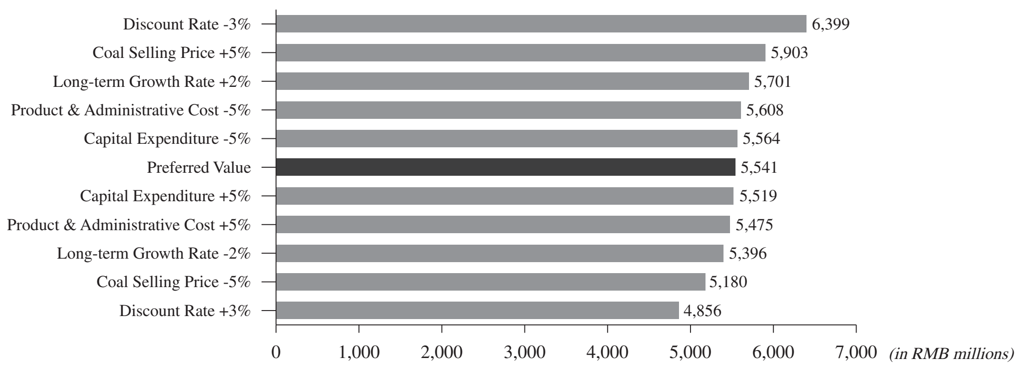
Discount Rate Change	Mineral Assets *(in RMB millions)*	Target Company *(in RMB millions)*
–3%	6,399	5,102
No Change	5,541	4,259
+3%	4,856	3,584

	Parameter Variations	Mineral Assets *(in RMB millions)*	Target Company *(in RMB millions)*
	-5%	5,180	3,898
Coal Selling Price in 2013	0%	5,541	4,259
	+5%	5,903	4,620
Production &	-5%	5,608	4,326
Administrative Cost	0%	5,541	4,259
	+5%	5,475	4,193
	-5%	5,564	4,281
Capital Expenditure	0%	5,541	4,259
	+5%	5,519	4,237
	-2%	5,396	4,113
Long-term Growth Rate	0%	5,541	4,259
	+2%	5,701	4,419

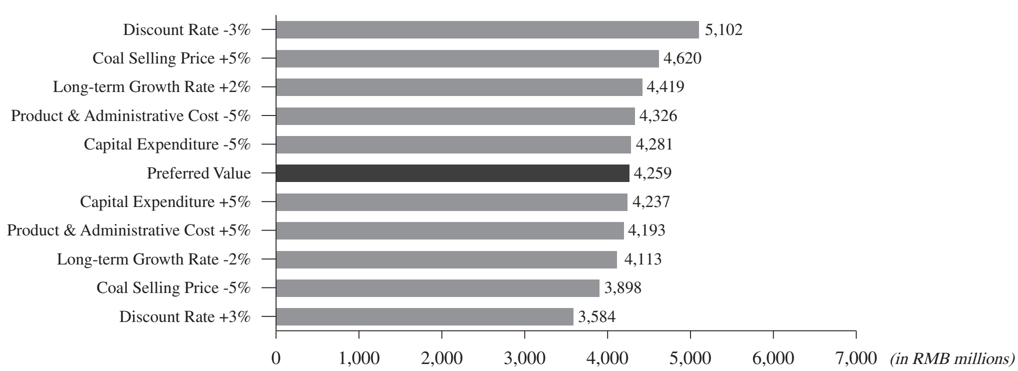
All in all, the Fair Market Value of the Mineral Assets and the Target Company are considerably more sensitive to variations in the discount rate when compared to the capital expenditure.

FIGURE 9 – Scenario Analysis

Mineral Assets



100% Equity Interest in the Target Company



SUMMARY OF RESULTS

The following comparative data summarizes the various methods that we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the facts and circumstances of the Mineral Assets and the Target Company, and strengths/ weaknesses are discussed.

Cost Approach

Replacement, Liquidation or Book Value Method . . . . N/A
Application . . . . Rejected

Market Approach

Industry Multiples Method

Mineral Assets RMB9,473,000,000
100% Equity Value in the Target Company RMB8,273,000,000
Application . . . . Accepted

Income Approach

Discounted Cash Flow Method

Mineral Assets RMB5,541,000,000
100% Equity Value in the Target Company RMB4,259,000,000
Application . . . . Accepted

We have considered cost approach, market approach and income approach for this valuation and applied both market approach and income approach to conclude the Fair Market Value of the Mineral Assets. In market approach, we used the industry multiples method to evaluate the Mineral Assets because there is a sufficient number of Guideline Public Companies which can be identified and it can provide additional information to investors about the value of the Mineral Asset when compared with other market participants in the coal mining industry. In income approach, we used DCF to derive the Fair Market Value of the Mineral Assets, because this method is commonly used in, and widely accepted for, valuation of mineral assets and resources, and also because the economic benefit streams of the Mineral Assets can be identified and ascertained based on the production schedule, trial operations, cost estimates and estimated capital expenditure to be incurred.

In the Industry Multiples Method, we selected, researched and analysed industry multiple which is projected P/E ratio in 2013 from eight Guideline Public Companies. We also considered the impact of using arithmetic mean and median and concluded the impact should not be significant. The estimated values of the Mineral Assets and 100% equity value in the Target Company are RMB9,473,000,000 and RMB8,273,000,000, respectively.

In DCF, we relied on information from the CPR to project cash flows of the Mineral Assets from the Valuation Date, the projected cash flows were then discounted to the Valuation Date to reflect the Fair Market Value as at the Valuation Date. The estimated values of the Mineral Assets and 100% equity value in the Target Company are RMB5,541,000,000 and RMB4,259,000,000, respectively.

The value of a coal is subject to its unique characteristics such as ash content, sulfur content and moisture level, and unlike metals, such characteristics cannot be fundamentally improved by processing. Different coal mines also subject to different operation risks and conditions. Therefore, although we can obtain projected P/E ratios in 2013 of the Guideline Public Companies, direct comparison with the Mineral Assets to estimate the Fair Market Value of the Mineral Assets is unlikely to provide a meaningful result. Hence, we rejected the value derived from the Industry Multiples Method and accepted the Fair Market Value of Mineral Assets and 100% equity value in the Target Company based on DCF. We concluded the Fair Market Value of the Mineral Assets and 100% equity value in the Target Company as RMB5,541,000,000 and RMB4,259,000,000, respectively.

RISK FACTORS

Resources and Reserves

Estimations of tonnage, grade and overall content of a deposit are not precise calculations but are based on interpretation and on samples from drilling or channel sampling. There is always a potential error in the projection of sampling data when estimating the tonnage and grade of the surrounding strata, and significant variations may occur. It is possible that some resources may not be economically mineable. Additionally, historical recovery rate might not be able to be sustained in future operations. The value of the Mineral Assets may be diminished if any of these events happen.

Technical Construction Development

Technical construction developments of mines were generally behind the schedules stated in the CPR, and it was primarily due to delays in approvals by the authorities. Without the related approvals, the Target Company is unable to progress as scheduled.

Coal Selling Prices and Demand for Coal

Revenue projections depend on the future coal selling prices and the demand for coal. If the coal selling price decreases substantially or the demand for coal diminishes in the long run, the value of the Mineral Assets will be adversely affected.

Implementation for Future Development Plan

Future development of the Target Company may be subject to the approval of local government. Any delays in the proposed future development plan may adversely affect the value of the Mineral Assets.

Extension of Licenses

Only one-year licenses will be granted during the exploration or the development stages of mines and longer term licenses will be granted after the operations are approved. As at the Valuation Date, only one-year licenses are granted for the Mineral Assets. Expirations of licenses are shown in the Table 21 below.

TABLE 21 – Expiration of Licenses

	Bolong Mine	Fuchang Mine	Jinxin Mine	Liaoyuan Mine	Xinfeng Mine
Expiration of Licenses	December 2014	January 2015	January 2015	December 2014	December 2014

The value of the Mineral Assets stems from the exploration and mining licenses. Any defects in the validity or extension of the licenses may have adverse impact on the value estimation.

Social Issues

Any complaints or protests by the local community might have an adverse impact on the mining operation.

Policy Risk

Any changes in existing policy may affect the valuation result.

LIMITING CONDITIONS

We have made no investigation of, and assume no responsibility for, the title to or any liabilities against the Target Company and the Mineral Assets. We do not represent that any of our findings constitute legal advice

The opinions expressed in this report have been based on the information supplied to us by the Company, the Target Company and their staff, as well as from various institutes and government bureaus and in the CPR without verification. All information and advice related to this valuation are provided by the management of the Company and the Target Company, and the readers of this report should perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

CONCLUSION OF VALUES & SIGN OFF

In conclusion, based on the analysis stated above and on the valuation methods employed, it is our opinion that the Fair Market Values of the Mineral Assets and 100% equity interest in Lexing Holdings Limited as at 30 September 2012 are RMB5,541,000,000 (**RENMINBI FIVE BILLION FIVE HUNDRED AND FORTY ONE MILLION ONLY**) and RMB4,259,000,000 (**RENMINBI FOUR BILLION TWO HUNDRED AND FIFTY NINE MILLION ONLY**), respectively.

The opinions of value were based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved. We have remained independent in carrying out our activities.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
GREATER CHINA APPRAISAL LIMITED

Ferry S.F. Choy
BSc (Q.Fin), CFA, CVA
Director

George E. Edwards
BSc (Tech), C Eng, FAICD,
FIE (UK), FAIE,
FAusIMM (CP), MMICA
Senior Consultant
Competent Evaluator

APPENDIX A – QUALIFICATION OF THE VALUATION TEAM MEMBERS

Mr. Ferry S.F. Choy, *BSc (Q.Fin), CFA, CVA*, is presently the Director of Greater China Appraisal Limited. Ferry provides valuation services mainly for financial reporting, transactions and IPO purpose. The valuation services provided included business valuation, equity valuation, biological assets valuation, mining valuation and financial instrument valuation. Most of Ferry's clients were listed companies or large private companies looking for going public in Hong Kong, China and Singapore. His experience covers a wide range of different industry sectors including foods & beverage, manufacturing, mining and information technology.

Mr. George E. Edwards *BSc (Tech), C Eng, FAICD, FIE (UK), FAIE, FAusIMM (CP), MMICA*, has a Science Degree in metallurgy from the University of NSW and has mainly been prominent in the coal industry in Australia and overseas for over 40 years, including having part owned and operated three export coal mines, since establishing his own companies 28 years ago.

Mr. Edwards spent 12 years in the Australian steel industry with BHP, working in each section of an integrated steelworks at Port Kembla and in BHP's Central Research Laboratories near Newcastle, during which he spent time working on various steelmaking raw materials, including iron ore. Among his many achievements are being a member of the first Australian Coal Mission to China in 1976 and being President of The Australasian Institute of Mining and Metallurgy (The AusIMM) in 1995 – they developed the JORC and VALMIN Codes with input from other bodies. He has been Chairman of Standards Australia (1999 to 2003) and the Energy Council of Australia (1993 to 2006) and runs his own trading and consulting businesses, with a diverse range of clients around the world. His trading and marketing activities are mainly for coal and iron ore. He is currently Executive Chairman of the Australian Mining Association and the only senior foreign advisor to the China Mining Association. He was awarded the Gold Medal for 2011 by the Mineral Industry Consultants Association.

Mr. Edwards has been the Chief Executive in Australia for Consolidation Coal Company of USA and has been Chairman and Director of both public and private coal and gold companies, in Australia and overseas.

Mr. Kenneth H.M. Ng, *BBus., FRM*, has substantial experience in valuation of business and intangible assets including operating licenses, mining licenses, trading contracts, customer bases, tradename and trademark. His experience covers wide range of industries including healthcare, financial services, mining, toll road, information technology, manufacturing and retail. Mr. Kenneth H.M. Ng is currently the assistant manager of Greater China Appraisal Limited.

APPENDIX B – PHOTO OF THE MINERAL ASSETS

Entrance of a coal conveyor incline at Bolong Mine

Entrance of a coal conveyor incline at Jinxin Mine

Coal conveyor incline at Jinxin Mine, looking down the incline

Temporary stockpile of trial coal being produced at Jinxin Mine

Coal storage compound with reduced dust emission fencing
(Not owned by the Target Company)

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

The following is the text of a report prepared for the purpose of incorporation in this circular received from Greater China, a competent evaluator, in connection with its valuation as at 30 September 2012 of the fair market value of the 99.99% interest of Iron Mine.

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GLOSSARY & DEFINITIONS

CAGR	Compound annual growth rate
Capex	Capital expenditure
Chapter 18	Chapter 18 of the Listing Rules
CNMRGS	China Non-ferrous Metals Resource Geological Survey
China Railway	China Railway Mongolia Limited
Company or Commissioning Entity	North Asia Resources Holdings Limited, a company listed on the main board of the SEHK
CPI	Consumer price index
Cu	Copper
DCF	Discounted cash flows method
Fe	Iron
Fe_2O_3	Hematite
Fe_3O_4	Magnetite
Greater China	Greater China Appraisal Limited
GDP	Gross domestic product
Golden Pogada	Golden Pogada LLC
Guideline Public Companies	Public companies which have a similar line of business with and comparable to the subject company
HKD	Hong Kong Dollar
IMF	International Monetary Fund

Indicated Resources	That part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
Inferred Resources	That part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity
JORC Code	The Australasian Code for Reporting of Mineral Resources and Ore Reserves (2004 edition) as published by the Joint Ore Reserves Committee
km	Kilometres
ktpa	Thousand tonnes per annum
Listing Rules	The rules governing the listing of securities on the SEHK
Material/Materiality	Means that the contents and conclusions of a report, any contributing assessment, calculation or the like and data and information are of such importance that their inclusion or omission from a valuation may result in a reader reaching a different conclusion than would otherwise be the case
MCAPM	Modified capital asset pricing model
Measured Resources	That part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence
mFe	Magnetic iron
Mineral(s)	Any naturally occurring material found in or on the Earth's crust, that is useful to and/or has a value placed on it by humankind, excluding crude oil, natural gas coal-based methane, tar sands and oil shale which are classified as Petroleum

Mineral Asset or Project	An iron ore mine located in Dundgobi Province and is approximately 280km southwest of Ulaanbaatar and 75km west of Mandalgobi, having an area of approximately 1,201 hectares, named Oyut-Ovoo Iron Project
Mt	Million tonnes
Mtpa	Million tonnes per annum
NARG	North Asia Resources Group Limited, a wholly-owned subsidiary of the Company
P	Phosphorus
PRC or China	People's Republic of China
Probable Reserve	The economically mineable part of an Indicated, and in some circumstances, a Measured Resource
Proved Reserve	The economically mineable part of a Measured Resource
RMB	Renminbi, the official currency of the PRC
R_d	Cost of debt
R_e	Cost of equity
S	Sulphur
SEHK	Stock Exchange of Hong Kong Limited
SRK	SRK Consulting China Limited
t	Tonne
tph	Tonnes per hour
TFe	Total iron
Technical Report	Technical Assessment Report for Oyut-Ovoo Iron Project in Dundgovi Province, Mongolia prepared by SRK dated July 2012

Transparent/Transparency	For the purposes of the VALMIN Code, these qualities must apply to the data and information used as the basis of a 'Valuation' or a 'Technical Assessment', including the assessment of resources/reserves, mining, processing and marketing issues, the valuation approach adopted and the methodology or methodologies used, all of which must be clearly set out in the report
USD	United States Dollar, the official currency of the United States
VALMIN Code	Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, 2005 edition
Valuation Date	30 September 2012
WACC	Weighted average cost of capital

25 March 2013

The Board of Directors
North Asia Resources Holdings Limited
Units 2001-2, 20th Floor
Li Po Chun Chambers
189 Des Voeux Road
Central, Hong Kong

RE: VALUATION OF IRON ORE MINE HELD BY GOLDEN POGADA LLC

Dear Sirs/Madams,

At your request, Greater China Appraisal Limited ("Greater China") was engaged to assist you in the valuation analysis pertaining to the Fair Market Value of 99.99% interest of the Oyut-Ovoo Iron Project and 100% equity interest in North Asia Resources Group Limited ("NARG") as at 30 September 2012 ("the Valuation Date").

The Oyut-Ovoo Iron Project (the "Mineral Asset" or the "Project") comprise an iron ore mine located in Dundgobi Province of Mongolia, and is approximately 280 kilometres ("km") southwest of Ulaanbaatar and 75 km west of Mandalgobi. The Project covers an area of approximately 1,201 hectares and is held by Golden Pogada LLC ("Golden Pogada").

It is our understanding that our analysis will be used by the management of North Asia Resources Holdings Limited (the "Company" or the "Commissioning Entity") solely for a proposed disposal only, details of which are set out in the circular dated 25 March 2013 issued by the Company to the shareholders, of which this valuation report forms part. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes without our express written consent.

This report describes the basis of valuation, valuation methodologies considered and applied, our analysis, limiting conditions and presents our opinion of value. This report is prepared in accordance with Chapter 18 ("Chapter 18") of the Listing Rules of the Stock Exchange of Hong Kong Limited ("SEHK"), and is in conformance with the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ("the VALMIN Code"), 2005 Edition, 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.

