



KINETIC MINES AND ENERGY LIMITED

力量礦業能源有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1277



GLOBAL OFFERING

Sole Global Coordinator and Sole Sponsor

HSBC 

Joint Bookrunners

HSBC 

 **UBS**

Joint Lead Managers

HSBC 

 **UBS**

 **交銀國際**
BOCOM INTERNATIONAL

 **VMS**

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

KINETIC MINES AND ENERGY LIMITED

力量礦業能源有限公司

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 930,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares	: 93,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 837,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$1.51 per Offer Share payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%
Nominal Value	: US\$0.001 each
Stock Code	: 1277

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the appendix headed "Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between us and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around 16 March 2012 and, in any event, not later than 21 March 2012. The Offer Price will not be more than HK\$1.51 and is currently expected to be not less than HK\$1.26 unless otherwise announced. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters) by 21 March 2012, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Sole Global Coordinator, on behalf of the Underwriters may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$1.26 to HK\$1.51 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.kineticme.com. If applications for the Hong Kong Public Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the Offer Price range is so reduced such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Public Offer Shares, are subject to termination by the Sole Global Coordinator (for itself, and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m., on the Listing Date. Please refer to the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus for more details.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to (i) Qualified Institutional Buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A, or another available exemption from registration under the U.S. Securities Act or (ii) outside the United States in accordance with Regulation S.

13 March 2012

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete **electronic** applications under the

White Form eIPO service through the designated

website www.eipo.com.hk ⁽²⁾ 11:30 a.m. on Friday, 16 March 2012

Application lists open⁽³⁾ 11:45 a.m. on Friday, 16 March 2012

Latest time to lodge **WHITE** and **YELLOW**

Application Forms 12:00 noon on Friday, 16 March 2012

Latest time to give **electronic application**

instructions to HKSCC⁽⁴⁾ 12:00 noon on Friday, 16 March 2012

Latest time to complete payment of **White Form eIPO**

applications by effecting internet banking

transfer(s) or PPS payment transfer(s) 12:00 noon on Friday, 16 March 2012

Application lists close 12:00 noon on Friday, 16 March 2012

Expected Price Determination Date⁽⁵⁾ Friday, 16 March 2012

Announcement of the Offer Price and the indication of the levels of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allotment of the Hong Kong Public Offer Shares (with successful applicants' identification document numbers, where appropriate) to be made available through a variety of channels as described in the section headed "How to Apply for Hong Kong Public Offer Shares — Results of Allocations" in this prospectus from Thursday, 22 March 2012

Results of allocations for the Hong Kong Public Offering will be available at www.iporesults.com.hk, with a "search by ID"

function from Thursday, 22 March 2012

Despatch of Share certificates⁽⁶⁾ in respect of wholly or partially

successful applications on or before⁽⁷⁾ Thursday, 22 March 2012

Despatch of refund cheques or White Form e-Refund payment

instructions in respect of wholly or partially unsuccessful

applications on or before⁽⁷⁾⁽⁸⁾⁽⁹⁾ Thursday, 22 March 2012

Dealings in Shares on the Stock Exchange expected to

commence on Friday, 23 March 2012

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 16 March 2012, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Public Offer Shares — When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” in this prospectus. If the application lists do not open and close on Friday, 16 March 2012, the dates mentioned in this section may be affected. We will make a press announcement in such event.
- (4) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Public Offer Shares — How to Apply by Giving Electronic Application Instructions to HKSCC” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Friday, 16 March 2012, and in any event will not be later than Wednesday, 21 March 2012. If, for any reason, the Offer Price is not agreed on or before Wednesday, 21 March 2012, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) Notwithstanding that the Offer Price may be fixed at below the maximum Offer Price of HK\$1.51 per Offer Share payable by applicants for Shares under the Hong Kong Public Offering, applicants who apply for Shares must pay on application the maximum Offer Price of HK\$1.51 per Offer Share plus the brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus.
- (7) Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Thursday, 22 March 2012 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.
- (8) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more and have indicated in their Application Forms that they wish to collect refund cheques (if applicable) and Share certificates (if applicable) in person may do so from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 22 March 2012. Identification and (where applicable) authorisation documents acceptable to the Hong Kong Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more may collect their refund cheques (if applicable) in person but may not elect to collect in person their Share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through the **White Form eIPO** service by paying the application monies through a single bank account may have White Form e-Refund payment instructions (if any) despatched to the application payment account on Thursday, 22 March 2012. Applicants who have applied through the **White Form eIPO** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions to the designated **White Form eIPO** Service Provider, on Thursday, 22 March 2012, by ordinary post and at their own risk.

EXPECTED TIMETABLE⁽¹⁾

Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Public Offer Shares — Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

- (9) Refund cheques will be issued (where applicable) and White Form e-Refund payment instructions will be despatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, you should refer to the section headed "Structure of the Global Offering" in this prospectus.

CONTENTS

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of a public offering and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus.

We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorised by our Company, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers, the Co-lead Manager, any of the Underwriters, any of their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Global Offering.

	<u>Page</u>
Expected Timetable	i
Contents	iv
Summary and Highlights	1
Definitions	16
Glossary of Technical Terms	27
Forward-Looking Statements	30
Risk Factors	33
Waivers from Strict Compliance with the Listing Rules	50
Information about this Prospectus and the Global Offering	52
Directors and Parties involved in the Global Offering	56
Corporate Information	60
Industry Overview	62
Regulations	80
History and Corporate Structure	91
Business	99
Relationship with Controlling Shareholders	143
Directors, Senior Management and Staff	148
Substantial Shareholders	160

CONTENTS

	<u>Page</u>
Share Capital	161
Cornerstone Investor	164
Financial Information	166
Future Plans and Use of Proceeds	198
Underwriting	200
Structure of the Global Offering	209
How to Apply for Hong Kong Public Offer Shares	218
APPENDIX IA — Accountants' Report of Our Company	IA-1
APPENDIX IB — Accountants' Report of Kinetic Coal	IB-1
APPENDIX II — Unaudited Pro Forma Financial Information	II-1
APPENDIX III — Property Valuation	III-1
APPENDIX IV — Competent Person's Independent Technical Report	IV-1
APPENDIX V — Summary of the Constitution of Our Company and Cayman Islands Company Law	V-1
APPENDIX VI — Statutory and General Information	VI-1
APPENDIX VII — Documents Delivered to the Registrar of Companies and Available for Inspection	VII-1

SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

OVERVIEW

We are focused on constructing and developing the Dafanpu Coal Mine, and seek to operate highly efficient and safe coal mines. Our vision is to become a leading private-sector, integrated coal provider in China with mining, processing, transportation and storage capabilities.

Coal Resources, Coal Reserves and Coal Properties

The Dafanpu Coal Mine is an underground mine, occupying a concession area of approximately 9.6 km² located in Zhunge'er Banner, Erdos City, Inner Mongolia, China. We hold 30-year mining rights to the Dafanpu Coal Mine and can apply for renewal of these rights with the relevant PRC authorities prior to their expiration on 23 November 2039. We commenced trial production at the Dafanpu Coal Mine in January 2012. As at the Latest Practicable Date, commercial production has not yet commenced. We expect to begin to generate revenue from our mining operations in 2012. We have engaged Runge Asia Limited, an international mining consultant and an Independent Third Party, to estimate the Coal Resources and Coal Reserves at our Dafanpu Coal Mine in accordance with the JORC Code and to prepare the Report.

According to the Report, the estimated Coal Resources as of November 2010 and the estimated Coal Reserves as of October 2011 contained within the Dafanpu Coal Mine were as follows:

Coal Resources as of November 2010

Coal Seam	Measured	Indicated	Inferred	Total
	(Mt)	(Mt)	(Mt)	(Mt)
5	10.7	23.7	1.3	35.7
6 ^{Upper}	10.4	13.7	11.6	35.7
6 (6L ₁ + 6L ₂)	124.5	201.7	28.1	354.3
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	<u>145.6</u>	<u>247.7</u>	<u>56.6</u>	<u>449.9</u>

Coal Reserves as of October 2011

Coal Seam	Proven Coal Reserves	Probable Coal Reserves	Total Coal Reserves
	(Mt)	(Mt)	(Mt)
5	6.2	10.7	16.9
6 ^{Upper}	6.7	9.4	16.1
6 (6L ₁ + 6L ₂)	54.3	113.8	168.2
Total	<u>67.2</u>	<u>134.0</u>	<u>201.2</u>

SUMMARY AND HIGHLIGHTS

According to the Report, the estimated product classification of the Coal Reserves at our Dafanpu Coal Mine as of October 2011 was as follows:

All Seams	Proven Coal Reserves	Probable Coal Reserves	Total Coal Reserves
	(Mt)	(Mt)	(Mt)
Lump Coal	15.8	31.3	47.1
Fine Coal	51.4	102.7	154.1
Total	<u>67.2</u>	<u>134.0</u>	<u>201.2</u>

The approximate proportion of final saleable product results from the 20%/80% split of run-of-mine, or “ROM”, coal tonnes of lump/fine coal being subject to the varying washability yields of the fine coal portion. The volume of the fine Coal Reserves is estimated by taking the appropriate washability yields of raw coal into consideration. The estimated washability yields range from 71% to 84%. We believe that our mining operations at the Dafanpu Coal Mine will be highly efficient, due to favourable geological mining conditions, moderate to thick coal seams, our employment of advanced mining techniques and a fully mechanised mining process. We expect to produce coal quality with a mid to high energy value and low sulphur content.

Development Plan

We aim to achieve total coal production capacity of 5.0 million ROM tonnes of coal per year for the Dafanpu Coal Mine through a two-stage development plan. We completed the construction of mining and coal washing facilities in December 2011 and commenced trial production at the Dafanpu Coal Mine in January 2012. Our current mining permit allows us to produce 2.4 million ROM tonnes of coal per year, which we expect to achieve on a pro-rata basis (exclusive of the trial production period) towards the end of the first year of production. We will commence commercial production after we pass certain safety and environmental inspections on our facilities and obtain the required production permits and safety production permits. We expect to commence commercial production in the first half of 2012. We have submitted an application to increase the production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year for the second stage of our development plan. The competent government authority is reviewing our application. We intend gradually to ramp up to full production capacity to the second stage target of 5.0 million ROM tonnes of coal per year by 2013.

As advised by Runge Asia Limited, in respect of the Dafanpu Coal Mine, the depletion rate is equivalent to production rate. Based on the production rate of 5.0 million ROM tonnes of coal per year, the estimated future mining right amortisation rate will be RMB1.60 per ROM tonne.

SUMMARY AND HIGHLIGHTS

The unit operating costs for the Dafanpu Coal Mine are estimated to be RMB114.7 per tonne of coal. Our Directors are of the view that such estimated operating costs are in line with industry norms. The following table sets forth the estimated unit operating costs for the Dafanpu Coal Mine:

Mining costs	RMB101.79 per ROM tonne
Coal processing costs	RMB12.91 per tonne of feed
Unit operating costs	RMB114.7 per tonne of coal

Operational Safety

Our expected operational efficiency will be complemented by our expected high level of operational safety, resulting from a combination of inherent geological features, stringent safety standards and supervision, and advanced mining techniques and equipment. According to the Report, the Dafanpu Coal Mine contains very low amounts of methane gas and is classified as a “Category I low gas mine” as defined by the Chinese Standard. In addition, the geological mining conditions are favourable and water supplies are adequate for our business needs. We plan to use equipment which meets or exceeds industry safety standards, such as hydraulic props, and advanced mining techniques, such as longwall mining and longwall top coal caving. We also plan to implement advanced safety measures, such as installing an advanced monitoring system, to oversee the safety of the miners and operations.

Facilities

Our facilities are expected to enable us to offer our customers quality coal across a spectrum of varying specifications. We have completed the construction of a coal washing plant with a feed capacity of 5.0 million tonnes per year in our concession area. The coal washing plant will enable us to wash our raw coal and raw coal purchased from third parties to produce a range of coal products to meet the varying energy value requirements of our customers. We and Shenhua Zhunge’er Resources, through Xiaojia JV, are jointly constructing Xiaojia Station, a loading station with associated rail spur lines connecting to the Nanping Rail Line, which is expected to have a handling capacity of 15.0 million tonnes per year by June 2012. We plan to use the handling capacity of Xiaojia Station to transport our coal from the Dafanpu Coal Mine and coal purchased from third parties. To utilise fully the excess handling capacity of Xiaojia Station, we and Shenhua Zhunge’er Resources are in discussions to construct jointly a coal washing plant with an annual feed capacity of 10.0 million tonnes to wash coal purchased from third parties.

We are setting up a trading centre at Qinhuangdao Port, which is China’s largest coal transshipment port. We are in the process of establishing storage and blending facilities at our trading centre at Qinhuangdao Port, which will provide us with a secondary blending facility to blend coal purchased from third parties.

On basis of the above, we expect to be able to provide coal products with various energy values, sulphur and ash content to our customers to meet their specific combustion and environmental needs.

SUMMARY AND HIGHLIGHTS

Loading and Transportation

We have entered into an agreement with Shenhua Zhunge'er Resources, an Independent Third Party, to utilise the capacity of the Nanping Rail Line, to which Shenhua Zhunge'er Resources has the exclusive right of use, in exchange for our commitment not to mine certain areas along the Nanping Rail Line that runs across our concession area. Please refer to the section headed "Business — Properties — Land" in this prospectus. As advised by our PRC legal advisers, Jingtian & Gongcheng, the agreement is legally binding. The Nanping Rail Line is a branch rail line of the Datong-Zhunge'er Rail Line, which connects to the Datong-Qinhuangdao Rail Line, a major national railway to Qinhuangdao Port which is China's largest transshipment port.

The Dafanpu Coal Mine is easily accessible by public roads. It is only six km southeast of National Highway No. 109, a national highway connecting to Beijing, allowing easy access to local power plants in Inner Mongolia and connection to the PRC highway network (including Provincial Highway S103, which connects Zhunge'er and Hohhot). National Highway No. 210, which connects Baotou and Nanning, is about 130 km west of our concession area.

Capital Expenditure

We estimate that the total capital expenditure in relation to the Dafanpu Coal Mine, including mine development, and the construction of the coal washing plant, loading facilities and associated rail spur lines, will be approximately RMB1,241 million. The capital expenditures incurred up to 31 December 2011 amounted to approximately RMB602 million. The storage and blending facilities in Qinhuangdao were estimated to cost approximately RMB5 million. Our principal sources of funds have been capital contributions from our shareholders, shareholders' loans and bank loans. We plan primarily to use bank loans and proceeds from the Global Offering to finance our future capital expenditure. We do not anticipate any additional funding requirements to proceed from trial production to commercial production.

Expansion Plans

We plan to increase our Coal Reserves through a strategy of upgrading our Coal Resources to Coal Reserves within our concession area and acquiring coal resources in Inner Mongolia and throughout China. We have entered into a purchase option agreement with Mr. Zhang Li and Fuliang Coal Mining on 9 March 2012, pursuant to which we have a right to purchase an 85% equity interest in Guizhou Fuliang, which is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine, an anthracite coal mine in Bijie, Guizhou Province, China, with an expected annual production capacity of 600 thousand tonnes, through its wholly-owned subsidiary Guizhou Yangmei Longtai. We have the right to exercise the purchase option at any time after the Listing, so long as the purchase option agreement is not terminated and we have complied with all applicable requirements of the Listing Rules. For details, please refer to the section headed "Relationship with Controlling Shareholders — Competition — Excluded business — Guizhou project" in this prospectus.

SUMMARY AND HIGHLIGHTS

OUR STRENGTHS - HIGHLIGHTS

(i) **Highly efficient operations and strong ramp-up potential**

We believe our mining operations at the Dafanpu Coal Mine will be highly efficient due to favourable geological conditions, relatively thick coal seams, an ample supply of underground water onsite, the close proximity of water supply and electric grid, advanced mining techniques and our fully mechanised process using advanced mining equipment. Our current mining permit allows us to produce 2.4 million ROM tonnes of coal per year and we intend gradually to ramp up to full production capacity of 5.0 million ROM tonnes of coal per year by 2013.

(ii) **Access to transportation networks and loading facilities**

We have entered into a legally binding agreement with Shenhua Zhunge'er Resources to utilise the capacity of the Nanping Rail Line. We plan to use the majority of such rail capacity to transport our coal from the Dafanpu Coal Mine to Qinhuangdao. We and Shenhua Zhunge'er Resources are jointly constructing Xiaojia Station, which will meet our loading needs.

Please refer to the section headed "Business — Our Strengths" in this prospectus for a discussion of these and other strengths.

OUR STRATEGIES - HIGHLIGHTS

(i) **Establish integrated coal supply chain**

We plan to establish an integrated coal supply chain and seek to become an integrated coal provider with mining, processing, transportation and storage capabilities.

(ii) **Acquire and consolidate coal mines**

We plan to continue to acquire and consolidate coal mines into our operations as a core strategy to increase our coal resources and coal reserves.

Please refer to the section headed "Business — Our Strategies" in this prospectus for a discussion of these and other strategies.

SUMMARY AND HIGHLIGHTS

DETAILS OF THE DEVELOPMENT OF OUR DAFANPU COAL MINE AND OTHER MAJOR FACILITIES

To implement the above strategies, we have constructed shafts, a conveyor system and a coal washing plant and are constructing a loading station and associated rail spur lines at the Dafanpu Coal Mine. We are also in the process of establishing storage and blending facilities in Qinhuangdao. The following table sets forth the development status and estimated timeline for the construction of our major facilities as of the Latest Practicable Date:

Facilities	Capacity Million tonnes per year	Required permits/ approvals	Development status	Expected timeline	Capital expenditure		
					Budgeted	Incurred ⁽⁴⁾	Estimated to be incurred
(RMB in million)							
Shafts and conveyor system							
Stage 1: Achieve Annual Production Capacity of 2.4 Million ROM Tonnes	2.4 ⁽¹⁾	• Production permit; • Safety production permit	• Obtained mining permit for annual production capacity of 2.4 million ROM tonnes; • Completed construction; • Completed equipment testing; • Commenced trial production	• Pass various inspections, including but not limited to safety and environmental protection inspections; • Obtain production permit and safety production permit; • Commence commercial production	778	481	• 257⁽⁵⁾ in 2012; • 40⁽⁵⁾ in 2013.
Stage 2: Achieve Annual Production Capacity of 5.0 Million ROM Tonnes	5.0 ⁽¹⁾	• Mining permit	• Applied to increase our annual production capacity to 5.0 million ROM tonnes; • Our application has been accepted by the Coal Industry Bureau of Zhunge'er Banner (准格爾旗煤炭工業管理局) and referred to the Coal Industry Bureau of Inner Mongolia (內蒙古自治區煤炭工業管理局) for review and approval	• Commence construction for the second stage of development; • Obtain the new mining permit for 5.0 million ROM tonnes production capacity; • Commence commercial production with increased annual production capacity of 5.0 million ROM tonnes	200	—	• 180 in 2012; • 20 in 2013.

SUMMARY AND HIGHLIGHTS

Facilities	Capacity Million tonnes per year	Required permits/ approvals	Development status	Expected timeline	Capital expenditure		
					Budgeted	Incurred ⁽⁴⁾	Estimated to be incurred
<i>Coal washing plant</i>	5.0 ⁽²⁾	Inspection for the completion of construction	- Completed the initial stage construction; - Completed installation of auxiliary equipment; - Completed equipment testing	- Pass necessary inspections; - Commence operation	220	97	112 ⁽⁵⁾ in 2012; 11 ⁽⁵⁾ in 2013.
<i>Loading station and associated rail spur lines</i>	15.0 ⁽³⁾	- Project approval from local branches of the Ministry of Railways and NDRC; - Approval from environmental protection authority; - Inspection for the completion of construction	Established Xiaojia JV	- Complete the construction of rail spur lines; - Install equipment; - Complete equipment testing; - Obtain necessary approvals; - Pass necessary inspections; - Commence operation	43	24	19 in 2012.
<i>Qinhuangdao storage and blending facilities</i>	5.0 ⁽³⁾	Coal sales and trading permit	- Established Kinetic Qinhuangdao; - Entered into a lease for offices to be used as the office space for our trading centre and a lease for a parcel of land to be used as the site for storage and blending facilities	- Obtain coal sales and trading permit; - Commence operation	5	—	5 in 2012.

Notes:

- (1) Represents production capacity.
- (2) Represents feed capacity.
- (3) Represents handling capacity.
- (4) Represents the capital expenditures incurred up to 31 December 2011.
- (5) Although the construction of these facilities were completed by the end of 2011, we will continue to incur capital expenditure in 2012 and 2013 as certain payment obligations under the relevant contracts will not be due until 2012 or 2013.