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.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Mineral Asset Valued	99.99% interest of an iron ore mine named the Oyut-Ovoo Iron Project
Mineral Asset Owner and Operator	Golden Pogada LLC
Mineral Asset Location	Approximately 280km southwest of Ulaanbataar and 75km west of Mandalgobi; it is administered by Dundgovi Province, Mongolia
Current Status of the Mineral Assets	Pre-production stage. The operation is on hold and the production is projected to commence in 2013
Other Valuation Subject	100% equity interest in NARG
Valuation Date	30 September 2012
Reporting Date	25 March 2013
Value Conclusion	Preferred value of Mineral Asset: HKD560,000,000 Preferred value of 100% equity interest in NARG: HKD566,000,000

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 Asset and 100% equity interest in NARG as at the Valuation Date for the proposed disposal.

Intended users of this valuation report are the management of the Company, the Company's auditors, the SEHK, the Company's investors and potential investors. Many of these readers will not necessarily have a strong knowledge of the mining industry and relevant terminologies.

SCOPE OF VALUATION

The valuations of the Mineral Asset and 100% equity interest in NARG are on Fair Market Value basis in compliance with the VALMIN Code. This report has been written in a narrative form designed for a wide range of readers who have no experience in the iron mining industry.

The Fair Market Value estimates developed in this report, and the underlying projections and calculations developed to derive and support the estimate, are dependent on opinions and analysis of the valuers. Reliance on this valuation is at the readers' own risk. This valuation report should not be used to replace any due diligence work. The liability of Greater China is limited to that contained in the contractual agreement with the Company.

BASIS OF VALUATION

For the purpose of this valuation, we adopted Chapter 18 and the VALMIN Code.

Major exploration and mining countries in the world (notably Australia, Canada and South Africa) have established codes for the evaluation of mineral properties in addition to their codes for defining Mineral Reserves and Mineral Resources. The following are codes allowed to use under Chapter 18.

TABLE 1 – Codes accepted under Chapter 18

Country	Code	Subject	Date	Status
Canada	NI43-101	MRMR	2005	Final
	CIMVAL	Valuation	2003	Final
Australia	**JORC**	**MRMR**	**2004**	**Final**
	VALMIN	**Valuation**	**2005**	**Final**
South Africa	SAMREC	MRMR	2007	Final
	SAMVAL	Valuation	2009	Final

MRMR = Mineral Resources and Mineral Reserves

According to the VALMIN Code, the Fair Market Value of mineral assets is defined as:

"the amount of money (or the cash equivalent of some other consideration) 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".

According to the VALMIN Code, mineral assets can be defined as:

"all property including but not limited to real property, intellectual property, mining and exploration tenements held or acquired in connection with the exploration of, the development of and the production from those tenements together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of minerals in connection with those tenements."

According to the VALMIN Code, value should be selected as the most likely figure from within a range after taking account of risk and the possible variation in ore grade, metallurgical recovery, capital and operating costs, commodity prices, exchange rates and the like.

PREMISES OF VALUE

Premises of value relate to the concept of valuing a subject in the manner which would generate the greatest return to the owner of the asset, taking into account what is physically possible, financially feasible and legally permissible, although this report does not constitute a legal advice. Premises of value include the following:

– **Going concern:** appropriate when the business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;

– **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;

– **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation;

– **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of the entire business itself.

The valuations of the Mineral Asset and 100% equity interest in NARG are prepared on a going concern basis.

VALUATION DATE

The Valuation Date is as at 30 September 2012 and this valuation report is issued on 25 March 2013.

THE COMMISSIONING ENTITY

The Commissioning Entity is a limited liabilities company incorporated in Bermuda with offices at Units 2001-2, 20th Floor, Li Po Chun Chambers, 189 Des Voeux Road, Central, Hong Kong.

The Commissioning Entity had advised that it has made reasonable enquiries in order to establish that Greater China and its advisors are competent in the fields in which they were required to work under this assignment, and are experienced in the type of Mineral Asset required to be valued.

The Commissioning Entity has advised Greater China and its advisors that some of the information made available for the purpose of the assignment is confidential, and appropriate confidentiality undertakings have been put in place. It has also provided a warranty in writing that all relevant technical or other project information has been provided to Greater China and its advisors, and that, to the best of its knowledge and belief; it is complete, true and accurate in every respect.

STATEMENT OF COMPLIANCE

The evaluations have been prepared in accordance with Chapter 18 and the VALMIN Code and are, to the best of our knowledge, compliant with these codes. This statement is made in accordance with a requirement under these codes.

STATEMENT OF COMPETENCE

Within the terms of Chapter 18 18.21 – 18.22 and the VALMIN Code, our consultant Mr. John Dunlop is regarded as Competent Person which means that he possesses relevant education, qualifications, experience and professional expertise so as to have a reputation that gives authority to statements made in relation to these valuation matters.

For this particular exercise, our consultant Mr. John Dunlop is also regarded as Competent Evaluator which fulfil the requirement under Chapter 18 18.23.

– Mr. John Dunlop has more than ten years relevant and recent general mining experience;

– Mr. John Dunlop has at least five years relevant and recent experience in the assessment and valuation of mineral assets or securities; and

– Mr. John Dunlop holds all the necessary licenses.

For this particular exercise, Mr. George Edwards, Mr. Ferry Choy and Mr. Kenneth Ng are the team members of this valuation project. All of them have substantial experience in business valuation covered a wide range of different industry sectors including mining, infrastructure, manufacturing and information technology.

In this valuation, Mr. Kenneth Ng developed the financial model and conducted analysis under the guidelines and supervisions of Mr. Ferry Choy and the Competent Evaluators. Mr. George Edwards and Mr. Ferry Choy are the project managers of this valuation project. They are responsible for over-viewing this valuation project and compiling the valuation report under the guidelines and supervisions of the Competent Evaluator.

A statement of their respective qualifications are appended as Appendix A.

STATEMENT OF INDEPENDENCE

Both Greater China and its consultants state that they are Independent of the Commissioning Entity. Independence means in this context that Greater China and its advisors are able to satisfy any relevant legal tests of independence and are, and may be perceived to be, willing and able to undertake an impartial assessment and valuation and to prepare a valuation report that is free of bias.

To this end, Greater China and its consultants warrant that they do not have any pecuniary or beneficial interest in:

– The Commissioning Entity;

– The offeror or target companies in the case of the sale of assets of the Commissioning Entity;

– NARG;

– The Mineral Asset that is the subject of the valuation; and

– The outcome of the valuation.

SOURCES OF INFORMATION

Our analysis and conclusion of value for the Mineral Asset and 100% equity interest in NARG were based on our discussions with the management of Golden Pogada and the Company, as well as our review of key transaction documents and records, including:

– Management accounts of Golden Pogada as at the Valuation Date;

– Announcements made by the Company in relation to its disposal of the entire issued shares of Golden Pogada and the shareholder's loan due by the Company dated 8 October 2012, 29 November 2012 and 14 December 2012; and

– Technical Assessment Report ("Technical Report") for the Oyut-Ovoo Iron Project in Dundgovi Province, Mongolia prepared by SRK Consulting China Limited ("SRK") dated July 2012.

In completing valuations, we have relied heavily on the Technical Report, which was prepared independently and in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources developed by The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia in December 2004 (the "JORC Code") and the VALMIN Code. The Technical Report was prepared by Dr Yiefei Jia, who possesses more than ten years of experience in the exploration and mining industries and is qualified as a Competent Person under Chapter 18.

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

SITE INSPECTION

A site visit to the Mineral Asset was conducted on 2 October 2012, and during the site visit, the following tasks were carried out as part of our analysis process:

– Tour of mining areas, processing plant, administrative offices and various other auxiliary facilities; and

– Interviews with the management of Golden Pogada.

The visiting team included Mr. Ferry Choy, Mr. George Edwards and Mr. John Dunlop.

ECONOMIC OVERVIEW

In conjunction with the preparation of this valuation opinion, we have reviewed and analysed the current national economic condition from where the profits of the mine will be derived, and how the value of the mine may be impacted.

Mongolia

Economic Growth

In 2009, the Mongolian economy was hit hard by the global economic crisis. Facing a decrease in demand for the country's exports and collapsing world copper prices, the Mongolian economy reached a financial precipice. Economic growth was stalling, international reserves were rapidly depleted, insufficient capital was available to meet government spending needs and the banking system was in turmoil. However, after another 18 months, the Mongolian economy has experienced a dramatic turnaround and resumed its economic dynamics. The real gross domestic product ("GDP") growth in 2011 was over 17.3% and was the highest in the past decade.

TABLE 2 – Real GDP Annual Growth Rate and Inflation of Mongolia from 2008 to 2011

	2008	2009	2010	2011
Real GDP Annual Growth Rate *(%)*	8.9	(1.3)	6.4	17.5
Inflation *(%)*, Average Consumer Price	26.8	6.3	10.2	7.7

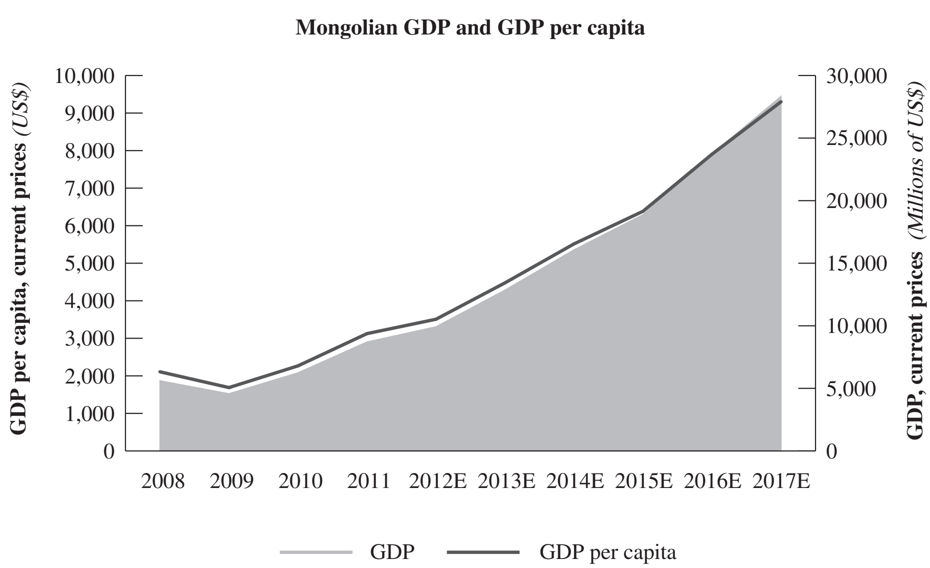
Source: International Monetary Fund ("IMF")

Mongolia has abundant mineral resources including coal, fluorite, gold, iron, lead, molybdenum, oil, phosphates, tin, uranium, and wolfram. The Mongolian economy has benefited from the mining industry boom in the last decade. Increasing global commodity prices lead to substantial foreign investment in mining projects. Rapid developments in the mining industry rely on high commodity prices, and once the commodity price increasing trend reversed, many mining projects were terminated. This situation happened during the global financial crisis in 2009.

According to the International Monetary Fund ("IMF") data, Mongolia ranked as the 134th economy in terms of GDP in terms of US dollars in 2011. Comparing to 2008 and 2009, the ranking kept improving from the position of the 146th and the 139th, respectively. As the Mongolian economy is continuing to grow at full pace again, it is expected the ranking will further improve in 2012.

Mongolian GDP per capita in current price terms reached its record high in 2011. 2011 Mongolian GDP per capita in current price was USD3,126, representing an increase from USD2,267 in 2010 (37.9% growth). IMF also expects that GDP per capita in current price will reach USD9,300 in 2017, representing a compound annual growth rate ("CAGR") of 19.9% from 2011 to 2017. Strong purchasing power can be observed through the establishment of branches for different luxurious brands in Ulaanbaatar, capital of Mongolia.

FIGURE 1 – Mongolian GDP and GDP per Capita

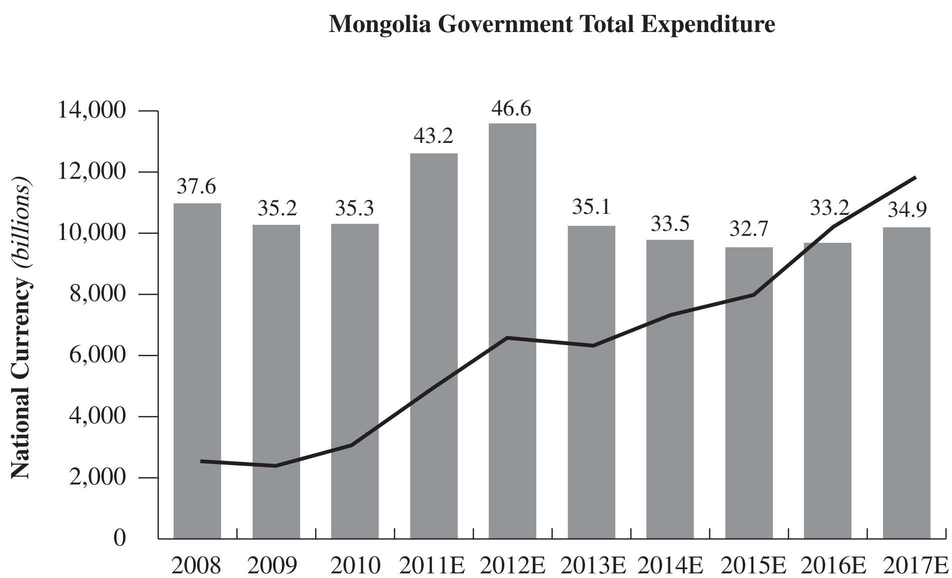


Source: IMF

Inflation

Mongolia shares a border with Northern China. With an increasing appetite for natural resources by China, the Mongolian mining boom has resumed after the 2009 financial crisis. Now, Mongolia is regarded as one of the fastest growing nations in the world. Behind the eye catching 17.5% economic growth in 2011 was the problem of high inflation, caused by a sharp increase in government spending. Government spending rose by 61.1% in 2011 and was expected to rise another 34.7% in 2012. This pro-cyclical fiscal policy might lead to another financial bubble. The inflation rate in 2011 was 7.7% based on IMF data.

FIGURE 2 – General Government Total Expenditure in Mongolia



Source: IMF

Currency

Mongolia's official currency is the Tugrik. The following figure shows a large depreciation of the Tugrik against the US dollar in 1997. The depreciation trend continued from 1998 to 2000. Until the financial crisis in 2009, the Tugrik was stable against the US dollar. As at 30 September 2012, 1 US dollar equated to 1,396 Tugrik. As the Tugrik is not a currency actively covered by analysts, no valid forecast for the Tugrik is found in the market. Overall speaking, using Tugriks for settlement will result in an exposure to substantial currency risk, as no effective hedging mechanism in place.

FIGURE 3 – The currency exchange rate of Tugrik against US Dollar

Source: Bloomberg

China

Economic Growth

Over the past several years, China's economy improved at a rapid growth rate, averaging about 10% per annum. Affected by the financial crises in the United States and the European Union's on-going debt crisis, the global economy slowed down. The growth of China's GDP was unavoidably affected by the global economic downturn and the tightening of China's monetary measures.

TABLE 3 – Real GDP Annual Growth Rate and Inflation of China from 2008 to 2011

	2008	**2009**	**2010**	**2011**
Real GDP Annual Growth Rate *(%)*	9.6	9.2	10.4	9.2
Inflation *(%)*, Average Consumer Price	6.3	(0.7)	3.3	5.4

Source: National Bureau of Statistics of China, China Statistical Yearbook 2011

Even though there is a slowdown in China's economic development, China's economy is still considered as one of the world's fastest growing economies. According to the National Bureau of Statistics of China, the country recorded an annual GDP of RMB47,156 billion in 2011, representing a compound annual growth rate ("CAGR") of approximately 16.87% during the period from 2006 to 2011 when compared to the GDP of RMB21,631 billion in 2006.

According to the World Economic Outlook published by the IMF as of April 2012, China has become the second largest economy in the world after the United States. If China sustains its current growth rate, it will become the largest economy (by nominal GDP) perhaps as early as 2020[1].

TABLE 4 – World GDP

Country	**GDP – Billions of the United States Dollar ("USD")**						
	2011A	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**	**2017F**
United States	15,094	15,610	16,221	16,941	17,784	18,705	19,705
China	7,298	7,992	8,777	9,642	10,581	11,599	12,714
Japan	5,869	5,981	6,061	6,208	6,372	6,531	6,696
Germany	3,577	3,479	3,581	3,664	3,741	3,817	3,893
France	2,776	2,712	2,787	2,885	2,984	3,089	3,198
Brazil	2,493	2,450	2,521	2,691	2,872	3,064	3,268

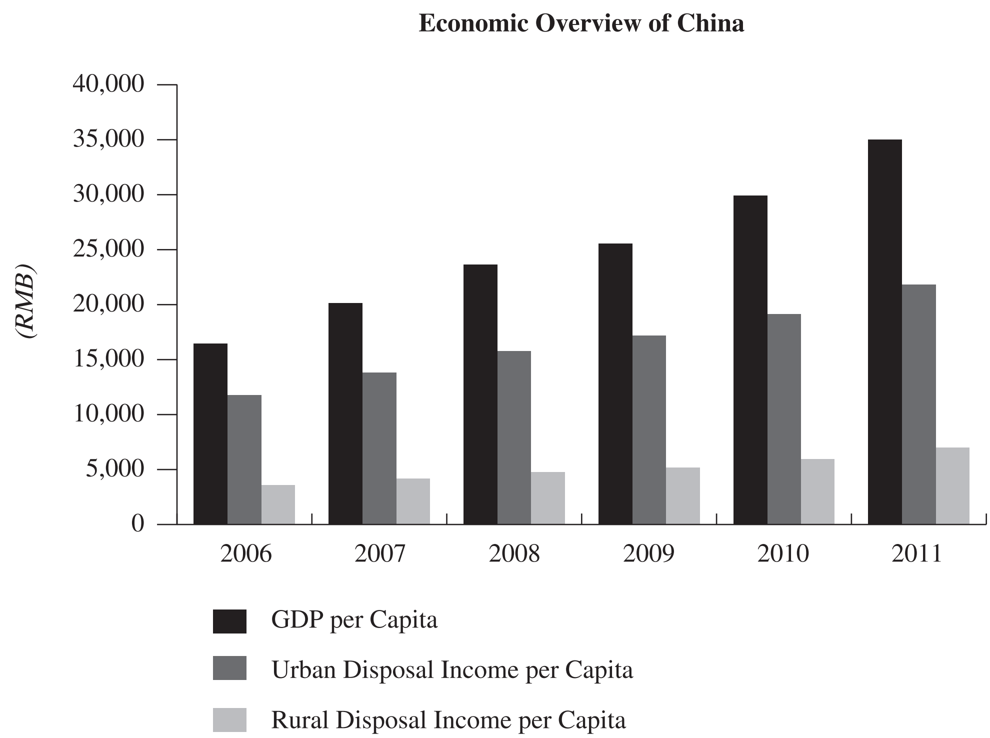
Source: IMF

Along with the rapid economic growth, disposable income levels have grown significantly over past few years. According to the National Bureau of Statistics of China, annual disposable income per capita of urban households in China has increased from RMB11,759 in 2006 to RMB21,810 in 2011, representing a CAGR of approximately 13.15%; annual disposable income per capita of rural households has increased from RMB3,587 in 2006 to RMB6,977 in 2011, representing a CAGR of approximately 14.23%.

[1] Adam, Shamim (14 November 2010). "China to Exceed U.S. by 2020, Standard Chartered Says". Bloomberg Businessweek

The following diagram shows the GDP per capita, annual urban and rural disposal income per capita, and household consumption per capita from 2006 to 2011:

FIGURE 4 – Economic Overview of China

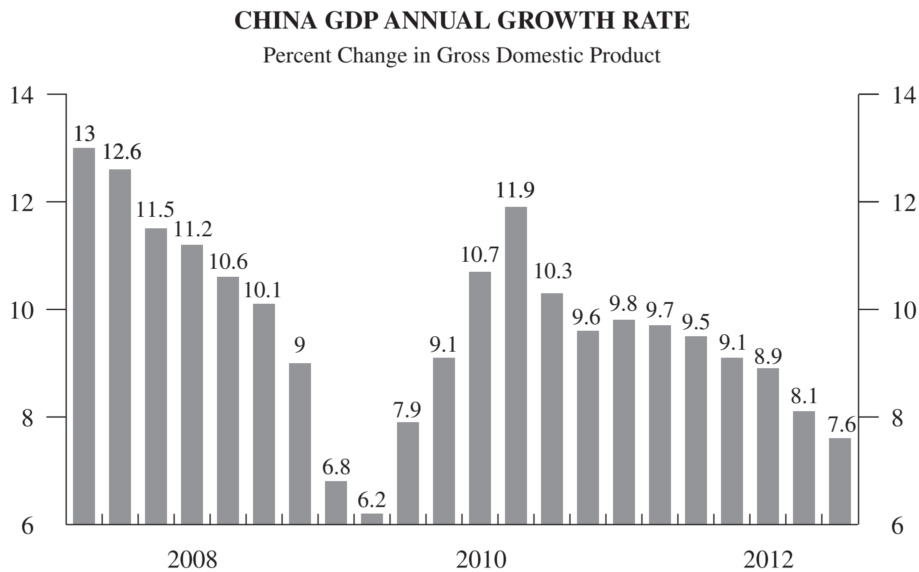


Source: National Bureau of Statistics of China, China Statistical Yearbook 2011

As there are renewed concerns about European Sovereign debt crisis in mid-May to June this year, the momentum of China's economic development has notably slowed down in the mid of 2012.

The following diagram shows the GDP annual growth rate from 2007 to Q2 2012:

FIGURE 5 – GDP Annual Growth Rate in China



Source: www.tradingeconomics.com and National Bureau of Statistics of China

To avoid the hard landing of China's economy and to achieve the target GDP growth rate of 7.5%, the Chinese government has adopted a series of monetary policies and fiscal policies to sustain the economic growth. the People's Bank of China embarked on reductions in the required reserve ratio for banks and recently implemented two interest rate cuts in June and July of this year. In addition, gradual easing of credit conditions, targeted spending on some infrastructure projects, tax incentives for consumers to spend on automobiles and appliances, and more lending to small businesses, have also been carried out.

Inflation

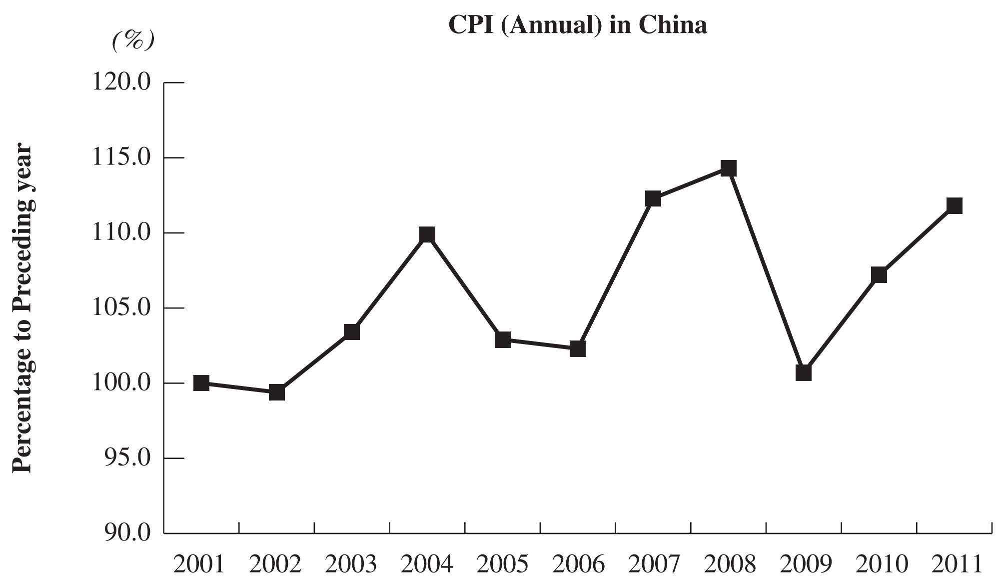
Managing inflation risk has been one of the key missions for China's government from 2010 onwards. However, entering 2012, in view of the slow recovery in the United States economy and weakening demand from European markets, especially those countries with deep debt troubles, China's economy, as reflected by China's GDP growth rate, can only develop at a pace of less than 8% annually. As such, the pressure of inflation was relieved.

The latest economic data released by National Bureau of Statistics of China also indicated that the inflation rate was reported at 1.9% in September 2012, as compared with 4.1% in the end of 2011. The inflation has returned to a more acceptable level, which is within the 2012 inflation target of 4% set by Premier Wen Jiabao in the annual parliament meetings in March 2012. Together with the softer food and commodity prices, China's inflation should maintain its declining trend.

According to the China Economic Outlook published by IMF in April 2012, the average inflation in China is expected to be 3.32% in 2012 and remains at about 3.0% in 2013 and onwards.

The chart below shows the historical CPI-Food in China:

FIGURE 6 – CPI-Food Trend in China (Index Value, Preceding Year = 100)



Source: National Bureau of Statistics of China, China Statistical Yearbook 2011

TABLE 5 – Annual Inflation Forecast

	Inflation, Average Consumer Prices (%)				
	2012F	**2013F**	**2014F**	**2015F**	**2016F**
World	4.04	3.66	3.44	3.36	3.29
Emerging and developing economies	6.20	5.58	5.07	4.81	4.60
China	3.32	3.04	3.00	3.00	3.00

Source: World Economic Outlook of September 2011 (by country group), IMF

Currency

Due to the slowing of external global economic environments and easing of inflation pressure in China, the currency exchange rate of RMB/USD in 2012 is expected to remain the same as in 2011. For the years of 2013 and 2014, according to the forecast released by Bloomberg on 31 July 2012, it is forecasted that RMB will appreciate against USD by around 2.38% and 0.65% respectively, which are slower than that of 2011, with an appreciation rate of around 5%.

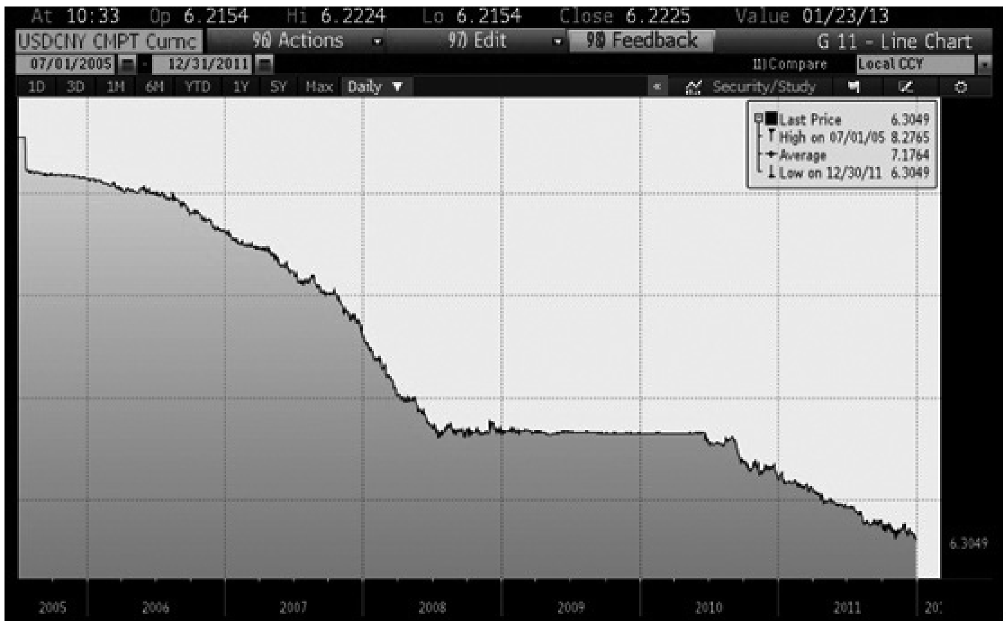
TABLE 6 – The currency exchange rate of RMB/USD forecasts

	2011 Actual	**2012 Forecast**	**2013 Forecast**	**2014 Forecast**
RMB/USD	6.30	6.30	6.15	6.11
Change	5%	0%	2.38%	0.65%

Source: Bloomberg Forecast on 31 July 2012

The following diagram shows the trend in reference to exchange rate of RMB per USD from 2001 to 2011:

FIGURE 7 – Trend in the Reference RMB/USD Exchange Rate



Source: Bloomberg

In the last decade, RMB/USD appreciated continuously, representing a CAGR of approximately 2.68%.

INDUSTRY OVERVIEW

Iron ore is the source of iron ("Fe") in the blast furnace to produce pig iron, which is then converted to steel. The demand for iron ore, especially in Asia and India, has increased over the last decade. China, the logical market for Mongolian iron ore, has shown a dramatic increase in its iron ore imports, from 70 million tonnes ("Mt") in 2000 to 687Mt in 2011. Most of the iron ores imported into China are hematite ("Fe_2O_3"), with lesser tonnages of magnetite ("Fe_3O_4"). Magnetite accounts for about 35% of the iron ore used in steelmaking worldwide. China produced about 1,200Mt crude iron ore in 2011, the largest single producer in a world total of about 2,800Mt (mainly usable ore). Some 98% of usable iron ore production is used to make steel.

Hematite is mainly exported from Australia, Brazil and India, although it is also produced in Russia and Europe. Magnetite is mainly found in China, North America and Australia; Mongolia has magnetite iron ores. Iron ore deposits are now being developed for export from African countries. Iron ore mines are generally developed using open cut mining techniques.

Magnetite deposits are tested for its magnetic properties using a Davis Tube, a test used for decades, which tests magnetites of various sized particles in various magnetic field strengths to assess the optimum conditions for upgrading.

Hematite fines (about 10mm x 0 size) are upgraded in sinter plants for feeding into the blast furnace and hematite lumps (about 10mm x 40mm) are fed directly into the blast furnace. Magnetite is ground after production to produce fines of only 25 to 150 microns top size (100 microns is one tenth of a millimeter), since it needs to be reduced in size to separate it from associated minerals and then upgraded using magnetic separators, usually in a water slurry, but sometimes as dry fines. Magnetite deposits have associated minerals with the magnetite, such as copper, vanadium and titanium. Magnetite fines are normally processed as balled pellets of about 20-30mm diameter using a binder (such as bentonite clay) at higher iron content for the blast furnace, but are sometimes used in DRI (Direct Reduction Iron) furnaces to make steel.

Hematite ores mainly vary in % Fe from about 50% to 65%, with a trend to reducing average % Fe contents in traded hematite ores in recent years. Magnetite ores are lower in % Fe (generally 25% to 40% Fe) and are upgraded to 55% to 70% Fe using magnetic separators.

Magnetite concentrates have the advantages of being cleaner, due to its upgrading as finer sized particles, and also generating heat in the furnace during refining, requiring less energy to produce steel than hematite.

Typically magnetite deposits are smaller and have higher processing costs, so the margins are generally lower than for hematite deposits. More recently some large magnetite deposits have been developed.

Iron ores were until recently mainly sold on an annual pricing basis, but in 2010 they moved to quarterly pricing for term contracts and spot pricing. As at 30 September 2012 the iron ore prices were near the bottom of an unusually volatile spot period; the spot price was about USD105/t C+F China Port for 62% Fe iron ore, while domestic Chinese iron ore spot prices were about RMB650/t (USD103.40/t) for an average of about 65% Fe magnetite iron ore. For Oyut Oovo iron ore of 60% Fe this equates to USD101.60/t for spot pricing of imported ore and USD95.45/t for spot pricing of Chinese ore. Assuming that the cost of delivery to a Chinese steel plant from a Chinese port is equivalent to delivery from the Mongolian/Chinese border to a Chinese steel plant, the Project is profitable, if their concentrate was sold into the then prevailing Chinese market.

Spot prices have increased since 30 September 2012, but are still lower than for the previous 3 months (average USD120/t) and much lower than for the first half of 2012 (average USD135/t).

FIGURE 8 – China import Iron Ore Fines 62% Fe spot (CFR Tianjin port) USD/metric tonne

Source: Bloomberg

Reports of discounting of mineral prices sold over the Chinese/Mongolian border are known, due to the fact that there are no alternative markets to China, with known efforts to create a rail link north to the Trans Siberian Railway to provide an alternative route to markets other than China. Evidence of this discounting was established for coal from the visit. This may be able to be overcome by contracting directly with a Chinese steel plant.

COMPANY OVERVIEW

North Asia Resources Holdings Limited (the "Company" or "Commissioning Entity")

The Company, formerly named Green Global Resources Limited, is a mineral exploration and development company currently focused in Mongolia. Its principal business is focused on strategic investments in the mining sectors. The shares of the Company are listed on the main board of the SEHK under the stock code 0061.

North Asia Resources Group Limited ("NARG")

NARG is an investment holding company incorporated in British Virgin Island with limited liability on 29 May 2009. The principal asset held by NARG is the 99.99% equity interest in Mineral Asset.

Golden Pogada LLC ("Golden Pogada")

Golden Pogada is a company incorporated in Mongolia with limited liability on 18 January 2007 and is principally engaged in geological survey, exploration, development of coal and other mineral deposits (mining operation) and trade. As at the Valuation Date, the Company owns 99.99% equity interest in Golden Pogada. Golden Pogada owns a mining right for mining of iron ore and/or related minerals ores from the Mineral Asset.

OWNERSHIP OF THE MINERAL ASSET

The chart below shows the ownership structure of the Mineral Asset and NARG as at the Valuation Date.

FIGURE 9 – Ownership of the Mineral Asset as at the Valuation Date

We have received confirmation from the management of Golden Pogada that as at the Valuation Date, the minority equity interest of the Mineral Asset is held by a Mongolian resident.