SUMMARY AND HIGHLIGHTS

The following timetable sets out the dates when we anticipate completing the steps necessary to commence commercial production at the Dafanpu Coal Mine at (i) an annual production capacity of 2.4 million ROM tonnes; and (ii) an annual production capacity of 5.0 million ROM tonnes:

Shafts and Conveyor System		
Stage 1: Annual production capacity of 2.4 million ROM tonnes	January 2012 – Commenced trial production	- First Half 2012 – Pass various inspections, including construction completion, safety and quality inspections - First Half 2012 – Obtain production permit and safety production permit - First Half 2012 – Commence commercial production
		Stage 2: Annual production capacity of 5.0 million ROM tonnes
		July 2012 – Commence construction for the second stage of development
		- First Quarter 2013 – Obtain the new mining permit for 5.0 million ROM tonnes production capacity - First Quarter 2013 – Commence commercial production with increased annual production capacity of 5.0 million ROM tonnes
Coal Washing Plant		
	- March 2012 – Pass necessary inspections - March 2012 – Commence operation	
Loading Station and Associated Rail Spur Lines		
	- June 2012 – Complete the construction of rail spur lines - June 2012 – Install equipment - June 2012 – Complete equipment testing - June 2012 – Obtain necessary approvals - June 2012 – Pass necessary inspections - June 2012 – Commence operation	
Qinhuangdao Blending and Trading Facilities		
	- First Quarter 2012 – Obtain coal sales and trading permit - June 2012 – Commence operation	
2011	2012	2013

SUMMARY AND HIGHLIGHTS

Based upon our current development plan and subject to timely completion of all requisite steps leading to our mining operations, we intend to utilise fully our estimated production capacity to achieve an expected production volume of 2.4 million ROM tonnes of coal in 2012 and 5.0 million ROM tonnes of coal in 2013.

For further details, please refer to the section headed “Business — Facilities and Equipment” in this prospectus. As advised by our PRC legal advisers, Jingtian & Gongcheng, there is no material legal impediment for us to obtain the production permit and the safety production permit once we pass all requisite inspections and there is no material legal impediment for us to obtain the relevant prior approvals and the new mining permit to increase our annual production capacity to 5.0 million ROM tonnes. Our Directors are of the view that we will not have any practical difficulty in obtaining those permits.

FINANCIAL INFORMATION

The financial data set forth below presents the financial information of our Company and of Kinetic Coal, which has been prepared in accordance with the HKFRSs. On 11 June 2010, a subsidiary of our Company, Kinetic (Asia), completed the acquisition of the entire equity interests in Kinetic Coal from Fuliang Coal Mining. At the time of the acquisition, Kinetic Coal held the mining rights to the Dafanpu Coal Mine. Only a small portion of the mining structure construction of the Dafanpu Coal Mine had commenced and most of the mining equipment had not yet been purchased nor had the underground mining workforce been contracted. At this stage, the underlying assets acquired and liabilities assumed from this acquisition were not integrated to form a business which could generate external revenues to our Group as a whole. As such, the acquisition of Kinetic Coal was considered as a purchase of assets and assumption of liabilities which did not constitute a business combination for accounting purposes. Accordingly, the results of Kinetic Coal were not consolidated into our Company’s financial statements for the period between 11 December and 31 December 2009 and for the six months ended 30 June 2010, and the results of Kinetic Coal were only consolidated into our Company’s financial statements from 1 July 2010 onwards. Investors should read the selected financial data together with Appendices IA and IB to this prospectus and the discussion under the section headed “Financial Information” in this prospectus.

SUMMARY AND HIGHLIGHTS

Summary Consolidated Statements of Comprehensive Income Data of Our Company

	Our Company		
	Period from 11 December to 31 December 2009	Year ended 31 December	
		2010 ⁽¹⁾	2011
	(RMB in thousands, except per share data)		
Turnover	—	—	—
Cost of sales	—	—	—
Gross profit	—	—	—
Other revenue	—	6,165	14,438
Administrative expenses	—	(10,040)	(49,861)
Loss from operations	—	(3,875)	(35,423)
Finance costs	—	(9,107)	(20,401)
Loss before taxation	—	(12,982)	(55,824)
Income tax	—	2,603	7,939
Loss attributable to equity shareholders of our Company for the period/year	—	(10,379)	(47,885)
Other comprehensive income for the period/year			
Exchange differences on translation of financial statements of operations outside the PRC	—	4,917	5,091
Total comprehensive loss attributable to equity shareholders of our Company for the period/year	—	(5,462)	(42,794)
Basic and diluted loss per share ⁽²⁾ (RMB yuan) . .	—	(0.001)	(0.006)

Notes:

- (1) The results of Kinetic Coal have been consolidated into our Company's financial statements since 1 July 2010.
- (2) The calculation of basic loss per share was based on the loss attributable to equity shareholders of our Company and a total number of 7,500,000,000 ordinary shares of our Company, which are expected to be in issue immediately prior to the Global Offering as if the shares were outstanding throughout the entire Track Record Period.

There were no dilutive potential ordinary shares during the Track Record Period, and therefore, diluted loss per share was the same as the basic loss per share.

SUMMARY AND HIGHLIGHTS

Summary Statements of Comprehensive Income Data of Kinetic Coal

	Kinetic Coal	
	Year ended	Six months ended
	31 December 2009	30 June 2010
	(RMB in thousands)	
Turnover	—	—
Cost of sales	—	—
Gross profit	—	—
Other revenue	89	1,263
Administrative expenses	(9,005)	(5,550)
Loss from operations	(8,916)	(4,287)
Finance costs	(13,760)	(8,791)
Loss before taxation	(22,676)	(13,078)
Income tax	—	10,565
Total comprehensive loss and loss for the year/period	<u>(22,676)</u>	<u>(2,513)</u>

Summary Consolidated Balance Sheets of Our Company

	Our Company		
	As at 31 December		
	2009 ⁽¹⁾	2010	2011
	(RMB in thousands)		
Total non-current assets	—	1,035,621	1,498,367
Current assets	—	52,924	51,177
Current liabilities	—	(607,297)	(907,525)
Net current liabilities	—	(554,373)	(856,348)
Total assets less current liabilities	—	481,248	642,019
Non-current liabilities	—	(486,710)	(500,000)
Net (liabilities)/assets	—	<u>(5,462)</u>	<u>142,019</u>
Capital and reserves			
Share capital	—	—	48,444
Reserves	—	(5,462)	93,575
Total equity	—	<u>(5,462)</u>	<u>142,019</u>

Note:

(1) The balance sheet data of Kinetic Coal was not consolidated into our Company's balance sheet as at 31 December 2009.

SUMMARY AND HIGHLIGHTS

We had net current liabilities of RMB856.3 million as at 31 December 2011, consisting of RMB51.2 million of current assets and RMB907.5 million of current liabilities. Our net current liability position was primarily attributable to our construction of mining structures and purchase of mining facilities.

We are obtaining additional bank borrowings for working capital purpose. We will repay our short-term loans primarily with proceeds from the Global Offering. We intend to improve our working capital and net current liabilities position by using proceeds from the Global Offering and cash flow generated from operations after the commencement of our mining operations.

We will fully repay our amounts due to related parties prior to the Listing, including those due to Mr. Zhang Li, using primarily short-term bank borrowings for which we have obtained a written commitment of a banking facility in the amount of RMB600 million from China Minsheng Banking Corp., Ltd. The banking facility will have a six-month term starting from the first drawdown.

Summary Balance Sheets of Kinetic Coal

	Kinetic Coal	
	As at 31 December 2009	As at 30 June 2010
	(RMB in thousands)	
Total non-current assets	687,370	764,676
Current assets	65,840	16,274
Current liabilities	(320,443)	(346,696)
Net current liabilities	(254,603)	(330,422)
Total assets less current liabilities	432,767	434,254
Non-current liabilities	(380,000)	(384,000)
Net assets	<u>52,767</u>	<u>50,254</u>
Capital and reserves		
Paid-in capital	190,000	190,000
Accumulated losses	(137,233)	(139,746)
Total equity	<u>52,767</u>	<u>50,254</u>

SUMMARY AND HIGHLIGHTS

GLOBAL OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$1.26	Based on an Offer Price of HK\$1.51
Market capitalisation of our Shares ⁽²⁾	HK\$10,621.8 million	HK\$12,729.3 million
Unaudited pro forma adjusted net tangible assets per Share	HK\$0.05	HK\$0.08

Notes:

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalisation is based on 8,430,000,000 Shares expected to be issued and outstanding immediately following completion of the Global Offering.

DIVIDEND POLICY

The declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend on various factors. Please refer to the section headed “Financial Information — Dividend Policy” in this prospectus for more details.

Dividends payable by us to our foreign investors may be subject to PRC withholding tax. The EIT Law may also affect tax exemptions on dividends that may be received by us and by our Shareholders. For further details, please refer to the sections headed “Risk Factors — Risks Relating to the PRC — Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to taxes under PRC tax laws” and “Risk Factors — Risks Relating to the PRC — The EIT Law may affect tax exemptions on dividends received by us and by our Shareholders and may increase our enterprise income tax rate” in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

Future Plans

Please refer to the section headed “Business — Our Strategies” in this prospectus for a detailed description of our business strategies and future plans.

Use of Proceeds

We estimate that the net proceeds of the Global Offering (after deducting underwriting commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised), assuming an Offer Price of HK\$1.39, being the mid-point of the indicative Offer Price range, will be approximately HK\$1,220.4 million. We intend to apply such net proceeds in the following manner:

- approximately HK\$427.1 million or approximately 35.0% of the aggregate net proceeds to develop the Dafanpu Coal Mine and related facilities, the coal washing plant, Xiaojia Station and associated rail spur lines at the Dafanpu Coal Mine;

SUMMARY AND HIGHLIGHTS

- approximately HK\$366.1 million or approximately 30.0% of the aggregate net proceeds to repay a part of a short-term bank loan;
- approximately HK\$305.1 million or approximately 25.0% of the aggregate net proceeds to find new acquisition targets and acquire coal reserves; and
- the balance of the net proceeds to support our working capital requirements.

For more details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

RECENT DEVELOPMENT AND OUTLOOK OF THE COAL INDUSTRY IN THE PRC

Due to strong demand for energy to support economic growth, China continues to be short of domestic coal supply. The price of coal has increased significantly in recent years. As a result of growing demand for coal to fuel China’s industrialisation and urbanisation and steady production cost increases due to higher royalties and environmental and social related costs, the price of coal is expected to continue to increase.

The PRC Government maintains control over the price of thermal coal used for power generation. In December 2011, the PRC Government adopted temporary measures to limit increases in the contract price with PRC’s major independent power producers for thermal coal and cap spot prices of thermal coal at China’s major coal transshipment ports, including Qinhuangdao Port. The temporary measures provide that from 1 January 2012 onwards the benchmark FOB price for 5,500 kCal/kg thermal coal used for power generation at China’s major coal transshipment ports cannot exceed RMB800 per tonne. The FOB price cap of thermal coal with different energy values should be calculated accordingly. For more details, please refer to the section headed “Regulations — China’s Coal Industry — Temporary measures relating to the control of the price of thermal coal to be used for power generation” in this prospectus.

Our Directors are of the view that the temporary measures will not have a material impact over our coal sales volume and selling price. As a privately-owned company, we have the flexibility not to sell our coal at the contract price with China’s major independent power producers for thermal coal. In addition, our coal washing plant at the Dafanpu Coal Mine and the blending facilities at Qinhuangdao Port will enable us to produce a range of coal products with varying energy values, which will offer us flexibility and help us optimise our revenue.