BUSINESS OVERVIEW

Golden Pogada is principally engaged in geological survey, exploration, development of coal and other mineral deposits and trade. Golden Pogada owns a mining right of iron ore and/or related minerals ores from the Mineral Asset.

In 2009, the Company acquired 99.99% of equity interest of Golden Pogada and Golden Pogada, through NARG, became one of the subsidiaries of the Company. The Company developed a business plan based on SRK's Technical Plan dated 23 November 2009. In accordance to the Technical Plan, taking into account the iron resources of the Mineral Asset and the maximum production capacity of 5.7 million tonnes per annum ("Mtpa"), the term of the production plan would be for a 15-year period with assumed water supply and consumption of approximately 2,250,000 tonnes of water usage per annum.

Subsequent to the financial year ended 31 December 2009, Golden Pogada commenced preparation work at the mine site in accordance with the business plan. It also started to carry out water drilling work for application of water usage. Local drilling companies and hydro-geologists were engaged to conduct water drilling in the site area in May 2010. At around end of December 2010, the hydro-geologists submitted the results of the water drilling to the local government for approval. The water drilling results were not satisfactory and the supply of water in the site area was far below the expected volume. On 25 January 2011, the Company received water approval from the government authority with 1,846.3m^3 of water usage per day, representing approximately 674,000 tonnes of water usage per annum. The aforesaid approved water usage level was around 70% less than the volume of water supply originally expected, and therefore insufficient for the full implementation of the original business plan. In view of the substantial decrease in the approved water level and after consulting its professional advisors (including SRK and Beijing General Research Institute of Mining and Metallurgy), the Company decided to revise the business plan based on the level of approved water usage. In the revised business plan, the maximum production capacity was therefore reduced by 70% to 1.5Mtpa. The reduction in the maximum annual production capacity prolonged the production plan significantly.

Trial production commenced in the first half of 2011 with an initial production of approximately 13,000t of iron. However, production was halted in July 2011 due to technical issues with the processing equipment. Towards the end of the year, when the technical issue have almost been resolved pending further testing and fine tuning of the equipment, the Company consulted its logistics partner, China Railway Mongolia Limited ("China Railway") with regards to the sales logistics of its iron ore products. Since it had not yet established the required scale of production when they negotiated, the Company would have to bear the logistics related costs of transporting the iron ore products from the mine site to Erenhot, the border town near to China. The cost to transport the iron ore products from the site to Erenhot and to sell the ore was approximately RMB450/t. Furthermore, due to the technical issues encountered by the Company in the first half of 2011, the production schedule was delayed by 12 months. The business value of the Mineral Asset based on the Company's revised business plan as at 31 December 2011 reduced to approximately HKD531.8 million. In 2012, the Company engaged SRK to prepare Technical Report which estimated the resources and reserves in compliance with JORC Code. Currently, the mine operation is on hold and waiting on further instructions from the Company.

Mining of the Project presents some challenges, mainly as a consequence of its location, which is distant from the nearest railway line and has low water availability. In the Technical Report, SRK has proposed a 2Mtpa operation, Greater China and its consultants believe that the current dry separation plant limits production to 1.564Mtpa and would require additional separation capacity for a production rate of about 3Mtpa, which seems to be a more practical rate, given the existing treatment plant.

The mining scenarios considered were:

TABLE 7 – Different Mining Scenarios of the Project

Scenario	**Mining Rate** *Mtpa*	**Concentrate** *Mtpa*	**Conc Grade** *% Fe*	**Conc Yield** *%*
1	1.564	0.463	60	30
2	3.090	0.923	60	30
3	2.000	0.829	66	44

Scenario 3, suggested by SRK, proposed wet magnetic separation, achieving a higher final product grade and associated product yield.

Limited bore water is available and would sustain a mining scenario of up to 3Mtpa with dry separation; a 2Mtpa production rate with wet separation is considered to be a riskier scenario as it exposes an additional risk from water supply and hence it might not be deliverable.

While copper is associated with the magnetite iron in the ore body, it is not continuous through the ore body and copper has not been considered as an economic product at this time, as it would require further processing on site, for which there is no recovery plant currently available on site or known to exist in the region.

SRK estimated the capital expenditure ("Capex") to be about USD50M and the operating costs to be about:

TABLE 8 – Operating Cost estimated by SRK

Items	**Raw Ore** *(RMB/t)*	**Raw Ore** *(USD/t)*	**Concentrate** *(RMB/t)*	**Concentrate** *(USD/t)*
Mining Cost	20.00	3.16	48.20	7.63
Processing Cost	25.00	3.96	60.25	9.53
Selling Costs	186.72	29.54	450.00	71.20
Management Fee	20.00	3.16	48.20	7.63
Resource Tax	24.90	3.94	60.00	9.49
TOTAL	276.62	43.77	666.65	105.48

The selling cost was advised as including the transport costs to an unknown Chinese steel plant under a Letter of Intent with the China Railway, which wasn't sighted.

Separate enquiries indicated that the truck transportation from the mine to the nearest Mongolian railway loading point at Choyr would be about 270km over poor unsealed roads with about 80tonnes of concentrate per truckload – this would cost about RMB135/t (USD21.50/t). Iron ore can be loaded at about 200 tonnes per hour ("tph") at Choyr into rail wagons holding about 65/t iron ore each in trains with about 60 wagons, being about 5,000/t iron ore per train load due to about 15 tonnes weight of each wagon (sometimes 6,000/t per train load with two locomotives). Loading cost at Choyr is about USD4/t. Railing from Choyr to Erenhot at the Chinese border is about 460km and costs about RMB87/t (USD13.85/t). During the winter priority of the small number of trains is given to coal and railing iron ore is therefore mainly in the period March to October; iron ore also tends to freeze and stick to the wagon floor. Various cost estimates have been made by several companies, with an average total cost from the mine to the Chinese border being RMB182/t (USD29.00/t) but advice received from the visit indicates the total cost is more likely to be about RMB220/t (USD35/t).

There is an option to truck iron ore from the mine site to the Chinese border, but this is some 550km over bad roads; cost would be about RMB275/t (USD43.75/t). This has advantages in terms of delivery into a stockpile on the Chinese side of the border for loading into Chinese trains, but it's not a favored option.

Since the rail gauge is different in Mongolia to China, the iron ore has to be discharged to stockpile at the border and then re-loaded onto Chinese trains. This occurs over a 1.5km stretch of rail lines. The cost of unloading and stockpiling is about USD4/t to discharge the iron ore from Mongolian trains and re-load onto Chinese trains, plus the railing cost to a steel plant. There are steel plants in Northern China who could utilize this iron ore, but no effort has been made to try to identify potential steel plant customers, or the cost of railing to them, as it wasn't in the brief.

The option of handling the iron ore transport from the mine to a Chinese customer is therefore going to be about USD50-60/t, plus the marketing costs to a Chinese steel plant customer; this compares with the cost of USD71.20/t apparently on offer from the China Railway. Cost of Oyut Oovo iron ore delivered to the Chinese border is about USD90/t, based on doing the transport and marketing of the ore to a Chinese steel plant independent of the China Railway.

THE MINERAL ASSET

The Mineral Asset owned by Golden Pogada comprises an iron ore mine named Oyut-Ovoo Iron Project. Details of the Project are presented as follows:

1. Location, Access and Infrastructure

The Mineral Asset is made up of one mining tenement, No. 15333A, and consists of four mineral deposits, and ore treatment plant and associated infrastructure. It is located approximately 280km southwest of Ulaanbataar and is administered by the Dundgovi Province in Mongolia.

FIGURE 10 – Map of Mongolia

Source: The Company

The local commercial centre is Tsagan Ovoo, about 7km to the northwest and grid power is available at the mine site. There is an open pit coal mine 10km to the west and good quality water has been detected from 20m depth in the project area, and is currently in use, under a permit allowing 1846.3m^3 per day.

2. Property Ownership

As detailed earlier in this report, Golden Pogada owns 100% of the mining rights and is in turn 99.99% owned by the Company as at the Valuation Date. Besides the mining permit, an associated 250 hectares land use permit 0002458, expiring 14 May 2025 was sighted.

3. Climate and Physiography

At 1,564,116km^2, Mongolia is the world's 19th-largest country (after Iran). It is significantly larger than the next-largest country, Peru. It mostly lies between latitudes 41˚ and 52˚N (a small area is north of 52˚), and longitudes 87˚ and 120˚E.

The geography of Mongolia is varied, with the Gobi Desert to the south and with cold and mountainous regions to the north and west. Much of Mongolia consists of steppes. The highest point in Mongolia is the Khüiten Peak in the Tavan bogd massif in the far west at 4,374m. The basin of the Uvs Lake, shared with Tuva Republic in Russia, is a natural World Heritage Site. Most of the country is hot in the summer and extremely cold in the winter, with January averages dropping as low as -30˚C.

The country is also subject to occasional harsh climatic conditions known as zud. The annual average temperature in Ulaanbaatar is 0˚C, making it the world's coldest capital city. Mongolia is high, cold, and windy. It has an extreme continental climate with long, cold winters and short summers, during which most of its annual precipitation falls. The country averages 257 cloudless days a year, and it is usually at the center of a region of high atmospheric pressure. Precipitation is highest in the north (average of 200 to 350mm (7.9 to 13.8 inch) per year) and lowest in the south, which receives 100 to 200mm (3.9 to 7.inch) annually. The highest annual precipitation of 622mm occurred in the forests of Bulgan Province close to the border with Russia and the lowest of 41mm occurred in the Gobi Desert (period 1961-1990). The sparsely populated far north of Bulgan Province averages 600mm in annual precipitation which means it receives more precipitation than Beijing (571.8mm) or Berlin (571mm).

The name "Gobi" is a Mongol term for a desert steppe, which usually refers to a category of arid rangeland with insufficient vegetation to support marmots but with enough to support camels. Mongols distinguish Gobi from desert proper, although the distinction is not always apparent to outsiders unfamiliar with the Mongolian landscape. Gobi rangelands are fragile and are easily destroyed by overgrazing, which results in expansion of the true desert, a stony waste where not even Bactrian camels can survive.

4. History of Exploration and Production

Previous exploration on the property was conducted by teams respectively from the Soviet Union, Mongolia and Russia. This appears to have consisted of geological mapping, geophysical fieldwork, sampling, trenching and drilling.

Oyut Ovoo has been known as a copper occurrence for more than two centuries. Reportedly the initial exploration work on Oyut Ovoo deposit area was done in the 19th century by Chinese prospectors, and a pit for mining copper still remains in the southern part of the license area.

Prior to 1961, geological teams from the former Union of Soviet Socialist Republics (USSR) had done some geological survey in this area; in 1961 a Mongolian geological brigade took over and conducted another investigation on the same area.

In 2004, five drill holes were drilled by Mongolian Asia Gold Mining LLC for the purpose of copper deposit prospecting in the deposit area. In 2008, Mongolian Geo-Oron LLC Limited conducted a magnetic survey and shallow drilling. Work conducted before 2009 can be partially traced with some remaining documents and maps.

In order to develop this project, Golden Pogada commissioned China Non-ferrous Metals Resource Geological Survey ("CNMRGS") to carry out geological and geophysical surveys in 2009. The exploration program included a topographic survey, geological mapping, a magnetic survey, and trenching and drilling. The following sections present details of the works completed by professional teams on behalf of Golden Pogada in 2009. This included 9,253m of trenching and 5,854m of drilling.

5. Geology

The following geological information was made available to us by the Company and is taken from the Technical Report.

Regional Geology

The Mineral Asset is located in the transition zone between the Siberian Plate, China-Korean Plate, and Tarim Plate. Locally the oldest strata are represented by an Archaean to lower Proterozoic basement, composed of biotite gneiss and granite gneiss, overlaid by Neoproterozoic carbonatite and schist, and the upper part of which is covered by carbonatite from shallow sea or shore sediments. Above the basement, regional strata are represented by formations from the Palaeozoic to Mesozoic and Quaternary Eras. Significant formations include the following:

– Silurian, sandy slate and carbonatite, formed by sediments in shallow sea environment;

- Devonian, carbonatite, continental sedimentary rock, and reef limestone;
- Permian, clastic rocks and carbonatite;
- Jurassic, coarse clastic rocks;
- Cretaceous, continental clastic sediments, including argillaceous limestone and organic shale;
- Quaternary, valley alluvial, loess and clay.

Tectonically the region is located in the Idermeg tectonic zone, where two groups of northeast- and northwest-oriented major faults are developed. In the Idermeg Terrane these faults incise the Permian intrusive rocks and the strata formed in the Cretaceous and Permian periods.

Regionally the magmatic rock types are mainly intermediate to acidic rocks. The major intrusive rocks are diorite and granite. Abundant mineral resources and various types of deposits are found in Dundgovi Province in Mongolia. In the Project region, iron and copper deposits and occurrences are widely distributed as skarns mostly related to magmatic hydrothermal activities. Non-metal properties such as coal, kaolinite, fluorite, and oil shale are found or developed as well.

Deposit Geology

The lithology discovered by drilling and trenching program in the central deposit zone is mainly represented by Silurian and Devonian sedimentary rocks, primarily limestone, argillaceous sandstone, and siltstone. Tectonic and intrusive rocks are marked by hornfels, diorite, and granite. The outcropped strata in the property area are as below.

- Quaternary System

  The Quaternary system is characterised by valley alluvial, glacial deposit or outwash in high mountain area, with eolian loess and placer gold occurrences.

- Silurian and Devonian System

  The strata are represented by limestone, limestone-siltstone and argillaceous sandstone.

The main intrusions in the deposit area occurred in the Permian Era, and the intrusive rocks can be classified as three types of facies:

– Dark green pyroxene diorite and diorite;

– Grey intermediate- to coarse-grained biotite-hornblende granite; and

– Grey fine-grained granite porphyry.

Oyut Ovoo is a skarn-type deposit with magnetite and copper mineralisation; the deposit is characterised by magnetite and copper enriched zones. Based on a detailed exploration program including surface trenching and drilling carried out in 2009, a total of four iron mineralised bodies, #1, #2, #3, and #4, were defined in an area of about 1,200m east to west by 900m north to south within the Project area. Of these four mineralised bodies, #2, #3, and #4 are mainly iron bodies, and mineralised body #1 is an iron and copper body. The main characteristics of the mineralised bodies are described below.

Mineral Deposit Geology

Mineralised Body #1

Mineralised body #1 is located at the southernmost part of the mineralised zone and is intersected by several trenches and six drill holes. It extends nearly north westerly at 325° for 200m and reaches down-depths of 290m, dipping toward the southwest at an angle of 85° with thicknesses ranging from 20m to 60m. The average grades of total iron ("TFe"), magnetic iron ("mFe"), and copper ("Cu") of mineralised body #1 are 40.83%, 28.98%, and 0.72%, respectively.

Mineralised Body #2

Mineralised body #2, situated at the central part of the zone, is controlled by trenches and 12 drill holes, and extends nearly northeasterly at 55° for 760m. It reaches down-depths of 260m, dipping toward the southeast at an angle of 85° with thicknesses ranging from 40m to 200m. The average grades of TFe and mFe are 41.28% and 29.73%, respectively. The copper mineralisation is intersected by 8 boreholes at the northeastern part of mineralised body #2 but barren copper mineralisation extends from the central part toward the southwestern end of the body.

Mineralised Body #3

Mineralised body #3, controlled by trenches and 13 drill holes, is located at the northwestern part of the zones and extends generally to the northeast at 55˚ for 760m. It reaches down-depths of 280m, dipping toward the southwest at an angle of 85˚ with thicknesses ranging from 40m to 100m. The average grades of TFe and mFe are 40.95% and 29.84%, respectively. The copper mineralisation is found in f5 drill holes in the northern part of the body.

Mineralised Body #4

Mineralised body #4 is located at the north easternmost part of the defined mineralised zone. Controlled by surface trenches and 4 drill holes, it extends to the northeast at 25˚ for 210m and reaches down-depths of 280m. Mineralised body #4 dips toward the southwest at an angle of 85˚ and has thicknesses ranging from 70m to 100m. The average grades of TFe and mFe are 38.57% and 28.43%, respectively. The copper mineralisation in mineralised body #4 is not continuous down the dip or along the strike.

Ore Mineralogy

Chemical Composition

Assay results from the mineralised drill cores and trenches show that iron and associated copper are the main economically viable metals. Harmful elements, such as sulphur ("S") and phosphorus ("P"), are detected in relatively low concentrations. Analysis of drill cores and trench samples shows that most samples contain less than 0.30% S and 0.25% P.

Ore Types and Texture

Based on the ore texture and the combination of ore mineral compositions and metal contents, the ore can be classified as semi-massive to massive magnetic ore, disseminated copper-bearing magnetic ore, and brecciform copper bearing magnetic ore. The ore minerals are mainly magnetite, hematite, chalcopyrite, bornite, and pyrite. The gangue minerals are calcium-iron garnet, quartz, sericite, biotite, epidote, chlorite, and carbonate minerals.

Semi-massive to massive magnetite ore contains more than 80% magnetite with euhedral to semi-euhedral granular texture, with grain sizes of 0.5 to 1.0mm in diameter. Gaps between magnetite minerals are filled with 10 – 15% quartz and/or feldspar, and small amounts of garnet, chlorite, calcite, and hematite.

Disseminated copper-bearing magnetite ore consists of about 50% magnetite of semi-euhedral to euhedral granular texture, with grain sizes of 0.05 to 0.06mm in diameter. Gangue minerals are dominated by quartz (40%), with small amounts of chalcopyrite, garnet, epidote, chlorite, hematite, and hornblende.

Brecciform copper-bearing magnetite ore is dominated by 50 – 55% skarn breccias with particle sizes of 2 to 20mm, containing mainly magnetite (15 – 30%), calcium-iron garnet, and secondary quartz, and small amounts of chalcopyrite, garnet, epidote, chlorite, hematite, and hornblende.

The magnetite is hosted in garnet skarn with garnet content varying from 25% to 65% and in-fill minerals dominated by quartz, chlorite, and pyrite. The wall rocks are weakly mineralised and contact with ore bodies presents as metasomatic.

Subsequent sampling, assaying and mineral resource estimation was validated by SRK as being of an acceptable standard.

6. Mineral Resources and Mineral Reserves

The table below shows the resources and reserves information of the Mineral Asset as at the Valuation Date.

TABLE 9 – Resources and Reserves Information

Mineral Assets	**Million Tonnes** *(Mt)*	*TFe%*	*mFe%*
Measured Resources	7.697	40.47	29.26
Indicated Resources	39.462	40.35	29.12
Inferred Resources	43.339	40.30	29.20
TOTAL RESOURCES	**90.498**		
Proved Reserves	7.678	38.55	27.86
Probable Reserves	39.363	38.43	27.73
TOTAL RESERVES	**47.041**		

7. Mine Life Analysis

The lives of mines vary significantly due to different ore reserves and production capacity of each mine, though in most cases, the life of an operation will be equal to its ore reserve divided by its production rate (assuming that no mineral resources are converted to additional ore reserves during the mine's life).

Using this approach, it is possible to formulate various theoretical production scenarios, based on realistic mine lives which are neither too long nor too short.

8. Mining and Processing Operations

Golden Pogada planned to exploit the deposit by conventional open pit mining, using hydraulic excavators and rigid form mine trucks, delivering run of mine ore to a primary crushing facility and waste to selected waste dump areas. From a technical and economic perspective, both SRK and our valuation team agree with this approach. At the time of our visit, no mining fleet was on site, but the necessary trucks are readily available in Mongolia.

9. Production Forecast & Business Plan

At the time of our visit, Golden Pogada had developed a number of production alternatives for the Project, based on dry magnetic separation of the magnetite from the gangue material. All options involved trucking the concentrate to the railhead at Choyr (on the Chinese border) and then railing from there to Erenhot, Inner Mongolia, for eventual sale in China.

A feasibility study was seen, calling for a mining rate of 0.3Mtpa and dry magnetic separation to produce approximately 100 thousand tonnes per annum ("ktpa") of saleable magnetite. This plan was rejected as being far too low in scale to be economic. A more realistic plan with a mining rate of 5.75Mtpa was also known to be in early feasibility analysis, although no business plan for that was completed. SRK recommended an alternative 2Mtpa plan, this time based on wet magnetic separation, producing 800ktpa of concentrate at a grade of 66% Fe and a concentrate yield of 44%.

For the purposes of DCF modelling of the Project, our valuation team devised different scenarios. For the details of the scenarios, please refer to Table 7 – Different Mining Scenarios of the Project.

The results of these evaluations will be set out later in this report.

10. Site Visit

We conducted a site visit to the Mineral Asset on 2 October 2012. Detailed information was provided in various forms, including maps and tables, and during question and answer sessions.

11. Photos

Please refer to Appendix B for photos of the Project.

VALUATION METHODOLOGIES

The valuation of any asset can be broadly classified into one of three approaches, namely cost approach, market approach and income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed the most relevant will then be selected for use in the Fair Market Value Analysis of that asset. While there are many methods that can be used to determine the Fair Market Value of a company or project comprise of tangible or intangible assets, this specific assignment dictates that certain methodologies are inappropriate for this purpose. We will begin by discussion of each of the methods under the three approaches and provide reasons for unsuitable methods and conclude the methods that will be used in this valuation.

FIGURE 11 – Different Valuation Methodologies

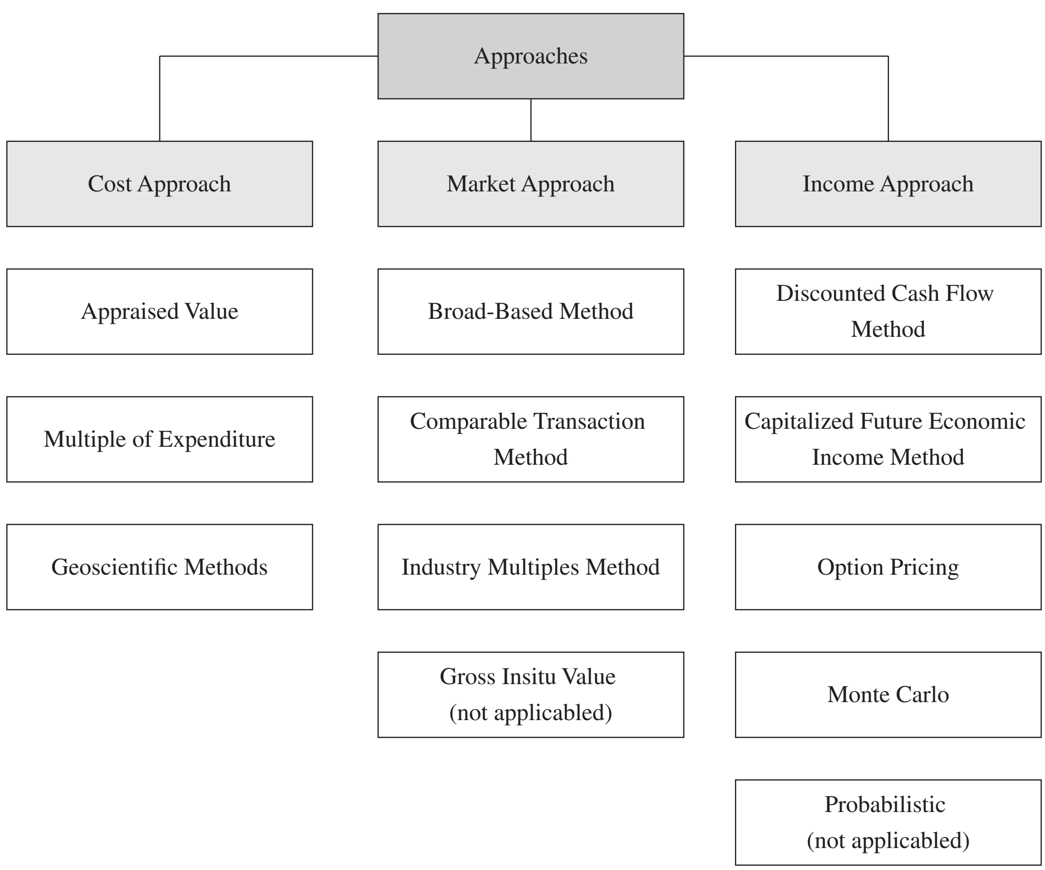


TABLE 10 – Applicable Valuation Approaches for Different Stages of Mining Operation

	Valuation Approach		
Stage of Mining Operation	**Cost**	**Market**	**Income**
Exploration Properties Mineral property that has been acquired, or is being explored, for mineral deposits.	Yes	Yes	No
Mineral Resource Properties Mineral property which contains a mineral resource that has not been demonstrated to be economically viable by a feasibility study or prefeasibility study.	Some cases	Yes	Some cases
Development Properties Mineral property that is being prepared for mineral production (or which is not yet financed or under construction) and for which economic viability has been demonstrated by a feasibility study or prefeasibility study.	No	Yes	Yes
Production Properties Mineral property with an operating mine, with or without a processing plant, which has been fully commissioned and is in production.	No	Yes	Yes

Cost Approach

Cost approach is based on the principle of contribution to value. It evolves from the cost principle of accounting, on which most business financial statements are based. It is also known as the asset-based approach. The fundamental accounting principle is the book value of assets minus the book value of liabilities equals the book value of the business owners' equity. In valuation, the fundamental valuation principle is the current value of assets minus the current value of liabilities equals the current value of the business or project owners' equity. They are economics identities. Based on the purpose and objective of the valuation, the valuer will apply the appropriate standard of value to the subject equity interest. If an asset-based approach is used, the valuer will apply a corresponding appropriate standard of value to all of the assets and liabilities of the subject company or project. One of the most commonly used methods is the appraised value method for which the Fair Market Value of the mineral asset approximates the amount of exploration expenditure incurred/likely to be incurred. Asset accumulation method is also widely used in which valuer restates all of the assets and liabilities of the subject company from their historical cost basis to the appropriate standard of value.

Market Approach

While there are many ways to determine the value of mineral assets, one of the most reliable and the most likely to be accepted to resolve legal disputes is based on the price as determined by actual market transactions.

In market approach, 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. For market approach to be used, there must be a sufficient number of comparable companies/transaction to make comparisons, or, alternatively, the industry composition must be such that meaningful comparisons can be made.

There are several different methods and variations under this approach:

Broad-based Method: It consists of determining the value of mineral assets by comparing it with the values of similar mineral assets under similar circumstances. This method is more difficult when applied to mineral assets because the underlying mineral assets have a number of unique characteristics that make it complicated to perform direct comparisons between different situations; characteristics such as quality and quantity of each mineral, mining and processing systems and costs, production quantities and products, and location and schedule of mining.

Comparable Transaction Method: Value is determined on a per unit basis, such as value per tonne. Differences in the mineral and property characteristics are reflected in the unit value of the mineral.

Industry Multiples Method: This method involves comparing the value of two or more publicly traded companies on the basis of stock price. If one of the companies is not publicly traded, financial and performance ratios taken as indicators of stock worth can be determined and compared.

Income Approach

Income approach is based upon the economic principle of anticipation (sometimes also called the principle of expectation). In income approach, the value of the subject investment is the present value of the economic income expected to be generated by the investment. This is a general way of determining a Fair Market Value of a mineral asset by converting anticipated benefits into a present value amount.

In 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.

Major methods commonly used under this approach are Discounted Cash Flows Method ("DCF") and Capitalized Future Economic Income Method.

Methods Considered but Rejected

Cost Approach

The Mineral Asset is identified to be in the pre-production stage. We considered but rejected cost approach to arrive at the Fair Market Value of the Mineral Asset and 100% equity interest in NARG as at the Valuation Date. The explanations for rejecting this method as a whole are as follows:

– The amount of exploration expenditure incurred/to be incurred do not truly reflect the value of the Mineral Asset on the basis of the followings:

  • Expenditures that had been incurred do not provide tangible evidence of residual or future value;

  • Expenditures that are likely to be incurred are not always indicative of future value; and

  • It is not always the case that expenditures can be incurred efficiently and be fully reflected in the value of the Mineral Asset.

– It does not address technical or economic aspects of the prospects of the commodity market and financial market, economic conditions or country risk; and

– Each mineral reserve and resource is unique as it varies from the geological structure of the mineral assets to mineral grading, etc. The values of the Mineral Asset and 100% equity interest in NARG depend on the their underlying values. The value of the Mineral Asset, and hence the equity interest in NARG is determined by the amount of reserves/resources in the mine deposits from which economic benefits can be derived, rather than the expenditure spent on the exploration.

However, we have incorporated the existing book value HKD513.8 million in Summary of Results for the easy reference.

Market Approach – Broad-based Method

It is very difficult to apply the Broad-based Method to mining assets. We considered but rejected this method to be applied to this valuation to arrive at the Fair Market Value of the Mineral Asset and 100% equity interest in NARG as of the Valuation Date for the following reasons:

– Market approach is the approximate transaction price of a company/business/asset. Direct comparison of natural resources is often difficult;

– Mining asset often consists of a number of unique characteristics that make direct comparisons complicated, such characteristics include, but are not limited to quality and quantity of each mineral, mining and processing systems and costs, production quantities and products, and location and schedule of mining; and

– Available public information in relation to the 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 value of the transaction.

Market Approach – Industry Multiples Method

We have considered but rejected Industry Multiples Method to arrive at the Fair Market Value of the Mineral Asset and 100% equity interest in NARG as at the Valuation Date for the following reason:

– It would be very difficult to compare two iron mining companies on the basis of stock prices as the comparison on the basis of stock prices cannot reflect the difference in the value of the underlying mineral assets.

Valuation Methods Considered and Applied

Market Approach – Comparable Transaction Method

Comparable Transaction Method is finally considered as one of the methodologies used to arrive at the Fair Market Value of the Mineral Asset as at the Valuation Date since it can provide additional information to investors about the value of the Mineral Asset and hence indicated whether the offer of selling the Mineral Asset is reasonable when compared with other similar transactions. We have considered and accepted this method because:

– Sufficient number of recent comparable transactions can be identified; and

– Even though the Comparable Transaction Method is a high level comparison, it provides additional information to the investors about the value of the Mineral Asset when comparing with other similar transactions.

Income Approach – DCF Method

After careful consideration of the DCF method under income approach, we arrived at the conclusion that this method is suitable for the purpose of this valuation and therefore, we have adopted the DCF method as one of the methodologies to arrive at the Fair Market Value of the Mineral Asset and 100% equity interest in NARG as at the Valuation Date. We have considered and accepted this method because:

– Economic benefit streams of the Mineral Asset, and hence value for NARG, can be identified and ascertained based on the production schedule and estimated capital expenditure to be incurred, as well as other cost estimates as detailed in the Technical Report; and

– This method is commonly used in and widely accepted for the valuation of mineral assets and resources projects.

GENERAL ASSUMPTIONS OF VALUATION

A number of assumptions have to be established in order to sufficiently support our conclusion of the Fair Market Value of the Mineral Asset and 100% equity interest in NARG. The general assumptions adopted in the valuation are:

- there will be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in Mongolia and China;
- there will be no major change in the current taxation law in Mongolia and China, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
- there will be no material change in interest rates or foreign currency exchange rates from those currently prevailing;
- future revenue growth for the Mineral Asset will conform to those forecasted;
- cost expenses and profit margins will conform to those forecasted by the management of Golden Pogada and the Technical Report;
- depreciation policy is subject to its individual accounting policy; and
- the Project can retain competent management, key personnel, and technical staff to support on-going operation.

MARKET APPROACH – COMPARABLE TRANSACTION METHOD

Comparable Transaction Method is considered as one of appropriate method to reflect Fair Market Value of the Mineral Asset.

Our development of the Fair Market Value under the Comparable Transaction Method is determined on a per unit basis, such as value per tonne. Differences in the mineral and property characteristics are reflected in the unit value of the mineral. The mineral prices need to be adjusted by comparing the actual transaction parameters such as mineral price level at the transaction occurred, reserves or resources volume of the mine being acquired, grading of mineral assets being acquired and development stage of mine being transacted. This process is referred to as normalization.

In the valuation of the Mineral Asset, five comparable transactions were considered to be comparable and their details are listed as follows:

TABLE 11 – List of Comparable Transactions

	Transaction 1	Transaction 2	Transaction 3	Transaction 4	Transaction 5
Acquirer	Shandong Iron & Steel Group	Liberty Metals & Mining Holdings LLC	Champion Iron Mines Ltd	New Pages Investment Ltd	Jiang Xi Ping Steel Industrial Co. Ltd
Location(s)	Tonkolili Iron Ore Project (West Africa)	Alderon Iron Ore Corp (Canada)	Fermont Properties Holdings (Canada)	Ironclad Mining Ltd. (Australia)	Winmar Resources Ltd. (Australia)
Bloomberg Ticker	SISGZ CH	4628819Z CN	CHM CN	NEWPZ HK	0122433D CH
Completion Date	30/3/2012	16/1/2012	18/5/2012	11/1/2012	5/1/2012
Consideration *(HKD'000)*	11,700,000	306,150	154,206	48,204	5,070
Acquired Interest	25.00%	15.02%	17.50%	9.02%	8.50%
Resources *(kt)*	6,074,575	619,250	365,350	65,810	46,920
Grade	30.40%	29.75%	28.79%	26.79%	54.70%
Reference Mineral Price *(USD/t Fe)*	147.6	140.5	131.3	142.2	139.9

Median of the adjusted price had been adopted and the estimated value was calculated by multiplying the total measured and indicated resources of 47.159 Mt. Moreover, since the iron ore price fluctuates significantly from time to time, we also considered the effect on estimated value due to fluctuation of iron ore price. We have developed two scenarios based on different market price assumptions and we came up with a range of HKD430 million to HK$582 million.

INCOME APPROACH – DISCOUNTED CASH FLOW METHOD ("DCF")

Major Assumptions under DCF Method

Income approach is an economic measure reflecting the Fair Market Value of the business. Our development of the Fair Market Value under income approach will be performed by using the DCF methodology, which requires a number of parameters, including revenue and expense forecasts, working capital requirement and capital expenditure requirement. 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 streams to be discounted, and (2) the discount rate.