During the Track Record Period, our revenue was not influenced by fluctuations in PRC coal prices as we did not generate any revenue from the sale of coal. We commenced trial production at the Dafanpu Coal Mine in January 2012.

SUMMARY AND HIGHLIGHTS

RISK FACTORS

There are certain risks relating to an investment in our Shares. These can be categorised into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering.

We believe that the following are some of the major risks that may materially and adversely affect us:

- Our mining operations are currently concentrated at one mining site.
- Our short operating history makes it difficult for investors to evaluate our business and growth.
- If there is any delay in obtaining any major licences, permits and approvals required for our operations and expansion, our business and operating results may be materially and adversely affected.
- We have not obtained formal title certificates to certain properties we occupy.

The above risks are not the only significant risks that may affect the value of our Shares, please refer to the section headed “Risk Factors” in this prospectus for a more comprehensive discussion of these and other risks and uncertainties.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain technical terms are explained in the section headed "Glossary of Technical Terms" in this prospectus.

"Application Form(s)"	WHITE application form(s), YELLOW application form(s) and GREEN Application Form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association"	our amended and restated articles of association, adopted by our Shareholders and as amended, supplemented or otherwise modified from time to time, a summary of which is set forth in Appendix V to this prospectus
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Blue Gems"	Blue Gems Worldwide Limited, a BVI business company incorporated under the laws of the BVI on 11 December 2009 and our wholly-owned subsidiary
"Board of Directors" or "Board"	the board of Directors of our Company
"Business Day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open to the public for normal banking business
"BVI"	the British Virgin Islands
"Cayman Companies Law"	The Companies Law (2011 Revision) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"Cayman Islands Share Registrar"	Appleby Trust (Cayman) Ltd.
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“CCTDA”	China Coal Transportation and Distribution Association* (中國煤炭運銷協會), an Independent Third Party
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“China Shenhua”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), an Independent Third Party and a company listed on the Stock Exchange
“Chinese Standard”	the Chinese National Land and Resource Department’s national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999)
“Co-lead Manager”	Guotai Junan Securities (Hong Kong) Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Kinetic Mines and Energy Limited (力量礦業能源有限公司), an exempted company incorporated in the Cayman Islands on 27 July 2010
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and for the purposes of this prospectus, means each of King Lok and Mr. Zhang Liang, Johnson
“Cornerstone Investor”	the cornerstone investor with whom we and the Sole Global Coordinator have entered into a cornerstone investment agreement as part of the International Offering as described in the section headed “Cornerstone Investor” in this prospectus
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), an institution of the State Council
“Dafanpu Coal Mine”	the 9.6108 km ² area located in Xuejiawan Town of Erdos City of Inner Mongolia identified under mining licence no. C1000002009081120035462 granted to Kinetic Coal on 9 May 2011
“Datong-Qinhuangdao Rail Line”	a 653 km long heavy-haul rail line in China, running from Datong City in Shanxi Province to Qinhuangdao City in Hebei Province

DEFINITIONS

“Datong-Zhunge’er Rail Line”	a 264 km long heavy-haul rail line in China, running from Datong City in Shanxi Province to Xuejiawan Town in Erdos City of Inner Mongolia
“Deed of Indemnity”	a deed of indemnity entered into by each of our Controlling Shareholders and Mr. Zhang Li in favour of our Company and our subsidiaries dated 9 March 2012
“Deed of Non-competition”	a deed of non-competition entered into by each of our Controlling Shareholders and Mr. Zhang Li in favour of our Company and our subsidiaries dated 9 March 2012
“Director(s)”	any director(s) of our Company
“DRCCCI”	the Development and Research Centre of China Coal Industry* (中國煤炭工業發展研究中心), an Independent Third Party
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) enacted on 16 March 2007 and became effective on 1 January 2008
“FOB”	free on board, meaning the risk passes to the buyer, including payment of all transportation and insurance costs, once goods are delivered on board of the ship by the seller, as defined in the latest edition of the International Rules for the Interpretation of Trade Terms as published by ICC Publishing SA, 38 cours Albert 1er, 75008 Paris, France from time to time or such official rules for interpretation of trade terms as may be issued by the ICC in substitution therefor as amended from time to time
“Fuliang Coal Mining”	Zhunge’er Banner Fuliang Coal Mining Limited* (准格爾旗富量礦業有限公司), formerly known as Ningxia Fulong Coal Mining Limited* (寧夏富龍煤業有限公司), a company incorporated in the PRC on 10 February 2004 and a connected person of our Company as it is owned as to 100% by Mr. Zhang Li, the chairman and an executive Director of our Company, as of the Latest Practicable Date
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GLSPI”	Guizhou Land Survey and Plan Institute* (貴州省國土資源勘測規劃院), an Independent Third Party
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited

DEFINITIONS

“GSI”	Geological Survey Institute of the Coal Mine Exploration Bureau of Guizhou Province, China* (中國貴州省煤田地質局地質勘察研究院), an Independent Third Party
“Guizhou Fuliang”	Guizhou Fuliang Mining Limited* (貴州富量礦業有限公司), a PRC company incorporated on 21 December 2010 and a connected person of our Company as it is indirectly owned as to 85% by Mr. Zhang Li, the chairman and an executive Director of our Company, as of the Latest Practicable Date
“Guizhou Qiaobang”	Guizhou Bijie Qiaobang Mining Investment Management Limited* (貴州畢節樵榔礦業投資管理有限公司), a PRC company incorporated on 12 October 2010 and owned as to 40% by Mr. Zhang Hongyi (張洪毅) and as to 60% by Mr. Tang Bangzhi (湯邦智), both being Independent Third Parties, as of the Latest Practicable Date
“Guizhou Yangmei Longtai”	Guizhou Yangmei Longtai Coal Limited* (貴州楊梅龍泰煤業有限責任公司), a PRC company incorporated on 25 January 2011 and a connected person of our Company as it is indirectly owned as to 85% by Mr. Zhang Li, the chairman and an executive Director of our Company, as of the Latest Practicable Date
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Public Offer Shares”	the 93,000,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment) as described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus

DEFINITIONS

“Hong Kong Public Offering”	the offering by our Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Underwriters — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 12 March 2012 entered into by, among others, the Joint Bookrunners, the Hong Kong Underwriters and us relating to the Hong Kong Public Offering, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this prospectus
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“Independent Third Party(ies)”	persons who, as far as our Directors are aware after having made all reasonable enquiries, are not connected persons of our Company within the meaning of the Listing Rules
“Inner Mongolia”	Inner Mongolia Autonomous Region (內蒙古自治區) of the PRC
“International Offer Shares”	the 837,000,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the International Offering, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure of the Global Offering — Over-allotment and Stabilisation” in this prospectus
“International Offering”	the offering of the International Offer Shares outside the United States (including to professional investors in Hong Kong) in reliance on Regulation S, and in the United States to Qualified Institutional Buyers in reliance on Rule 144A, or any other available exemption from registration under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement

DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement relating to the International Offering which is expected to be entered into by, among others, the Sole Global Coordinator, the International Underwriters and us on or before the Price Determination Date
“Joint Bookrunners”	HSBC and UBS
“Joint Lead Managers”	BOCOM International Securities Limited, HSBC, UBS and VMS Securities Limited
“Kinetic (Asia)”	Kinetic (Asia) Limited (力量(亞洲)有限公司), a company incorporated with limited liability under the laws of Hong Kong on 21 January 2010 and our indirect wholly-owned subsidiary
“Kinetic Coal”	Inner Mongolia Zhunge’er Kinetic Coal Limited* (內蒙古准格爾旗力量煤業有限公司), a PRC company incorporated on 22 December 2006 and our indirect wholly-owned subsidiary
“Kinetic Qinhuangdao”	Kinetic (Qinhuangdao) Energy Co., Ltd.* (力量(秦皇島)能源有限公司), a PRC company incorporated on 4 August 2011 and our indirect wholly-owned subsidiary
“King Lok”	King Lok Holdings Limited, a BVI business company incorporated under the laws of the BVI on 9 December 2009 and one of our Controlling Shareholders
“Latest Practicable Date”	7 March 2012, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Date”	the date, expected to be on or about 23 March 2012, on which our Shares are listed and dealings in our Shares on the Stock Exchange first commence
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“Memorandum”	our amended and restated memorandum of association, adopted by our Shareholders and as amended from time to time, a summary of which is set forth in Appendix V to this prospectus
“MEP”	the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部), formerly the State Administration of Environmental Protection of the PRC (國家環境保護總局)
“MHURD”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), formerly known as the Ministry of Construction (中華人民共和國建設部)
“MLR”	the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“M&A Rules”	the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) promulgated on 8 August 2006 by six PRC regulatory agencies including CSRC
“Nanping Rail Line”	a branch rail line of the Datong-Zhunge’er Rail Line, connecting it to the Datong-Qinhuangdao Rail Line (南坪鐵路專用線)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy 0.003% and Stock Exchange trading fee of 0.005%) at which our Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined as further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	Shares offered in the Global Offering, and where relevant, with any additional Shares issued and sold pursuant to the exercise of the Over-allotment Option
“Original Dafanpu Mine”	the area located in Xuejiawan Town of Erdos City of Inner Mongolia identified under mining licence no. 1500000610285 granted to Zhunge’er Banner Yintai Coal Limited* (准格爾旗銀泰煤炭有限責任公司) on 14 April 2006
“Original Yintai Mine”	the area located in Xuejiawan Town of Erdos City of Inner Mongolia identified under mining licence no. 1500000610076 granted to Fuliang Coal Mining on 1 March 2006

DEFINITIONS

“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters pursuant to the International Underwriting Agreement, to be exercisable at any time from the day on which trading of our Shares commences on the Stock Exchange until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 139,500,000 additional new Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering solely to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering — Over-allotment and Stabilisation” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行)
“PRC Government”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“Price Determination Agreement”	the agreement to be entered into among our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around 16 March 2012 but no later than 21 March 2012 on which the Offer Price is fixed by the Sole Global Coordinator (on behalf of the Underwriters) and us for the purposes of the Global Offering
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Qinhuangdao Port”	a seaport located in Qinhuangdao city in Hebei Province of the PRC
“Qualified Institutional Buyers”	qualified institutional buyers as defined in Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of our Group as described in the section headed “History and Corporate Structure — Pre-Listing Reorganisation” in this prospectus