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

$$PV = \frac{E_1}{(1+k)} + \frac{E_2}{(1+k)^2} + \frac{E_3}{(1+k)^3} + \cdots + \frac{E_n}{(1+k)^n}$$

– E_{1}, $_{2}$, $_{3}$, etc. = Expected economic income in the 1st, 2nd, 3rd periods, etc.
– E_n = Expected economic income in the nth or last period
– k = Discount Rate

In the valuation of the Mineral Asset and 100% equity interest in NARG, the management of the Company has provided us with the Technical Report which indicates the amount of mineral resources and reserves, a detailed mining and production schedule, and other relevant costs data. However, as the Project is subject to water limitation and no concrete feasibility study has been conducted, other than the mining and production schedule suggested by SRK in its Technical Report, we have also developed two other different scenarios to demonstrate the different operating possibilities. For details, please refer to TABLE 7 – Different Mining Scenarios of the Project.

Provided below is a brief description and analysis of the major assumptions applied under DCF Method.

Mineral Resources and Reserves

Based on the Technical Report, the total amount of Reserves used in DCF is 47.041Mt. According to Chapter 18, Inferred Resources cannot be regarded as with economic value. While no additional conversion from Inferred Resources for the DCF is applied to this valuation, as required by the SEHK, the Competent Evaluators believe that some discounted recognition should be given to Inferred Resources, in accordance with Australian practices, but in this case this would not be material if it had been used.

Production Capacity and Schedule

Scenario 1

We assumed only dry processing is conducted and the maximum production capacity will be approximately 1.5Mtpa which implies that the life of mine will be around 30 years.

Scenario 2

We assumed only dry processing is conducted and double the capacity of those in Scenario 1. The maximum production capacity will be approximately 3.1Mtpa which implies that the life of mine will be around 15 years.

Scenario 3

We based on the Technical Report prepared by SRK and assumed that wet processing will be conducted with the maximum production capacity of 2.0Mtpa which implies that the life of mine will be around 23 years.

TABLE 12 – Production Schedule

(Mtpa)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Scenario 1	1.54	1.54	1.54	1.54	1.54	1.54	1.54	1.54
Scenario 2	3.09	3.09	3.09	3.09	3.09	3.09	3.09	3.09
Scenario 3	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00

Commodity Prices

Iron ore spot prices applied in the valuation of the Mineral Asset is RMB685/t (USD109/t) for 65% Fe and RMB629/t (USD100/t) for 60% Fe. The iron ore price is assumed to grow at 3% per annum with matches with the long-term growth rate of China which is the primary market of the product. In real terms, the price remains unchanged.

Basis of Revenue

Revenue is generated from sales of iron concentrates. Revenues applied in the valuation of the Mineral Asset and 100% equity interest in NARG are as follows:

TABLE 13 – Projected Revenue

(RMB in millions)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Scenario 1	299	308	317	327	337	347	357
Scenario 2	600	618	637	656	676	696	717
Scenario 3	585	603	621	641	659	679	699

Basis of Mining Cost and Operating Cost

Mining costs include costs for milling and processing of iron ores. Our advisors suggested that there will be USD7.82/t and USD6.40/t for Scenario 1 and Scenario 2 respectively, compare with USD7.16/t suggested by SRK and applied in Scenario 3.

On the other hand, operating cost mainly refers to selling and marketing expenses for the iron ores. Greater China and its advisors agree that USD39/t is a reasonable level based on reference of costs of transportation and logistics from Mongolia to China. Therefore, we applied USD39/t for all Scenario 1, Scenario 2 and Scenario 3.

Basis of Capital Expenditure

Additional Capex for different scenarios are estimated by our advisors and SRK. For Scenario 1, Scenario 2 and Scenario 3, additional Capex are RMB25.21 million (USD4.1 million), RMB40.61 million (USD6.46 million) and RMB262.13 million (USD41.70 million), respectively.

Basis of Working Capital Requirement

The required working capital for the mine operation was projected based on the discussion with the management of the Company and comparing to the Guideline Public Companies in consideration of the financial ratios including days sales outstanding, days payable outstanding, inventory turnover days, other current assets-to-sales ratio and other current liabilities-to-sales ratio.

DETERMINATION OF DISCOUNT RATE

For this particular valuation, we considered to use weighted average cost of capital ("WACC") as the discount rate.

Firstly, we developed the cost of equity ("R_e") and the cost of debt ("R_d") for the company which holds the mineral asset based on data and factors relevant to the economy, the industry, and the company itself as at the valuation date. Secondly, these costs were then weighted in terms of the median of the capital structure of the guideline public companies ("Guideline Public Companies") to arrive at the WACC.

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

We considered market and industry data to develop the WACC of Golden Pogada.

The traditional formula for calculating the WACC is:

$$\textbf{WACC} = (\%D) \times (R_d) \times (1 - \text{Tax Rate}) + (\%E) \times (R_e)$$

where	WACC:	Weighted Average Cost of Capital;
	%D:	Weight of Interest Bearing Debt;
	R_d:	Cost of Debt;
	%E:	Weight of Equity; and
	R_e:	Cost of Equity.

Development of Cost of Equity ("R_e")

We considered the Modified Capital Asset Pricing Model ("MCAPM") to calculate the cost of equity of Golden Pogada.

Modified Capital Asset Pricing Model

MCAPM, as applied in the valuation model, can be summarized as follows:

$$\mathbf{R_e = R_f + Beta \times ERP + RP_s + RP_u}$$

where	R_e:	Cost of Equity;
	R_f:	Risk Free Rate;
	Beta:	A measure of systematic risk;
	ERP:	Equity Risk Premium;
	RP_s:	Size Premium; and
	RP_u:	Specific Company Adjustment.

Risk Free Rate ("R_f")

In order to estimate R_f, it is commonly referring to the government bond yield of where the business is located. However, Greater China considers it might not be appropriate to regard the Mongolian government bond as a risk free asset as it involves country risk. Instead of referring to the Mongolian government bond, we used the Chinese government bond yield as a proxy and adjusted for the country risk difference later on. We relied on the 30-Year Chinese Government Bond with a yield of 4.21% as at the Valuation Date.

Equity Risk Premium ("ERP")

We adopted the recent 30 years equity risk premium of the market where the subject company is located and relied on International Equity Risk Premia Report Handbook 2012 published by Ibbotson Associates. For those markets that are not covered by the said publication, the equity risk premium of the United States market is multiplied by the relative volatility between S&P 500 Index and equity indices of respective country where the subject company is located to obtain the equity risk premium. The volatility of the United States equity market is obtained from Stocks, Bonds, Bills, and Inflation: 2012 Yearbook. The volatility of other equity indices is obtained from Bloomberg.

Beta

In the MCAPM 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 five identified Guideline Public Companies, details of which are listed in the Table 14 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 median of Guideline Public Companies' capital structure.

Selection of Guideline Public Companies

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

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. The following is the list of the Guideline Public Companies that we have reviewed in connection with the valuation of the Mineral Asset and 100% equity interest in NARG.

TABLE 14 – Guideline Public Companies

Company	Ticker	Description
IRC Ltd	1029.HK	– It is a mineral exploration and production company. – It is focused on exploring for, developing and operating industrial commodity projects in the Russian Far East and the north-eastern region of China.
China Hanking Holdings Ltd	3788.HK	– It produces iron ore concentrates. – It mines iron ore, produces iron ore concentrates, and markets the concentrates primarily to iron and steel producers in Liaoning Province, China.
China Vanadium Titano – Magnetite Mining Co. Ltd	893.HK	– It operates in mining, ore processing and iron pelletizing. – It also sells iron concentrates, iron pellets and titanium concentrates.
Fortescue Metals Group Ltd	FMG AU	– It explores for and produces iron ore. – It conducts business worldwide.
BC Iron Ltd	BCI AU	– It acquires, explores for and develops iron ore resources in Western Australia.

As at the Valuation Date, the beta median would be:

Median Un-Levered Beta	Median Re-Levered Beta
1.05	1.14

Size Premium ("RP_s")

RP_s, 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. In this case, we applied the size premium of 3.89% in excess of MCAPM for companies in the micro-cap 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: 2012 Yearbook.

Specific Company Adjustment ("RP_u")

RP_u for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to Golden Pogada.

Company 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

As the Mineral Asset is located in Mongolia which is perceived to be riskier than other projects in developed countries, we considered country risk as the company specific risk factor that we should consider. As all other factors used in deriving the R_e were derived from the China market, we considered the country risk difference between China and Mongolia and added a country risk premium of 4.95%, in which the reference is given at research conducted by Aswath Damodaran in January 2012.

For Scenario 3, the success of production highly depends on the water supply in the region and this is not certain to be adequate at this time. Hence, we added an additional 2% in our determination of the R_e.

Cost of Equity ("R_e") Conclusion

As at the Valuation Date, the cost of equity would be:

TABLE 15 – Cost of Equity

MCAPM	**Scenario 1 &2**	**Scenario 3**
Risk Free Rate ("R_f")	4.21%	4.21%
Beta	1.14	1.14
Equity Risk Premium ("ERP")	9.20%	9.20%
Size Premium ("RP_s")	3.89%	3.89%
Specific Company Adjustment ("RP_u")	4.95%	6.95%
Cost of Equity ("R_e")	**23.51%**	**25.51%**

Cost of Debt ("R_d")

In general, cost of debt represents the interest rate incurred by Golden Pogada when it finances its debt which could be in the form of borrowing or issuing bond/note. In this case, Golden Pogada has neither external debt financing nor direct borrowing, all of its outstanding debts were borrowed from the Company. Besides, we confirmed from the management of the Company that such internal debts will be transferred to the future acquirer and thus, we did not consider such internal debts which were about RMB278 million as at the Valuation Date in calculation of 100% equity interest in NARG. Since we could not obtain the exact level of interest rate that Golden Pogada would incur in the case of financing, we estimated the cost of financing of Golden Pogada would be long-term Chinese best lending rate plus 5% of margin and we believe this is a reasonable and achievable level for a private company to finance.

Weighted Average Cost of Capital ("WACC")

WACC is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprises' capital structure. We have "levered" Golden Pogada as if it mirrored the median percentage of debt as the Guideline Public Companies on the assumption that over time, Golden Pogada will approach an optimal capital structure with 8.65% of debt, which is the less expensive form of capital than equity, to remain competitive. Subsequent to the calculations of the R_e and the R_d, the calculation of the WACC, or the discount rate, therefore becomes:

TABLE 16 – Weighted Average Cost of Capital

	Scenario 1 & 2	**Scenario 3**
Percentage of Interest Bearing Debt (%D)	8.65%	8.65%
x Market Cost of Debt ("R_d")	11.55%	11.55%
x (1 – Tax Rate)	10.00%	10.00%
Weighted Cost of Debt	**0.90%**	**0.90%**
+		
Percentage of Equity (%E)	91.35%	91.35%
x Cost of Equity ("R_e")	23.51%	25.51%
Weighted Cost of Equity	**21.48%**	**23.30%**
WACC	**22.38%**	**24.20%**
Discount Rate Applied (rounded)	**22.00%**	**24.00%**

Based on the above assumptions, the estimate values for different Scenarios are as follows:

TABLE 17 – Summary of Valuation Result Based on DCF

	Value of Mineral Asset *(HKD Million)*	**Conclusion**	**Reasons of Reject**
Scenario 1	219	Reject	Not economically reflect full potential of production
Scenario 2	556	Accept	–
Scenario 3	567	Accept	–

SENSITIVITY ANALYSIS

We have examined the sensitivity of the DCF in relation to changes in some of the core model parameters, such as the discount rate, iron concentrate selling price and selling cost.

Table 18 below shows the values of the Mineral Asset and 100% equity interest in NARG under Scenario 2 and Scenario 3 under different settings. In each setting, only one parameter is changed while other parameters are held constant.

TABLE 18 – Sensitivity Analysis

Mineral Asset

Discount Rate Change	**Scenario 2** *(in HKD millions)*	**Scenario 3** *(in HKD millions)*
-2%	607	642
No Change	556	567
+2%	512	504

	Parameter Variations	**Scenario 2** *(in HKD millions)*	**Scenario 3** *(in HKD millions)*
Product Selling Price	-15%	196	217
	0%	556	567
	+15%	929	923
Selling Cost	-15%	736	724
	0%	556	567
	+15%	337	410

100% Equity interest in NARG

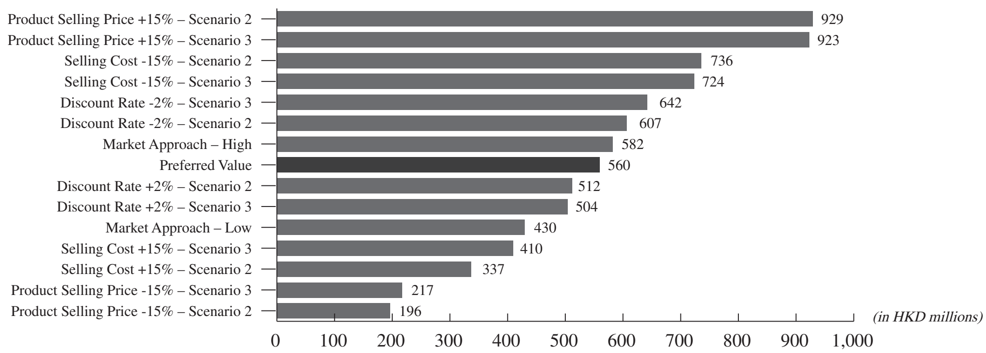
Discount Rate Change	**Scenario 2** *(in HKD millions)*	**Scenario 3** *(in HKD millions)*
-2%	641	691
No Change	562	573
+2%	498	482

	Parameter Variations	**Scenario 2** *(in HKD millions)*	**Scenario 3** *(in HKD millions)*
Product Selling Price	-15%	202	223
	0%	562	573
	+15%	935	929
Selling Cost	-15%	742	730
	0%	562	573
	+15%	383	416

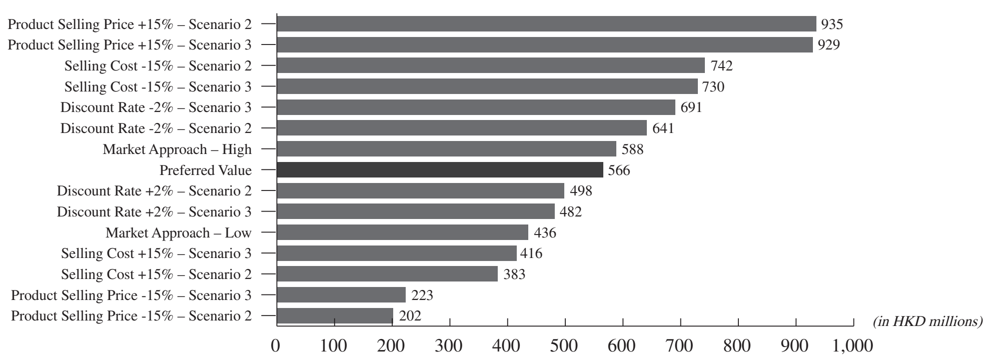
All in all, the result for the Mineral Asset is considerably more sensitive to variations in the product selling price and selling cost when compared to the discount rate.

FIGURE 12 – Scenario Analysis

Mineral Assets



100% Equity interest in NARG



SUMMARY OF RESULTS

The following comparative data summarizes the various methods that we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the facts and circumstances of the Mineral Asset are discussed.

Cost Approach

Existing Book Value HKD513,800,000
Application . . . . . Rejected

Market Approach

Broad-based Method . . . . . N/A
Application . . . . . Rejected

Industry Multiples Method . . . . . N/A
Application . . . . . Rejected

Comparable Transaction Method

Mineral Asset . . . . . HKD430,000,000 – HKD582,000,000
100% equity interest in NARG . . . . . HKD436,000,000 – HKD588,000,000
Application . . . . . Accepted

Income Approach

Discounted Cash Flow Method

Mineral Asset . . . . . HKD556,000,000 – HKD567,000,000
100% equity interest in NARG . . . . . HKD562,000,000 – HKD573,000,000
Application . . . . . Accepted

We have considered cost approach, market approach and income approach for this valuation and applied both market approach and income approach to conclude the Fair Market Value of the Mineral Asset and 100% equity interest in NARG. In market approach, we used the Comparable Transaction Method to evaluate the Mineral Asset, and hence 100% equity interest in NARG was derived, because there are sufficient numbers of comparable transactions which can be identified and it can provide additional information to investors about the value of the Mineral Asset when compared with other similar transactions. In Income Approach, we used DCF to derive the Fair

Market Value of the Mineral Asset and 100% equity interest in NARG, because this method is commonly used in, and widely accepted for, valuation of mineral assets and resources, and also because the economic benefit streams of the Mineral Asset can be identified and ascertained based on the production schedule, trial operations, cost estimates and estimated capital expenditure to be incurred.