DEFINITIONS

“Report”	the report of the technical expert, Runge Asia Limited, an Independent Third Party, the text of which is set out in Appendix IV to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SACMS”	the State Administration of Coal Mine Safety of the PRC (中華人民共和國國家煤礦安全監察局)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC government agency responsible for matters relating to foreign exchange administration
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SAWS”	the State Administration of Work Safety of the PRC (中華人民共和國國家安全生產監督管理總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of our Company with a nominal value of US\$0.001 each
“Shareholder(s)”	the holder(s) of our Share(s)
“Shenhua Zhunge’er Resources”	Shenhua Zhunge’er Resources Company Limited* (神華准格爾能源有限責任公司), an Independent Third Party and a non-wholly-owned subsidiary of China Shenhua
“Sole Global Coordinator”	HSBC
“Sole Sponsor”	HSBC
“Stabilising Manager”	HSBC
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Takeovers Code”	Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the year ended 31 December 2009 and the six months ended 30 June 2010 for Kinetic Coal and the period from 11 December 2009 to 31 December 2009 and each of the years ended 31 December 2010 and 2011 for our Company
“UBS”	UBS AG, Hong Kong Branch
“Underwriters”	collectively, the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	collectively, the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“we”, “us”, “our” or “our Group”	unless the context indicates otherwise, means our Company and our subsidiaries (or at any time prior to our Company’s establishment, the businesses which our Company’s predecessors or the predecessors of our subsidiaries were engaged in and which were subsequently assumed by our Company and our subsidiaries)
“White Form eIPO”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WTO”	World Trade Organisation

DEFINITIONS

“Xiaojia JV”	Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited* (神華准能肖家沙壩煤炭集運有限責任公司), a PRC company incorporated on 21 September 2011 with Shenhua Zhunge’er Resources holding 55% of the equity interest and Kinetic Coal holding the remaining 45% of the equity interest
“Xiaojia Station”	a loading station with associated rail spur lines of approximately 6.1 km for a connection distance of 2.7 km which is being jointly constructed by our Group and Shenhua Zhunge’er Resources
“Xinjiang”	Xinjiang Uygur Autonomous Region (新疆維吾爾自治區) of the PRC
“Yangmei Longtai Coal Mine”	a coal mine of 8.5771 km ² in size located in Bijie, Guizhou Province, China
“Zhunge’er Coal Field”	a coal field located in Inner Mongolia

In this prospectus, if there is any inconsistency between the Chinese names of entities or enterprises established in China or Chinese government authorities or departments and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “*” and Chinese translation of company names in English which are marked with “*” are for identification purpose only.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this prospectus. These terms and their given meanings may not correspond to industry standard definitions or usage of these terms.

“ad”	air dried
“anthracite”	the highest rank and hardest type of coal which is characterised by a low percentage of volatile matter and a high carbon content greater than 86%
“AusIMM”	Australasian Institute of Mining and Metallurgy
“Beneficiation”	mechanical and or chemical process to remove impurities from coal so as to improve the general quality of the coal, or to target a certain quality specification range
“bituminous coal”	a type of medium to high-grade metamorphic, black-coloured coal, generally with a carbon content between 45% and 86%
“Coal Reserve”	the economically mineable part of a Measured Coal Resource and/or Indicated Coal Resource
“Coal Resource”	a concentration or occurrence of coal material of intrinsic economic interest in or on the Earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction, which are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
“coking coal”	the type of coal that is used to create coke, which is consumed in coke ovens as part of the steel-making process, and is also known as metallurgical coal
“daf”	dry ash free
“fine coal”	the portion of coal that is under the size fraction of lump coal, which is normally crushed, sized, washed and processed
“goaf”	the part of a mine from which coal has been partially or wholly removed
“Indicated Coal Resource”	the part of Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence such as to allow the generation of mine plans and the determination of likely product coal quality

GLOSSARY OF TECHNICAL TERMS

“Inferred Coal Resource”	the part of Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence so that the generation of mine plans would not be possible
“JORC”	Joint Ore Reserves Committee
“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), which can be used to determine Coal Resources and Coal Reserves, and is published by JORC of the AusIMM, the Australian Institute of Geoscientists and the Minerals Council of Australia
“kCal”	kilocalories
“kV”	kilovolt
“lignite”	a type of low rank, brown-coloured coal which is characterised by low relative density, a carbon content of less than 35%, a high percentage of volatile matter and a high moisture content generally greater than 20%
“lump coal”	coal, generally greater than 100 - 200 mm in size, that has undergone simple separation by size fraction
“Measured Coal Resource”	the part of Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence such as to allow the generation of detailed mine plans and the determination of mining and Beneficiation costs, wash plant yields and quality specifications
“mine production”	the total raw production from any particular mine
“mining rights”	the rights to mine mineral resources and obtain mineral products in areas where mining activities are licenced
“MJ”	megajoules
“Mt”	million tonnes
“Probable Coal Reserve”	the economically mineable part of an Indicated Coal Resource, and in some circumstances a Measured Coal Resource, representing a lower level of confidence than a Proven Coal Reserve but has adequate reliability as the basis of mining studies
“Proven Coal Reserve”	the economically mineable part of a Measured Coal Resource, representing the highest confidence category of Coal Reserve estimates

GLOSSARY OF TECHNICAL TERMS

“rejects”	stone or waste material remaining after saleable coal has been removed by Beneficiation
“ROM”	run-of-mine, being material as mined before Beneficiation
“SE”	specific energy (MJ/kg)
“slime”	mixture of very fine coal particles and clay after Beneficiation, generally less than 0.5 mm in size
“sub-bituminous coal”	a type of low rank, black-coloured coal generally with a carbon content between 35% and 45%
“tonnes”	metric tonnes being 1,000 kg

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risks described in the section headed “Risk Factors” in this prospectus. These forward-looking statements include, without limitation, words and expressions such as “aim”, “expect”, “believe”, “plan”, “intend”, “estimate”, “project”, “seek”, “anticipate”, “may”, “will”, “should”, “would” and “could” or similar expressions, words or statements or the negative thereof, in particular, in the sections headed “Business” and “Financial Information” in this prospectus in relation to future events, including our strategies, plans, objectives, goals, targets, our future financial, business or other performance and development, the future development of our industry and of the general economy of our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could materially affect our actual results, performance or achievements include the risk factors described in the section headed “Risk Factors” in this prospectus, and the following:

- changes in the regulatory environment in the regions and industries in which we operate as well as the industry outlook in general;
- our business strategy and plan of operation;
- availability and costs of bank loans and other forms of financing;
- our liquidity and financial conditions;
- our relationship with, and other conditions affecting, our customers;
- price of products;
- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters;
- exchange rate fluctuations;
- currency exchange restrictions;
- our dividend policy; and
- changes in economic conditions and the competitive landscape.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or those of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

CAUTIONARY NOTE TO INVESTORS REGARDING MINING RESERVES AND RESOURCES DATA

The Coal Resources and Coal Reserves reported in this prospectus relating to the Dafanpu Coal Mine, were estimated by Runge Asia Limited. Runge Asia Limited estimated the Coal Resources and Coal Reserves for our Dafanpu Coal Mine included in this prospectus in accordance with the JORC Code. The JORC Code has been adopted by and included in the listing rules of the Australian Stock Exchange and is an accepted standard for public reporting purposes in Australia and certain other jurisdictions.

The JORC Code may differ from other resource/reserve classification systems or reporting guidelines in the following aspects:

- The JORC Code permits the estimation of Coal Reserves based on assumed legal and economic conditions and factors considered to be realistic based on various assessments and studies but may be different from the legal and economic conditions at the time of the determination of the Coal Reserves.
- When JORC-compliant Coal Resources and JORC-compliant Coal Reserves are reported, they may be reported as only JORC-compliant Coal Resources or in a complete JORC competent persons report with both JORC-compliant Coal Resources and JORC-compliant Coal Reserves estimated.
- Coal Resources may be reported as including estimated Coal Reserves or in addition to estimated Coal Reserves under the JORC Code. In the Report, all estimated Proven Coal Reserves and/or Probable Coal Reserves are derived from part thereof the estimated Measured Coal Resources and/or Indicated Coal Resources and there have been no Coal Resources reported as in addition to estimated Coal Reserve figures. When reporting Coal Resources in accordance with the JORC Code, a statement must be included in the report which clearly indicates whether Coal Resources are inclusive of, or additional to Coal Reserves. Both Coal Resource and Coal Reserve figures must not be aggregated and need to be reported separately.

FORWARD-LOOKING STATEMENTS

- The JORC Code permits the classification of Coal Resources into Measured Coal Resources, Indicated Coal Resources and Inferred Coal Resources. In particular, Inferred Coal Resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or any part of Inferred Coal Resources will ever be upgraded to a higher category under the JORC Code.

The resources data contained in this prospectus relating to the Yangmei Longtai Coal Mine was prepared in accordance with resource/reserve classification system established by the MLR. This system attempts to recognise economic parameters as well as parameters related to geological levels of confidence and is based on the United Nations Framework Classification System. This resource/reserve classification system is not readily comparable with the JORC Code.

Potential investors are cautioned not to place undue reliance on the Coal Resources and Coal Reserves information and other resources data reported in this prospectus.

RISK FACTORS

You should consider carefully all the information set out in this prospectus and, in particular, you should consider and evaluate the following risks associated with an investment in our Company before making any investment decision to buy the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that all of our operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from that prevailing in other countries. The occurrence of any of the following risks could have a material and adverse effect on our business and financial condition. The trading prices of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our mining operations are currently concentrated at one mining site.

Our operations are currently focused on the Dafanpu Coal Mine and most of our operating cash flows and sales are expected to be derived from the sale of coal produced from this single deposit. Any significant operational or other difficulties in the mining, processing, storing or transporting of coal at or from the Dafanpu Coal Mine could reduce, disrupt or halt our coal production, which would materially and adversely affect our business, prospects, financial condition and results of operations.

Our short operating history makes it difficult for investors to evaluate our business and growth.

We are an early-stage development company and have not yet commenced commercial production. We commenced trial production at the Dafanpu Coal Mine in January 2012. Trial production will take one to six months and, upon obtaining various licenses, permits and approvals, we plan to commence commercial production. As with other coal mining companies in early stages of development, we have incurred net losses and negative operating cash flows, and expended significant amounts in investing activities financed through borrowings. We recorded a loss of RMB10.4 million and RMB47.9 million in 2010 and 2011, respectively. We have incurred and will continue to incur significant costs associated with the commencement of our mining operations at the Dafanpu Coal Mine and the expansion of our mining operations through acquisitions and consolidation. We expect to begin to generate positive cash flow from operations only after the commencement of our mining operations. We cannot assure you that we will be profitable or have positive cash flow in the near future, or at all.

Our limited operating history does not allow for analysis of how we respond to risks frequently encountered by coal mining companies. If we fail to successfully manage risks frequently encountered by coal mining companies, our business and financial results would be materially and adversely affected. Accordingly, you should consider our business and prospects in light of our limited operating history. Investors may have difficulties evaluating our business and prospects because our past results may not be indicative of our future results.

RISK FACTORS

If there is any delay in obtaining any major licences, permits and approvals required for our operations and expansion, our business and operating results may be materially and adversely affected.