In the Comparable Transaction Method, we selected five comparable transactions and conducted normalization based on their actual transaction parameters, such as mineral price level at the transaction occurred, reserves or resources volume of the mine being acquired, grades of the mineral assets being acquired and the development stage of the mine being transacted respectively. We also considered the impact from using arithmetic mean and median and concluded the impact should not be significant. Additionally, we considered the effect on the value due to price fluctuation of iron ore price and hence we came up with a low case and a high case to reflect the potential price movement, based on recent movements. The estimated value of Mineral Asset for the low case and the high case are HKD430,000,000 and HKD582,000,000, respectively. And the estimated value of 100% equity interest in NARG for the low case and the high case are HKD436,000,000 and HKD588,000,000, respectively.

In DCF, we suggested 3 different scenarios for the operation and we accepted results of both Scenario 2 and Scenario 3. Scenario 1 is rejected because it is not reflecting full potential of production. Greater China and our consultants suggested that Scenario 2 is more likely to happen as it does not depend on additional water resources. On the other hand, Scenario 3 used a wet processing method and relied on additional water resources which increase the project's risk. Therefore, we applied an additional risk premium to the discount rate to reflect this potential risk. The estimated values for Scenario 2 and Scenario 3 of Mineral Asset are HKD556,000,000 and HKD567,000,000, respectively. And the estimated values for Scenario 2 and Scenario 3 of 100% equity interest in NARG are HKD562,000,000 and HKD573,000,000, respectively.

The reference iron ore price as at the Valuation Date was during a low price spike for 2012 and we noted that the reference iron ore price went up again after the Valuation Date. The low case of Market Approach is unlikely to happen. We concluded the Fair Market Value of the Mineral Asset as HKD560,000,000 and the Fair Market Value of 100% equity interest in NARG as HKD566,000,000, as at the Valuation Date, which are reasonable results based on the above discussion.

RISK FACTORS

Price Difference between Magnetite Ores and Hematite Ores

Iron ores are usually found in the form of magnetite (Fe_3O_4) and hematite (Fe_2O_3). Magnetite is magnetic, and easily separated from the gangue minerals. The processing of magnetite ores require crushing, screening, grinding, magnetic separation, filtering and drying. The final product is a high iron grade magnetite concentrate (+65% Fe), with typically very low impurities. On the other hand, hematite ores require a relatively simple crushing and screening process. The additional processing cost for the production of magnetite concentrate can be offset by the premium price which it attracts from steel makers because of the high iron content compared to benchmark hematite products.

Revenue projections were based on both price of hematite ores (62% Fe) in China and prices of magnetite ores (65% Fe) in China and Mongolia with adjusted iron grading of 60%. If the prices of magnetite ores and hematite ores do not change in parallel, adjusted 60% Fe price will not be accurate and affect the revenue projections.

Social Issues

Any complaints or protests by the local community might have an adverse impact on the mining operation being re-established or expanded. The valuation team regards this risk as remote. The Project area is extremely sparsely populated and this, together with the Project's relatively small footprint and benign, chemical free, processing operation, go to make the likelihood of any potential challenge very low.

The Company recognizes its responsibility to earn and maintain a "social license" to operate, and an associated requirement to establish good relations with its neighbours. This was amply evident when we visited a local group of nomadic goat herders, who were hospitable and showed no objection to our presence in the region.

Other General Risk Factors

Other general risk factors which the valuation team identified in relation to the Project itself and its part in the overall asset sale transaction include the following:

– Share market conditions;

– Government policy change;

– Key personnel;

– Contractual risk;

– Operational risk;

– Commodity prices;

– Mineral Resources and Ore Reserves;

– Currency risk; and

– Legal compliance.

Share Market Conditions

To the extent that any part of the proposed transaction involves the transfer or creation of share scrip, there are numerous external influences which may affect both the trend in the relevant share market as a whole and the individual share prices of the companies involved in the transaction.

Government Policy Change

Our DCF based evaluations of the Project are reliant on the Mongolian mineral policy as it existed at the time of the evaluation. In addition, they were based on a sighting of certificated mining rights and an associated works permit valid till 2025. Notwithstanding those factors, there is a risk that government policy might change at some time in the future, and those new policy settings might adversely affect the operational licenses of the mine.

Economic Conditions

Economic conditions, both domestic and global, may affect the perception of the value of the Project at some time in the future. Whilst this may rightly be perceived as a transactional risk to both the buyer and seller, it must be stressed that our valuation is expressly valid and only valid as at the Valuation Date.

Key Personnel

In normal circumstances where an operating mine transfers in ownership, the loss or potential loss of key project personnel present a significant project risk factor. In this case, however, the Project is not operational and no key staffs are currently engaged on the Project itself. The only staff we observed at the mine area were security officers and camp caretakers. Therefore, the valuation team considered this risk factor to be low.

Contractual Risks

All agreements are subject to interpretation. There is therefore no guarantee that the parties to the transaction will be able to enforce all of their rights in respect of all agreements entered into. Nevertheless, the opinion of the Evaluation team is that our valuation, which includes a range offering a "high", "low" and "preferred" estimate, is not subject to any such interpretation.

Operational Risk

By its very nature, the business of mineral development and production involves above average risk. Success depends on skilful design, operation, management and marketing across the entire operation. Mining operations can also be hampered by force majeure circumstances as well as cost overruns caused by unforeseen events. In this instance, the operational risk presents itself as the challenge to successfully re-start the operation within the current operational cost and marketing constraints.

Commodity Prices

The price that the mine operator receives for its magnetite (and possibly copper) may fluctuate due to market conditions. These prices are dictated by factors well beyond the control of the mine owner. At the present time, iron ore prices for both hematite and magnetite are trending downwards, and it is possible that an uneconomic "tipping point" could be reached for this operation. We believe this risk has been appropriately demonstrated in our economic modelling of the various production scenarios.

Mineral Resources and Ore Reserves

There is no certainty that the Project's Mineral Resources or Ore Reserves will be realised, as the estimates are just that – estimates, until proven by actual mineral extraction from the ground. In addition, the actual quantities of saleable mineral produced may vary due to factors such as commodity price, currency exchange rates, ore grade and operating costs. Any substantial change to any of these parameters will affect the mine operating plan and associated waste stripping ratio.

These points notwithstanding, the valuation team noted that the Mineral Resources and Ore Reserves for Oyut Ovoo were, in the opinion of SRK consultants, prepared by the mine owners "appropriately" and having been checked and validated by SRK are compliant with the AusIMM JORC Code for the reporting of Mineral Resources and Ore Reserves. This fact underlies our view that the resource risk on this project may be considered low.

Currency Risk

Any future income from mineral sales may be subject to exchange rate fluctuations and become subject to exchange control or similar restrictions.

Legal Compliance

The transaction in which the sale of this property is a part, is complex and also subject to a number of legal jurisdictions, which may lead to ambiguous or even conflicting legal and regulatory requirements. Furthermore, the interpretation of these requirements may be applied inconsistently where there is no guiding precedent.

Non-compliance with regulation carries the potential for penalties, and in addition, changes to regulations can sometimes be applied retrospectively. It is not possible to predict what, if any, future legal and regulatory changes may be made to the requirements under which this transaction is proposed to be completed.

LIMITING CONDITIONS

We have made no investigation of, and assume no responsibility for, the title to or any liabilities against NARG, Golden Pogada and the Mineral Asset. We do not represent that any of our findings constitute legal advice

The opinions expressed in this report have been based on the information supplied to us by the Company, NARG, Golden Pogada and their staff, as well as from various institutes and government bureaus and in the Technical Report without verification. All information and advice related to this valuation are provided by the management of the Company and Golden Pogada. Readers of this report should perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

CONCLUSION OF VALUES & SIGN OFF

In conclusion, based on the analysis stated above and on the valuation methods employed, it is our opinion that the Fair Market Value of 99.99% interest of iron ore mine named Oyut-Ovoo Iron Project as at 30 September 2012 is HKD560,000,000 (HONG KONG DOLLARS FIVE HUNDRED AND SIXTY MILLION ONLY). And it is our opinion that the Fair Market Value of 100% equity interest in North Asia Resources Group Limited as at 30 September 2012 is HKD566,000,000 (HONG KONG DOLLARS FIVE HUNDRED AND SIXTY-SIX MILLION ONLY).

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved. We have remained independent in carrying out our activities.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
GREATER CHINA APPRAISAL LIMITED

Ferry S.F. Choy
BSc (Q.Fin), CFA, CVA
Director

John S. Dunlop
BE, MEngSc, PCertArb, FAusIMM (CP), FIMMM, MCIMM, MSME, MMICA
Senior Consultant
Competent Evaluator

APPENDIX A – QUALIFICATION OF THE VALUATION TEAM MEMBERS

Mr. Ferry S.F. Choy, *BSc (Q.Fin), CFA, CVA,* is presently the Director of Greater China Appraisal Limited. Ferry provides valuation services mainly for financial reporting, transactions and IPO purpose. The valuation services provided included business valuation, equity valuation, biological assets valuation, mining valuation and financial instrument valuation. Most of Ferry's clients were listed companies or large private companies looking for going public in Hong Kong, China and Singapore. His experience covers a wide range of different industry sectors including foods & beverage, manufacturing, mining and information technology.

Mr. George E. Edwards *BSc (Tech), C Eng, FAICD, FIE (UK), FAIE, FAusIMM (CP), MMICA,* has a Science Degree in metallurgy from the University of NSW and has mainly been prominent in the coal industry in Australia and overseas for over 40 years, including having part owned and operated three export coal mines, since establishing his own companies 28 years ago.

Mr. Edwards spent 12 years in the Australian steel industry with BHP, working in each section of an integrated steelworks at Port Kembla and in BHP's Central Research Laboratories near Newcastle, during which he spent time working on various steelmaking raw materials, including iron ore. Among his many achievements are being a member of the first Australian Coal Mission to China in 1976 and being President of The Australasian Institute of Mining and Metallurgy (The AusIMM) in 1995 – they developed the JORC and VALMIN Codes with input from other bodies. He has been Chairman of Standards Australia (1999 to 2003) and the Energy Council of Australia (1993 to 2006) and runs his own trading and consulting businesses, with a diverse range of clients around the world. His trading and marketing activities are mainly for coal and iron ore. He is currently Executive Chairman of the Australian Mining Association and the only senior foreign advisor to the China Mining Association. He was awarded the Gold Medal for 2011 by the Mineral Industry Consultants Association.

Mr. Edwards has been the Chief Executive in Australia for Consolidation Coal Company of USA and has been Chairman and Director of both public and private coal and gold companies, in Australia and overseas.

Mr. John S. Dunlop *BE, MEngSc, PCertArb, FAusIMM (CP), FIMMM, MCIMM, MSME, MMICA,* is an Australian mining engineer, with Bachelors and Masters Degrees in Mining Engineering from the University of Melbourne. He has approximately 40 years of mining experience, surface and underground, in a variety of base metal and precious metal production and management situations.

A former BHP Billiton Mine Manager in both the Gulf and the Kimberleys, he then rose to the position of General Manager Operations with Aztec Mining in Perth. He now works as a freelance mining engineer and company director. He conducts his own internationally active consulting group, from small offices in North Queensland.

Mr. Dunlop holds a certificate as a licensed mineral asset valuer issued by the Australasian Institute of Mineral Valuers (AIMV).

He is also Chairman of Alliance Resources Ltd., Alkane Resources Ltd, the Mineral Industry Consultants Society (MICA) and is a Director Copper Strike Ltd., and former director of the Australasian Institute of Mining and Metallurgy (AusIMM).

Mr. Kenneth H.M. Ng, *BBus., FRM*, has substantial experience in valuation of business and intangible assets including operating licenses, mining licenses, trading contracts, customer bases, tradename and trademark. His experience covers wide range of industries including healthcare, financial services, mining, toll road, information technology, manufacturing and retail. Mr. Kenneth H.M. Ng is currently the assistant manager of Greater China Appraisal Limited.

APPENDIX B – PHOTO OF THE PROJECT

Mine site of Mineral Asset

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

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 document misleading.

2. SHARE CAPITAL

(i) The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:–

Authorised:		*HK$*
77,452,700,000	Shares of par value of HK$0.01 each	744,527,000
2,547,300,000	CPS of par value of HK$0.01 each	25,473,000
Issued and fully paid or credited as fully paid		*HK$*
1,280,053,031	Shares as at the Latest Practicable Date	12,800,530
1,961,487,776	CPS as at the Latest Practicable Date	19,614,878

(ii) For illustration purposes, immediately after the issue of the Shares upon Completion and completion of the Placing and Ultra Asset converting a portion of the CPS for 19,452,727 Shares (assuming no other portion of the CPS, no part of the Remaining US$15M Convertible Bonds, Subscription CPS and Consideration Bonds have been converted)

Issued and full paid or credited as fully paid:		*HK$*
1,280,053,031	Shares as at the Latest Practicable Date	12,800,530
584,661,383	Shares to be issued pursuant to the Acquisition Agreement and Subscription Agreement	5,846,614
19,452,727	Shares to be issued upon conversion of a portion of the CPS held by Ultra Asset	194,527
1,884,167,141	Shares upon Completion and completion of the Placing	18,841,671

(iii) For illustration purposes, immediately after full exercise of the conversion rights attaching to the convertible securities of the Company upon Completion of the Transactions and Placing

Issued and full paid or credited as fully paid:		*HK$*
1,884,167,141	Shares upon Completion	18,841,671
25,258,905,691	Shares to be issued upon conversion of the exercise rights attaching to the convertible securities of the Company	252,589,057
27,143,072,832		271,430,728

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein (the "**Register**"); or (c) were required, pursuant to the Model Code for Securities Transaction by directors of Listed Companies (the "**Model Code**") adopted by the Company, to be notified to the Company and the Stock Exchange:

Long position in the shares

Name of Director	Nature of interest	No. of shares held as at the Latest Practicable Date	Position	Approximate percentage of issued share capital as at the Latest Practicable Date
Mr. Tse Michael Nam	Beneficial owner	11,531,642	Long	0.901%
Mr. Lim Yew Kong, John	Beneficial owner	839,178	Long	0.066%

Except as disclosed above, as at the Latest Practicable Date, neither the acting Chief Executive Officer nor any of the Directors of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with the Company and/or any member of the Enlarged Group which is not determinable by the relevant member of the Enlarged Group within one year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTERESTS IN ASSETS

Save for (i) those Directors' shareholding interests as disclosed in paragraph 3 in this Appendix; and (ii) the 70% indirect interest in Lexing held by Mr. Zhang through City Bloom, as at the Latest Practicable Date, none of the Directors and proposed Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group (including the Disposal Group) and the Lexing Group since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up.

6. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors is materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at such date and which is significant in relation to the business of the Enlarged Group as at the Latest Practicable Date.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and proposed Directors and his respective associates have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Enlarged Group pursuant to the Listing Rules.

8. LITIGATION

The Group (including the Disposal Group)

Reference is made to the announcement of the Company dated 27 August 2012 in relation to, among others, the claims (the "**Claims**") filed by Mountain Sky Resources Holdings Limited as claimant (the "**Claimant**") in the High Court of Justice of the British Virgin Islands against Mountain Sky, Ultra Asset, the Company and Guang Cheng (the "**Defendants**") which constitutes an action in connection with, amongst others, the alteration of certain terms and conditions of the US$30M Convertible Bonds in February 2012. Further details of the Claims have been disclosed in the announcement of the Company dated 27 August 2012. The legal proceedings are currently underway. On 30 November 2012, the Defendants filed a joint-defense statement to the High Court of Justice of the British Virgin Islands and on 14 January 2013, the Claimant filed its reply to the defense statement. As the length of the trial for the Claims is expected to be more than one full day, a case management conference was held in the BVI on 12 March 2013 to determine the length of trial. At the case management conference, the judge adjourned the hearing to another date to be fixed by the Claimant so that the Claimant may address the judge on the basis upon which it is alleging that there was unfair prejudice caused by the Defendants. The Defendants will continue to strongly defend the Claims.

The Lexing Group

On 16 July 2008, 山西省昌源焦化集團有限公司 (Shanxi Changyuan Coking Co., Ltd*) ("**Shanxi Changyuan**") filed a claim ("**Claim**") at 山西省太原市中級人民法院 (the Intermediate People's Court of Taiyuan City of Shanxi Province*) ("**Intermediate Court**") against 古交市屯川煤礦 (Gujiao City Tuenchuan Coal Mine*) ("**Gujiao Tuenchuan**"), which was subsequently reorganised into Bolong under the Shanxi Mergers and Reorganisations, in relation to a management agreement ("**Management Agreement**") dated 30 December 1999 and entered into between Shanxi Changyuan and Gujiao Tuenchuan pursuant to which Gujiao Tuenchuan agreed to engage Shanxi Changyuan for the management of its coal mines for a term of five years from 1 January 2000 to 31 December 2004. As alleged in the Claim, pursuant to the Management Agreement, Shanxi Changyuan agreed to inject capital to Gujiao Tuenchuan for the operation of its coal mines by way of a loan to Gujiao Tuenchuan and an outstanding balance of approximately RMB16.7 million and interest thereon of approximately RMB842,000 was owed by Gujiao Tuenchuan to Shanxi Changyuan under such loan as at the date of the Claim. On 10 August 2009, Gujiao Tuenchuan counter-claimed that as an accident occurred in its coal mines during the term of the Management Agreement, Shanxi Changyuan breached its obligation to ensure safe production pursuant to the Management Agreement and accordingly Gujiao Tuenchuan was entitled to damages in relation to such breach ("**Counter-claim**"). On 22 July 2010, the Intermediate Court issued a judgment in relation to the Claim and the Counter-claim ruling that, among others, (i) an amount of approximately RMB16.7 million shall be payable by Gujiao Tuenchuan to Shanxi Changyuan in relation to the capital injection by Shanxi Changyuan pursuant to the Management Agreement, together with the interest thereon calculated as from 1 January 2005 at the interest rate stipulated by the People's Bank of China for loans granted during the corresponding period; and (ii) an amount of approximately RMB15.2 million shall be payable by Shanxi Changyuan to Gujiao Tuenchuan as damages in relation to the breach of its obligation to ensure safe production pursuant to the Management Agreement. On 18 August 2010, Shanxi Changyuan appealed to 山西省高級人民法院 (the Higher People's Court of Shanxi Province*) ("**High Court**") against the judgment issued by the Intermediate Court in relation to the Counter-claim and on 7 December 2010, Gujiao Tuenchuan filed a defence to such appeal. As at the Latest Practicable Date, the High Court has not issued any ruling in relation to such appeal.

As at the Latest Practicable Date, save as disclosed above, so far as the Directors are aware, neither the Company nor any member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was pending or threatened against the Company or any member of the Enlarged Group.

9. EXPERTS

(i) The following is the qualifications of the experts who have given opinions or advice in this circular:

Name	Qualification
Oriental Patron Asia Limited	A licensed corporation to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, under the SFO, being independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions
John T. Boyd Company	Competent person
Greater China	Competent evaluator
SHINEWING (HK) CPA Limited	Certified public accountants
Deloitte Touche Tohmatsu	Certified public accountants

(ii) As at the Latest Practicable Date, none of the experts listed above have any shareholding in any member of the Group (including the Disposal Group) and the Lexing Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group (including the Disposal Group) and the Lexing Group.

(iii) As at the Latest Practicable Date, none of the experts listed above have any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group (including the Disposal Group) and the Lexing Group since 31 December 2011, the date of which the latest published audited financial statements of the Group were made up.

(iv) All of the experts listed above have given and have not withdrawn their written consents to the issue of this circular with inclusion of their respective letter or reports and references to their names in the form and context in which they appear.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the members of the Enlarged Group within two years immediately preceding the Latest Practicable Date and which are or may be material:

The Group (including the Disposal Group)

(i) the termination agreement dated 25 May 2011 entered into between 內蒙古泰盛礦業有限責任公司 (Inner Mongolia Taishen Mining Co., Ltd.*) and the Company in relation to the termination of the framework agreement in respect of the acquisition of equity interests in 蒙古國泰盛發展有限責任公司 (Taishen Development LLC*);

(ii) the second supplemental agreement dated 6 January 2012 between the Company and Business Ally in respect of the amendments of certain terms of the US$30M Convertible Bonds;

(iii) the Acquisition Agreement;

(iv) the Disposal Agreement;

(v) the Subscription Agreement;

(vi) the Third Supplemental Agreement; and

(vii) the Placing Agreement.

The Lexing Group

(viii) the entrusted loan agreement dated 25 February 2011 and entered into between Shanxi Coal as borrower, 華夏銀行股份有限公司太原分行 (Hua Xia Bank Co., Limited Taiyuan Branch*) ("**Hua Xia Bank**") as lending agent and Shanxi Coal Transportation (a holder of 41% equity interest in Shanxi Coal) as lender, pursuant to which Hua Xia Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB511 million to Shanxi Coal for a term of 36 months at the interest rate of 6.10% per annum;

(ix) the Xinfeng Asset Transfer Agreement I;

(x) the Xinfeng Asset Transfer Agreement II;

(xi) the Xinfeng Asset Transfer Supplemental Agreement;

(xii) the entrusted loan agreement dated 14 June 2011 and entered into between Shanxi Coal as borrower and 中信銀行股份有限公司太原分行 (China CITIC Bank Corporation Limited Taiyuan Branch*) ("**CITIC Bank**") as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB400 million to Shanxi Coal for a term of 60 months at the interest rate of 7.315% per annum;

(xiii) the entrusted loan agreement dated 14 November 2011 and entered into between Shanxi Coal as borrower and 招商銀行太原分行 (China Merchants Bank Taiyuan Branch*) ("**CMB**") as lending agent pursuant to which CMB, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB100 million to Shanxi Coal for a term of 36 months at the interest rate of 7.6475% per annum;

(xiv) the entrusted loan agreement dated 27 December 2011 and entered into between Shanxi Coal as borrower and CITIC Bank as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB100 million to Shanxi Coal for a term of three years at the interest rate of 7.6475% per annum;

(xv) the entrusted loan agreement dated 28 March 2012 and entered into between Shanxi Coal as borrower, Hua Xia Bank as lending agent and Shanxi Coal Transportation as lender, pursuant to which Hua Xia Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB102 million to Shanxi Coal for a term of 36 months at the interest rate of 7.6475% per annum;

(xvi) the entrusted loan agreement dated 28 May 2012 and entered into between Shanxi Coal as borrower and CITIC Bank as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB50 million to Shanxi Coal for a term of three months at the interest rate of 6.71% per annum. Such entrustment loan has been repaid in full as at the Latest Practicable Date;

(xvii) the Bolong Supplemental Agreement;

(xviii) the Changsheng Transfer Agreement;

(xix) the Fuchang Supplemental Agreement;

(xx) the entrusted loan agreement dated 17 August 2012 and entered into between Shanxi Coal as borrower and CITIC Bank as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Changtong (a wholly-owned subsidiary of Lexing and a holder of 15% equity interest in Shanxi Coal), has agreed, at the request of Shanxi Changtong, to provide an entrustment loan of RMB28 million to Shanxi Coal for a term of three years at the interest rate of 7.6475% per annum. Such entrustment loan has been repaid in full as at the Latest Practicable Date;

(xxi) the entrusted loan agreement dated 27 August 2012 and entered into between Shanxi Coal as borrower and CITIC Bank as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB50 million to Shanxi Coal for a term of three months at the interest rate of 9.52% per annum. Such entrustment loan has been repaid in full as at the Latest Practicable Date;

(xxii) the entrusted loan agreement dated 27 August 2012 and entered into between Shanxi Coal as borrower and CITIC Bank as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB50 million to Shanxi Coal for a term of three months at the interest rate of 12.32% per annum. Such entrustment loan has been repaid in full as at the Latest Practicable Date;

(xxiii) the entrusted loan agreement dated 19 September 2012 and entered into between Shanxi Coal as borrower and CITIC Bank as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB50 million to Shanxi Coal for a term of 3 months at the interest rate of 9.5325% per annum;

(xxiv) the entrusted loan agreement dated 18 December 2012 and entered into between Shanxi Coal as borrower and CITIC Bank as lending agent pursuant to which CITIC Bank, acting as an agent to Shanxi Coal Transportation, has agreed, at the request of Shanxi Coal Transportation, to provide an entrustment loan of RMB150 million to Shanxi Coal for a term of 3 years at the interest rate of 9.5325% per annum;

(xxv) the Acquisition Agreement;

(xxvi) the Third Supplemental Agreement; and

(xxvii) the Mountain Sky Agreement.

11. VOTING AT THE SGM

Pursuant to Rule 13.39 of the Listing Rules, all votes of the Shareholders at a general meeting must be taken by poll except for resolutions which relate purely to a procedural or administrative matter. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the SGM.

The results of the poll will be published after the conclusion of the SGM on the websites of the Stock Exchange and of the Company.

12. GENERAL

(i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal office of the Company in Hong Kong is situated at Units 2001-2, 20th Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

(ii) The Hong Kong branch share registrar of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(iii) The secretary of the Company is Ms. Ng Jenna Bee Ching who is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

(iv) In the event of any inconsistency, the English language text of this circular and the accompanying form of proxy shall prevail over the Chinese language text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office of the Company in Hong Kong at Units 2001-2, 20th Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong during normal business hours on any Business Day from the date of this circular until the date of the SGM:

(i) the memorandum of association and the bye-laws of the Company;

(ii) the Acquisition Agreement;

(iii) the Disposal Agreement;

(iv) the Subscription Agreement;

(v) the Third Supplemental Agreement;

(vi) the Placing Agreement;

(vii) the letter from the Independent Board Committee, the text of which is set out on pages 109 to 110 of this circular;

(viii) the letter from Oriental Patron as set out on pages 111 to 202 of this circular;

(ix) the published annual reports of the Company for each of the financial years ended 31 December 2009, 31 December 2010 and 31 December 2011;

(x) the published interim report of the Company for the six months ended 30 June 2012;

(xi) the accountant's report of the Lexing Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;

(xii) the review report of the Disposal Group prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix III to this circular;

(xiii) the report on unaudited pro forma financial information of the Enlarged Group as prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix IV to this circular;

(xiv) the competent person's report on the Coal Mines as prepared by John T. Boyd Company, the text of which is set out in Appendix VI to this circular;

(xv) the competent evaluator's report of the Lexing Group as prepared by Greater China, the text of which is set out in Appendix VII to this circular;

(xvi) the competent evaluator's report of the NARG Group as prepared by Greater China, the text of which is set out in Appendix VIII to this circular;

(xvii) the written consents from the experts referred to under the paragraph headed "Qualifications and consents of experts" in this appendix;

(xviii) the material contracts of the Group and the Lexing Group referred to in the paragraph headed "Material contracts" in this appendix; and

(xix) this circular.

NORTH ASIA RESOURCES HOLDINGS LIMITED
北亞資源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 61)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Special General Meeting ("**SGM**") of the Members of the Company will be held Units 2001-2, 20th Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong on Friday, 12 April 2013 at 11:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the conditional acquisition agreement dated 12 June 2012 (as amended and supplemented from time to time) (the "**Acquisition Agreement**") and entered into between Guang Cheng Group Limited ("**Guang Cheng**"), a wholly owned subsidiary of the Company, as purchaser and City Bloom Limited ("**City Bloom**") in relation to the sale and purchase of the one (1) share of US$1.00 (the "**Lexing Sale Share**") in the issued share capital of Lexing Holdings Limited ("**Lexing**") at a consideration of HK$4,622 million (a copy of the Acquisition Agreement has been produced to the SGM marked "A" and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) the allotment and issue of such number of ordinary shares of HK$0.01 each (the "**Consideration Shares**") in the share capital of the Company at the issue price of HK$0.17 per Share to City Bloom (or such person(s) as nominated by City Bloom) to settle part of the consideration payable by Guang Cheng under the Acquisition Agreement in accordance with the terms and conditions of the Acquisition Agreement and the transactions contemplated thereunder be and are hereby approved and confirmed;

(c) the issue of the convertible bonds (the "**Consideration Bonds**") by the Company to City Bloom (or such person(s) as nominated by City Bloom) to settle part of the consideration payable by Guang Cheng under the Acquisition Agreement in accordance with the terms and conditions of the Acquisition Agreement and the issue and allotment of any ordinary shares of HK$0.01 each (each a "**Share**") in the share capital of the Company upon the exercise of the conversion rights of the Consideration Bonds and the transactions contemplated thereunder be and are hereby approved and confirmed; and

(d) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the issue and allotment of the Consideration Shares and the issue of the Consideration Bonds."

2. "**THAT**

(a) the conditional disposal agreement dated 12 June 2012 (as amended and supplemented from time to time) (the "**Disposal Agreement**") and entered into between the Company as vendor and Mountain Sky Resources (Mongolia) Limited ("**Mountain Sky**") as purchaser in relation to the sale and purchase of (i) the one share of US$1.00 (the "**GLG Sale Share**") in the issued share capital of Good Loyal Group Limited ("**GLG**"); (ii) the 50,000 shares of US$1.00 each (the "**NARG Sale Shares**") in the issued share capital of North Asia Resources Limited ("**NARG**"); and (iii) all obligations, liabilities and debts owing or incurred by NARG or GLG to the Group on or at any time prior to completion of the Disposal Agreement (the "**Sale Loan**") at a total consideration of HK$600 million (a copy of the Disposal Agreement has been produced to the SGM marked "B" and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

(b) any one or more of the Director be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Disposal Agreement and the transactions contemplated thereunder."

3. “**THAT**

(a) the conditional subscription agreement dated 6 September 2012 (as amended and supplemented from time to time) (the “**Subscription Agreement**”) and entered into between Business Ally Investments Limited (“**Business Ally**”), holder of the convertible bonds with principal amount of US$30 million issued by the Company (the “**US$30M Convertible Bonds**”) under the subscription agreement dated 8 September 2010 (as amended and supplemented by a supplemental letter dated 21 September 2010 and further amended by two supplemental agreements dated 29 October 2010 and 6 January 2012 respectively) (the “**Convertible Bonds Subscription Agreement**”), as subscriber and the Company as the issuer in relation to the proposed subscription of new ordinary Shares (the “**Subscription Ordinary Share(s)**”) and new convertible preference shares (the “**Subscription CPS**”) to be issued and allotted by the Company by Business Ally in accordance with the terms and conditions of the Subscription Agreement (a copy of the Subscription Agreement has been produced to the SGM marked “C” and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the creation of the Subscription CPS of HK$0.01 each of the Company be and is hereby approved and the authorised share capital of the Company be and is hereby re-designated and re-classified to facilitate the creation of Subscription CPS;

(c) the allotment and issue of such number of Subscription Ordinary Shares in the share capital of the Company at the issue price of HK$0.17 per Share to Business Ally in accordance with the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder be and are hereby approved and confirmed;

(d) the allotment and issue of such number of Subscription CPS in the share capital of the Company at the issue price of HK$0.17 per Subscription CPS and the issue and allotment of any ordinary Shares of HK$0.01 each upon the exercise of the conversion rights of the Subscription CPS and the transactions contemplated thereunder be and are hereby approved and confirmed;

(e) the proposed set off of a portion of the outstanding principal amount of the US$30M Convertible Bonds amounting to a principal sum of US$15 million with corresponding accrued unpaid interest which is to be set off as settlement of part of the consideration of the Subscription Agreement and the transactions contemplated thereunder be and are hereby approved and confirmed; and

(f) any one or more of the Director be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue and allotment of the Subscription Ordinary Shares and the Subscription CPS."

4. "**THAT**

(a) the third supplemental agreement to the Convertible Bonds Subscription Agreement dated 6 September 2012 (as amended and supplemented from time to time) (the "**Third Supplemental Agreement**") and entered into among the Company, City Bloom and Business Ally in relation to, among others, the proposed alteration (the "**Proposed Alteration**") of certain terms and conditions of the remaining non-capitalised portion of the US$30M Convertible Bonds with outstanding principal amount of US$15 million immediately after completion of the Subscription Agreement (the "**Remaining US$15M Convertible Bonds**") (a copy of the Third Supplemental Agreement has been produced to the SGM marked "D" and signed by the chairman of SGM for purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the issue and allotment of any new ordinary Shares upon conversion of the Remaining US$15M Convertible Bonds in accordance with the terms and conditions of the Remaining US$15M Convertible Bonds after the Proposed Alteration be and is hereby confirmed and approved; and

(c) any one or more of the Director be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Third Supplemental Agreement and the transactions contemplated thereunder."

5. "**THAT**

(a) the execution of the placing agreement dated 18 December 2012 (as amended and supplemented from time to time) (the "**Placing Agreement**", a copy of which is marked "E" and initiated by the chairman of the SGM for identification purpose and tabled at the SGM) between the Company and KCG Securities Asia Limited (the "**Placing Agent**"), pursuant to which the Company has conditionally agreed to place and the Placing Agent has conditionally agreed to procure, on a best-effort basis, the Placees to subscribe for the convertible bonds (the "**New CBs**", with the right to convert at the conversion price of HK$0.31 (subject to adjustments) per conversion share) and promissory notes (the "**PNs**") each up to an aggregate principal amount of US$30,000,000, and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the creation and issuance of the New CBs and the PNs by the Company to the Placing Agent in accordance with the terms and conditions of the Placing Agreement and the terms and conditions of the New CBs and the PNs attached to the Placing Agreement and all transactions thereunder be and are hereby approved, ratified and confirmed;

(c) the issuance and allotment of new ordinary shares of HK$0.01 each in the Company (the "**Placing Conversion Shares**") at the conversion price of HK$0.31 each (subject to adjustments) which may fall to be issued upon the exercise of the conversion rights attached to the New CBs be and are hereby approved; and

(d) the Directors are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivering all agreements, documents and instruments) which are in their opinion, necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the Placing Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Placing Agreement and all transactions contemplated thereunder and are in the interests of the Company."

Yours faithfully
For and on behalf of the Board
North Asia Resources Holdings Limited
Mr. Tse Michael Nam
Chairman

Hong Kong, 25 March 2013

Notes:

1. A member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the Bye-laws, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the SGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the SGM or any adjournment thereof, should he/she/it so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.