Our ability to operate profitably depends on obtaining all major licences, permits and approvals required for our operations in a timely manner. We commenced trial production at the Dafanpu Coal Mine in January 2012 with a mining permit which allows us to produce 2.4 million ROM tonnes of coal per year. We expect to increase our annual production capacity to 5.0 million ROM tonnes of coal by 2013. As trial production is at a preliminary stage, we have not applied for the production permit, the safety production permit and the coal sales permit for these operations. According to relevant PRC laws and regulations, we expect to be granted such permits by the relevant government authorities within one to six months of trial production. However, we cannot assure you that we will be able to obtain, maintain or renew any major licences, permits and approvals or additional licences, permits and approvals required by the PRC Government for our production and planned expansion on a timely basis, or at all. Failure to obtain, maintain or renew such approvals, permits and licences as planned may cause us to delay or cancel our production and expansion plans, which may materially and adversely affect our business, financial condition and results of operations.

We have not obtained formal title certificates to certain properties we occupy.

To compensate our loss of coal production volume resulting from the construction of safety pillars supporting Shenhua Zhunge'er Resources' surface infrastructure within our concession area, Shenhua Zhunge'er Resources agreed to transfer to us the land use rights to a parcel of land of 236,067 m², of which 93,800 m² is designated for our industrial yard. Our shaft exits and coal washing plant are situated in this industrial yard. The usage rights to the industrial yard was granted to us by Shenhua Zhunge'er Resources. Pursuant to the agreements between Shenhua Zhunge'er Resources and us, Shenhua Zhunge'er Resources will transfer the land use rights to us after it obtains the land use right certificate. Shenhua Zhunge'er Resources is in the process of applying for the land use right certificate. Please refer to the section headed "Business — Properties — Land" in this prospectus for a more detailed description of our contractual arrangements with Shenhua Zhunge'er Resources and our constructions on the land.

If Shenhua Zhunge'er Resources fails to obtain any of the formal title certificates to the parcel of land where our industrial yard is located on a timely basis, or at all, and is unable to perform its obligations under the agreements with us or fails to transfer the formal title certificates to us, our rights as owner or occupier of the properties in the industrial yard may be materially and adversely affected. As of 31 December 2011, we had 19 buildings under construction with an aggregate floor area of approximately 27,479 m² located in the industrial yard. We may not be able to obtain property ownership certificates of these buildings as we do not have the land use rights to the industrial yard. We may be subject to lawsuits and other actions taken against us with respect to such properties or lose the right to continue our operations on such properties, which may materially and adversely affect our business and results of operations.

RISK FACTORS

Our growth prospects depend upon our ability to successfully acquire and develop economically attractive coal reserves at competitive costs.

Our recoverable Coal Reserves decline as we produce coal. Our ability to sustain or increase our planned level of production capacity in the long term is dependent upon the acquisition of new coal reserves, the development of new coal mining projects and the expansion of existing mining operations. We will make strategic acquisitions or investments in the future as part of our business strategy. PRC coal producers compete for the right to obtain and develop coal reserves and we may not succeed in obtaining these rights. We may not be able to identify suitable acquisition or investment opportunities, or if we do identify such opportunities, we may not be able to complete those transactions on terms commercially acceptable to us, or at all. The inability to identify suitable acquisition or investment opportunities or the inability to complete such transactions may materially and adversely affect our competitiveness and growth prospects.

In the event that we successfully complete an acquisition or investment, we may face difficulties in managing the investment or integrating the acquisition into our operations. Our planned development and expansion projects may not result in additional economically recoverable coal reserves. Delay or failure in securing the relevant PRC government approvals or permits necessary for the acquisition of new mines in the PRC and development of coal reserves as well as any adverse change in government policies may cause a significant adjustment to our development and acquisition plans. Any of the aforementioned events may disrupt our existing business, require a significant amount of resources, divert management's attention or increase our expenses, any of which may materially and adversely affect our business growth prospects.

Our major capital projects may not be completed as planned, may exceed our original budgets and may not achieve the intended economic results or commercial viability.

We commenced trial production at the Dafanpu Coal Mine in January 2012. Our business strategy depends in large part on ensuring the Dafanpu Coal Mine commercially viable and further expanding our production capacity in the near future. The commercial viability of a coal mine depends on a number of factors, including: attributes of the coal deposit, such as the size and grade, commodity prices and government regulations, including those related to prices, taxes, royalties, land tenure, land use, safety and environmental protection. Our current construction and expansion plan is based on geological, engineering, environmental and mine planning evaluations. If we are unable to develop the Dafanpu Coal Mine into a commercial viable mine, our business, financial condition and results of operations will be materially and adversely affected.

Moreover, actual costs for our capital projects may exceed our original budgets. As a result of project delays, cost overruns, changes in market circumstances or other reasons, we may not be able to achieve the intended economic benefits or demonstrate commercial viability of these projects, which in turn may materially and adversely affect our results of operations, financial condition and growth prospects.

RISK FACTORS

If we fail to manage our liquidity situation carefully, our ability to expand and, in turn, our results of operation may be materially and adversely affected.

We are currently subject to a high degree of financial leverage because we were in a pre-operation stage during the Track Record Period and have only recently commenced trial production at the Dafanpu Coal Mine. To date, we have used borrowings to fund a portion of our capital requirements and expect to continue to do so in the near future. As at 31 December 2009, 2010 and 2011, we had bank loans of approximately RMB380.0 million, RMB495.2 million and RMB749.0 million, respectively. As at 31 December 2011, RMB729.0 million of the bank loans were secured by our mining rights. In addition, as at 31 December 2011, we had RMB548.4 million in amounts due to related parties. The degree to which we are leveraged may impair our ability to make necessary capital expenditure, increase our exposure to interest rate fluctuations, increase the cost of and limit our ability to obtain additional financing, and limit our ability to develop business opportunities or make strategic acquisitions. There can be no assurance that our business will generate sufficient cash flows from operations in the future to serve our debt obligations and make necessary capital expenditures, in which case we may seek additional financing or seek to refinance some or all of our debts. The availability of external funding is subject to various factors, some of which are beyond our control, including governmental approvals, prevailing capital market conditions, credit availability and interest rates. If we are unable to secure sufficient external funds when required, we may not be able to meet our financial obligations. Our inability to secure additional financing in a timely manner on terms that are satisfactory to us could materially and adversely affect our expansion plans, business and results of operations.

We may not be able to obtain adequate financing for our business in the future.

Our business is capital intensive. We estimate that the total capital expenditure in relation to the Dafanpu Coal Mine, including mine development, and the construction of the coal washing plant, loading facilities and associated rail spur lines, will be approximately RMB1,241 million, of which approximately RMB602 million has been incurred up to 31 December 2011. The storage and blending facilities in Qinhuangdao were estimated to cost approximately RMB5 million. To date, we have financed our capital expenditure and working capital requirements through a combination of shareholders' equity, bank loans and advances from related parties. After the Listing, we expect to fund our working capital and capital expenditures needs through a combination of cash generated from operating activities, the proceeds from the Global Offering and other debt and equity financing.

Our ability to obtain financing through bank borrowings, or debt or equity financing, will depend on our financial condition and results of operations, the performance of our industry, and political and economic conditions in China. The tightening of credit resulting from the economic downturn may increase the interest expenses on our bank borrowings and create difficulties for our Group to renew existing banking facilities and/or obtain additional sources of debt financing, which may affect the amount of banking facilities available to our Group. Our lenders may withdraw facilities, request for early repayment of outstanding loans or increase the amount of security for borrowings. Further, if our Group requires additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities.

RISK FACTORS

There is no assurance that adequate funds can be obtained on acceptable terms, or at all. If capital is unavailable, we may be forced to curtail our expansion plans, which could result in an inability to successfully implement our business strategies.

If reliable coal transportation capacity is unavailable or insufficient, our ability to supply coal to our customers may be impaired or affected.

A significant portion of our coal is expected to be transported via China's national rail system, connecting through the Nanping Rail Line of Shenhua Zhunge'er Resources to Qinhuangdao Port, China's largest coal transshipment port. Despite government efforts to increase rail capacity, the rail system in Inner Mongolia has been insufficient to satisfy the need for coal transportation due to inadequate rail infrastructure. With both demand and supply for coal on the increase, shortage of transportation capacity has become a key bottleneck to coal producers in Inner Mongolia. We have entered into a legally binding agreement with Shenhua Zhunge'er Resources, an Independent Third Party, to utilise the capacity of the Nanping Rail Line, to which Shenhua Zhunge'er Resources has the exclusive right of use, in exchange for our commitment not to mine certain areas along the Nanping Rail Line that runs across our concession area. Please refer to the section headed "Business — Properties — Land" in this prospectus. The joint construction and operation of Xiaojia Station with Shenhua Zhunge'er Resources will reinforce the mutual commercial understanding that Shenhua Zhunge'er Resources will allocate sufficient rail capacity for us to transport a total of 5.0 million tonnes of coal per annum from Xiaojia Station, through associated rail spur lines connecting to the Nanping Rail Line, to Qinhuangdao Port, and ensure our access to the rail capacity of the Nanping Rail Line. We plan to use the majority of such rail capacity to transport our coal from the Dafanpu Coal Mine, and any surplus capacity to transport coal purchased from third parties. However, the binding agreement with Shenhua Zhunge'er Resources does not provide for this specific amount of rail capacity to be committed to us, and we and Shenhua Zhunge'er Resources have not entered into a legally binding supplemental agreement to document our mutual understanding to commit to us rail capacity of 5.0 million tonnes of coal per annum. If Shenhua Zhunge'er Resources fails to allocate sufficient rail capacity to us, we may experience delays in deliveries to our customers and increased delivery cost and may not receive any remedies or compensation, which would materially and adversely affect the results of our operations and profitability.

We rely on contractors for our constructions, mining operations and certain supplementary services.

The construction of the mine shafts and the coal washing plant at the Dafanpu Coal Mine have been completed. Services that we have contracted out include mining operations, maintenance, construction of the loading station and associated rail spur lines and other ancillary facilities, transportation, storage and other logistics services. We expect to engage additional third party contractors for our future drilling, design and construction needs as we expand our operations. These independent third-party contractors may not perform adequately or abide by our agreements, and we may have disputes with these contractors over the performance of our agreements. As a result, our operations are affected by the performance of our third-party contractors. Any failure by these Independent Third Party contractors to meet our quality, safety and environmental standards may result in our incurring liability to third parties or failure to abide by relevant laws and regulations which may have

RISK FACTORS

a material and adverse effect on our business, financial condition, results of operations and reputation. Additionally, since we do not have long-term cooperative relationships with any of the Independent Third Party contractors, any failure by us to retain our contractors or find replacements on favourable terms, or at all, may have a material and adverse effect on our business and results of operations.

The Coal Reserve data of our Coal Mine in this prospectus are estimates and may be inaccurate and our projected future production volumes, turnover and capital expenditures, which are based on these estimates, may differ materially from actual figures.

We base our production, turnover and expenditure plans on independent estimates of our Coal Reserves by Runge Asia Limited in accordance with the JORC Code. The Coal Reserve quantities of our Dafanpu Coal Mine quoted in this prospectus are only calculated estimates and may differ materially from our actual mining results. There are many factors, assumptions and variables beyond our control which may result in inherent uncertainties in estimating Coal Reserves. Our actual quantities of Coal Reserves and rates of production may differ from these estimates.

Fluctuations in factors including variation in recovery rates or unforeseen geological or geotechnical perils may make it necessary to revise our Coal Reserve estimates. If such a revision results in a substantial reduction in recoverable Coal Reserves, our results of operations, financial condition and growth prospects may be materially and adversely affected. For more information on our Coal Reserves, please refer to the Report.

Our coal operations may be materially and adversely affected by operational risks and natural disasters and our insurance coverage may not be sufficient to cover the risks related to our business.

Our coal operations are subject to significant risks and hazards beyond our control that can materially and adversely impact our coal production and transportation capacity, delay our coal deliveries and cause significant business interruptions, personal injuries, property or environmental damage, as well as increase the mining cost at particular mines for varying lengths of time. These risks include natural disasters, such as earthquakes and flood, unexpected maintenance or technical problems, key equipment failures, geological variations in coal quality, seam thickness and surrounding geological changes, as well as underground mining risks.

We, like other coal mining companies in China, do not currently maintain fire, liability or other property insurance covering our properties, equipment or inventories, other than with respect to vehicles. We do not carry insurance for risks relating to our infrastructure and utility facilities that are under construction. In addition, we do not maintain any business interruption insurance or any third party liability insurance to cover claims in respect of personal injury or property or environmental damage arising from accidents on our properties, other than third party liability insurance with respect to vehicles. Any uninsured losses and liabilities incurred by us may have a material and adverse effect on our financial condition and results of operations. Please refer to the section headed “Business — Insurance” in this prospectus.

RISK FACTORS

We rely on key management personnel.

Our success depends, to a significant extent, on our ability to attract and retain key management personnel, particularly Mr. Wang Changchun, our chief executive officer and an executive Director, who has approximately 40 years of experience in the coal mining industry and has served in senior-level positions in the PRC regulatory domain and in private companies, Mr. Gu Jianhua, our general manager, and those other individuals set out in the section headed “Directors, Senior Management and Staff” in this prospectus, as well as other technical personnel and skilled employees. If our key management personnel are unable to perform their duties for any reason, or if we lose the services of our key management personnel and are not able to replace any such personnel with someone who has similar knowledge or experience, our business may be disrupted and our results of operations may be materially and adversely affected.

Interests of our Controlling Shareholders may not be aligned with the interests of our other Shareholders.

Immediately following the Offering, our Controlling Shareholders will hold in aggregate approximately 63.0% of our Shares, or approximately 61.9% if the Over-allotment Option is exercised in full. Our Controlling Shareholders will, through their voting power at Shareholders’ meetings and their delegates on the Board, have significant influence over our business and affairs, including decisions with respect to: (i) mergers or other business combinations; (ii) acquisition or disposition of assets; (iii) issuance of additional shares or other equity securities; (iv) timing and amount of dividend payments; and (v) our management. Our Controlling Shareholders may cause us to undertake certain corporate transactions or enter into other corporate transactions which might not be in, or may conflict with, the best interests of our other Shareholders. We cannot assure you that our Controlling Shareholders will vote on Shareholders’ resolutions in a way that will benefit all of our Shareholders.

RISKS RELATING TO OUR INDUSTRY

Coal prices are cyclical and subject to significant fluctuation.

Our results of operations are highly dependent on coal prices, which tend to be highly cyclical and subject to significant fluctuations. The world coal markets are sensitive to changes in coal mining capacity and output levels, patterns of demand and consumption of coal from the steel industry and other industries for which coal is the principal raw material and changes in the world economy. Improved distribution of overseas coal, an economic downturn in China, India or Asia in general or a change in PRC Government policy restricting coal imports could reduce world coal prices from current levels. All of these factors can have a significant impact on selling prices for our coal. An extended or substantial decline in global coal prices or the price for our coal may materially and adversely affect our business, prospects, financial condition and results of operations.

As we expect to derive most of our revenues from the sale of coal in the domestic PRC market for the foreseeable future, our business and operating results are substantially dependent upon the prices we are able to charge for our coal as well as demand for coal in the PRC. As we plan to sell most of our coal products on the spot market in Qinhuangdao Port, coal prices at Qinhuangdao Port will particularly affect our results of operation. According to China Coal Resource* (中國煤炭資源網), the price of 5,500

RISK FACTORS

kCal/kg thermal coal sold at Qinhuangdao Port in China decreased from approximately RMB930 per tonne in September 2008 to approximately RMB520 per tonne at the end of 2008 due to the global financial crisis. Such price increased to approximately RMB770 per tonne, RMB795 per tonne and RMB840 per tonne at the end of 2009, 2010 and in November 2011, respectively, as the global economy began to recover.

The volatility and cyclicity in coal prices are mainly linked to the rapid development of the PRC economy, the impact of the global financial crisis and competition among energy resources and alternatives. Negative trends in coal prices would have a direct negative impact on our business, prospects, financial condition and results of operations. We cannot assure you that PRC demand for coal will stay at the current level or continue to grow, or that the PRC coal market will not experience periods of overcapacity and excess supply. In addition, the PRC Government maintains control over the price of thermal coal used for power generation and indirectly influences coal prices through its regulation of power tariffs and its control over allocation of the national rail system's transportation capacity. In December 2011, the PRC Government adopted temporary measures to limit increases in the contract price with PRC's major independent power producers for thermal coal and cap spot prices of thermal coal at China's major coal transshipment ports, including Qinhuangdao Port. A significant decline in demand for or oversupply of coal or any significant downturn in domestic prices for coal may cause prices and margins to decline and may have a material and adverse effect on our business, results of operations and financial condition.

Our operations are extensively regulated by the PRC Government.

Our operations are subject to extensive regulation by the PRC Government. Central governmental authorities, such as the NDRC, the MEP, the MOFCOM, the MLR, the SACMS, the Ministry of Railways (中華人民共和國鐵道部), the Ministry of Communications (中華人民共和國交通運輸部), the State Electricity Regulatory Commission (國家電力監管委員會) and the SAT, and provincial and local authorities and agencies regulate many aspects of China's coal industry, including the following:

- the granting and renewal of coal exploration rights and mining rights;
- the granting of production permits;
- resource recovery rate requirements;
- allocation of coal transportation capacity on the national rail system;
- pricing of coal transport services;
- the adoption of temporary measures to limit increases in coal prices;
- royalties, taxes, duties and fees; and
- environmental, safety and health standards.

RISK FACTORS

The compliance costs, liabilities and requirements associated with these and any new regulations can have a significant impact on our operations. If we fail to comply with government regulations and policies or if future inspections, examinations and audits by PRC regulatory authorities result in fines or other penalties or actions, we may not be able to complete construction of our mining facilities, commence our mining operations or transport coal to our customers, which may materially and adversely affect our business, results of operations, financial condition and reputation.

If accidents occur at our mines or other coal mines in the PRC, our coal operations could be materially and adversely affected.

Coal mine operations are subject to certain risks inherent in mining, which may cause accidents. These risks include roof collapses, mine water discharge, explosions from methane gas or coal dust, ground falls and other mining hazards. Accidents may occur at our mines and may damage or destroy our business or production facilities, disrupt or suspend our operations, result in casualties, lead to litigation and related costs and expenses, increase our production costs, result in liability to us (including corrective measures or penalties imposed by the regulatory authorities and revocation of our mining licence or shutting down of our mines by the regulatory authorities) and harm our reputation. Any of the aforementioned events may materially and adversely affect our business, results of operations, financial condition and prospects. In addition, even if accidents do not occur at our mines, accidents which occur at other mines, especially those adjacent to ours, could trigger more stringent policies by relevant government authorities or even disruptions to production, both of which could materially and adversely affect our business.

Recent significant mining accidents in China have prompted the PRC Government to strengthen safety regulations and future accidents may result in further regulations. We may be required to devote substantial financial and other resources to comply with these regulations. Failure to comply with these regulations or increased costs associated with compliance may adversely affect our ability to commence mining operations on a timely basis, or at all, which may materially and adversely affect our business and results of operations.

Our business operations may be materially and adversely affected by present or future environmental regulations.

We are subject to extensive and increasingly stringent environmental protection laws and regulations in China. Please refer to the section headed “Regulations” in this prospectus. These laws and regulations:

- impose fees for the discharge of pollutants and waste substances;
- require the establishment of reserves for land reclamation and rehabilitation;
- impose fines for environmental violations; and
- allow the government, at its discretion, to close any facility that fails to comply with administrative orders requiring it to correct or stop operations causing environmental damage.

RISK FACTORS

Currently, the PRC Government is moving towards more rigorous enforcement of applicable environmental laws and regulations and the adoption of more stringent environmental standards. Costs, delays and other effects caused by these laws and regulations may impact our ability to develop profitable mining projects in the future. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or fines or take corrective actions, any of which may materially and adversely affect our results of operations and financial condition.

Competition in the PRC coal industry may increase and our business and prospects may be materially and adversely affected if we are not able to compete effectively.

Competition in the PRC coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability, blending capability, storage capacity, water and power supply, cost and brand name. The PRC market is highly fragmented and we expect to face price competition from small, local coal producers that produce coal of similar quality but may produce at lower cost than we expect for our operations due to lower expenditures on safety and regulatory compliance. Increased competition in the future may force us to lower our prices or lead to a decrease in our sales, either of which may materially and adversely affect our results of operations and financial condition.

Our operations depend on an adequate and timely supply of power, water and other raw materials and equipment.

Power and water are the main utilities used in our coal mining activities. We source our power from local power grids. An interruption to power supply may disrupt our operations and affect our production and our safety materially and adversely. We source water for the Dafanpu Coal Mine from the nearby Chenjiagou and Tanggongta water resources and underground aquifers. If a decrease in the precipitation rate in the region or any other unforeseen event beyond our control occurs, our water supply may be significantly reduced. Failure to obtain sufficient water from our water supply sources at prices acceptable to us, or at all, could materially and adversely affect our operations.

Our coal mining operations use significant amounts of steel, spare parts for various equipment and facilities, fuel and other raw materials in various pieces of mining equipment and materials. We cannot assure you that the supplies of equipment and materials will not be interrupted or will be delivered in a timely manner, or that the prices of such equipment and materials will not increase in the future. In addition, we have not entered into long-term contracts with or obtained guarantees of supply from all of our suppliers. In the event that our existing suppliers cease to supply us with materials, equipment or spare parts at existing or lower prices in a timely manner or at all, our financial condition and results of operations will be materially and adversely affected.

RISK FACTORS

RISKS RELATING TO THE PRC

Our business, financial condition, results of operations and prospects could be negatively affected by PRC political, economic and legal developments and changes to government policies.

All of our operating assets are located in the PRC and all of our revenues will be derived from our operations in the PRC. Our results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange.

The PRC economy has traditionally been centrally planned. Since 1978, the PRC Government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. We believe that we have benefited from the economic reforms implemented by the PRC Government and its economic policies and measures. However, there is no assurance that the PRC Government will continue to pursue economic reforms. The PRC Government exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. In addition, while the PRC's economy has experienced significant growth in the last two decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, results of operations, financial condition and prospect may be materially and adversely affected by the PRC Government's political, economic and social policies, tax regulations or policies, and regulations affecting the coal mining industry.

Our business could be materially and adversely affected by changes and uncertainties in the PRC legal system.

The PRC legal system is based on the civil law system. Under the civil law system, prior legal decisions and judgements have limited significance for guidance. The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC Government has established a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

In addition, the laws and regulations promulgated by the PRC Government may be principle-based only and therefore involve significant vagueness. It is therefore possible that different local authorities, including those in Inner Mongolia, may interpret laws and regulations differently, which could lead to uncertainties regarding our operations and activities in Inner Mongolia.

RISK FACTORS

Fluctuations in the value of the Renminbi may materially and adversely affect your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate. Exchange rates are affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC Government. On 21 July 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over three years. From July 2008 until June 2010, however, the Renminbi has traded stably within a narrow range against the U.S. dollar.

There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against foreign currencies. On 20 June 2010, the PBOC announced that the PRC Government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. We cannot predict how this policy will impact the Renminbi exchange rate.

Our revenues and costs are mostly denominated in the Renminbi, and a significant portion of our financial assets are also denominated in the Renminbi. We will need to convert Renminbi to foreign currency for payment of dividends, if any, to holders of our Shares. Any significant fluctuations in the exchange rate between the Renminbi and the U.S. dollar may materially and adversely affect the amount of and any dividends we may pay on our Shares in Hong Kong dollars. In addition, any fluctuations in the exchange rate between the Renminbi and the U.S. dollar could also result in foreign currency translation losses for financial reporting purposes.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to taxes under PRC tax laws.

Under the EIT Law and its implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within China. Similarly, any gain realised on the transfer of Shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. We currently intend to take the position that we are not a PRC resident enterprise for purposes of the EIT Law. However, if we are considered a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain our shareholders may realise from the transfer of our Shares, may be treated as income derived from sources within China and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-PRC resident enterprises, or if our Shareholders are required to pay PRC income tax on the transfer of our Shares, the value of our Shareholders' investment in our Shares may be materially and adversely affected.

The EIT Law may affect tax exemptions on dividends received by us and by our Shareholders and may increase our enterprise income tax rate.

We are incorporated under the laws of the Cayman Islands and hold interests in our PRC operating subsidiaries. Pursuant to the EIT Law, effective 1 January 2008, if any of our overseas members is

RISK FACTORS

deemed to be a non-PRC resident enterprise for tax purposes without an office or premises in China, it will be subject to a withholding tax rate of 10% on any dividends paid by our PRC operating subsidiaries unless it is entitled to certain tax reductions or exemptions. Under the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《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》) effective on 1 January 2007 (the “**Tax Arrangement**”), 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; if otherwise, the dividend withholding tax rate is 10%. According to the Notice of the SAT on issues relating to the administration of the dividend provision in tax treaties (《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》) (Guoshuihan [2009] No.81) (“**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.

According to Notice 81, if the primary purpose of the transactions or arrangements is deemed by the relevant authorities to be entered into for the purpose of enjoying a favourable tax treatment, the favourable tax benefits enjoyed by us pursuant to the Tax Arrangement may be adjusted by the relevant tax authorities in the future.

The EIT Law provides that if an enterprise incorporated outside China has its “*de facto* management organisation” within China, such enterprise may be deemed a PRC resident enterprise for tax purposes and be subject to an enterprise income tax rate of 25% on its worldwide income. We currently intend to take the position that we are not a PRC resident enterprise for purposes of the EIT Law. However, as most members of our Group are located in China and, if they remain there, our overseas members as well as our Company may be deemed PRC resident enterprises and therefore subject to an enterprise income tax rate of 25% on our worldwide income. Should we become subject to these changes, our historical operating results will not be indicative of our operating results for future periods and the value of our Shares may be materially and adversely affected.

The EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, but due to the short history of the EIT Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC operating subsidiaries to us will meet such qualification requirements even if our overseas members are considered PRC resident enterprises for tax purposes.

The EIT Law also stipulates that if (i) an enterprise distributing dividends is domiciled in China, or (ii) capital gains are realised from the transfer of equity interests in enterprises domiciled in China, then such dividends or capital gains are treated as PRC-sourced income. If our overseas members are deemed PRC resident enterprises for tax purposes, then (i) any dividends we pay to our overseas Shareholders and (ii) any capital gains realised by our Shareholders from transfers of our Shares may be regarded as PRC-sourced income and be subject to a PRC withholding tax at a rate of up to 10%.

Although the EIT Law took effect on 1 January 2008, there is still uncertainty about how it will be implemented by the relevant PRC tax authorities. If dividend payments from our PRC operating

RISK FACTORS

subsidiaries to us are subject to the PRC withholding tax, it may have a material and adverse effect on our business, financial condition and results of operations. If our dividend payments to overseas Shareholders are subject to the PRC withholding tax, it may have a material and adverse effect on your investment return and the value of your investment with us.

PRC regulations relating to loans to and direct investment by offshore holding companies in PRC entities may affect our use of the proceeds of the Global Offering to contribute additional capital or make loans to our PRC subsidiaries.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries. In utilising the proceeds we expect to receive from the Global Offering for the purposes described in the section headed “Future Plans and Use of Proceeds” in this prospectus, we may make loans or additional capital contributions to our PRC subsidiaries.

Any loans to our subsidiary, Kinetic Coal, which is treated as a foreign invested enterprise under PRC law, are subject to PRC regulations and foreign exchange loan registrations. We may also finance Kinetic Coal by means of capital contributions. These capital contributions must be approved by the MOFCOM or its local counterpart.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from the Global Offering to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Restrictions on foreign investment in the PRC mining industry could materially and adversely affect our business and results of operations.

In the PRC, foreign companies have in the past been, and are currently, required to operate within a framework that is different from that imposed on domestic PRC companies. However, the PRC Government has provided opportunities for foreign investment in mining projects following the PRC’s accession into the WTO. However, if the PRC Government should reverse this trend, or impose greater restrictions on foreign companies, or seek to nationalise our PRC operations, our business and results of operations could be materially and adversely affected. For a description of the laws and regulations applicable to foreign mining companies, please refer to the section headed “Regulations” in this prospectus.

We face risks related to health epidemics and other outbreaks.

Our business could be materially and adversely affected by the effects of swine flu, avian flu, SARS or other epidemics or outbreaks. Any prolonged occurrence or recurrence of swine flu, avian flu, SARS or other adverse public health developments in China may have a material and adverse effect on our business and operations. These could include our ability to transport our products, as well as temporary closure of our mining facilities, logistic facilities and our customers’ facilities, leading to delayed or

RISK FACTORS

cancelled orders. Any severe transportation restrictions and closures would severely disrupt our operations and materially and adversely affect our business and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of swine flu, avian flu, SARS or any other epidemic.

Protests, strikes or other unstable social conditions could materially and adversely affect our business and prospects.

Recently, a series of protests occurred in various locations in China. The protests may have caused disturbances among the local populations and disrupted the operations of some local businesses. Our Directors have confirmed that none of the protests were related to our business operations and such protests have had no material and adverse effect on our business and operations. However, we cannot assure you that, if such protests are prolonged or escalated, our business operations or our customers' business operations will not be materially and adversely affected by such protests or government measures, if any, adopted as a result of the protests.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares.

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price for our Shares will be determined by the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Offer Price may not be indicative of the price at which our Shares will trade following the completion of the Global Offering. Moreover, there can be no assurance that there will be an active trading market for our Shares or, if it exists, that it can be sustained following the completion of the Global Offering, or that the price at which our Shares will trade will not decline below the Offer Price. In addition, the price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, safety or environmental accidents suffered by us or other similar mining companies or fluctuations in the market prices of coal could cause large and sudden changes in the volume and price at which our Shares will trade.

Our corporate actions are substantially controlled by our Controlling Shareholders, who can exert significant influence over important corporate matters, which may reduce the price of our Shares and deprive you of an opportunity to receive a premium for your Shares.

After the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option), our Controlling Shareholders will beneficially own approximately 63.0% of our outstanding Shares. These Shareholders, if acting together, could exert substantial influence over matters such as electing Directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could have the dual effect of depriving our Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and reducing the price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who purchase Shares in the Global Offering. In addition, these persons could divert business opportunities away from us to themselves or others.

RISK FACTORS

Forward-looking statements contained in this prospectus may not be accurate and are subject to risks and uncertainties.

This prospectus contains forward-looking statements and information relating to us that are based on our management's beliefs and assumptions. The words "aim", "expect", "believe", "plan" "intend", "estimate", "project", "seek", "anticipate", "may", "will", "should", "would" and "could" or similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our management's current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described herein. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, our financial condition may be materially and adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. For more information, please refer to the section headed "Forward-Looking Statements" in this prospectus.

Investors should not place undue reliance on industry and market information and statistics derived from official government publications contained in this prospectus.

This prospectus contains information and statistics relating to the PRC and its coal industry and market. With respect to information and statistics derived from various official government publications, while we have exercised reasonable care in compiling and reproducing such information and statistics, it has not been independently verified by us or any of our affiliates or advisers, nor by the Underwriters or any other parties involved in the Global Offering or their respective affiliates or advisers. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice relating to the PRC, such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Further, there can be no assurance that such information and statistics are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other countries. We cannot ensure the accuracy of such information and statistics, and such information and statistics may not be consistent with other information prepared within or outside the PRC. Prospective investors should not place undue reliance on any of such information and statistics contained in this prospectus.

You will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price is higher than the net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible assets value to HK\$0.08 per Share, based on the maximum Offer Price of HK\$1.51, assuming that the Over-allotment Option is not exercised.

In order to raise capital and expand our business, we may consider offering and issuing additional Shares in the future. We may also issue additional Shares pursuant to the exercise of options to be granted under our share option scheme. Purchasers of our Shares may experience dilution in the net tangible assets book value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible assets book value per Share.

RISK FACTORS

Future sales of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares and our ability to raise capital in the future.

Future sales of a substantial number of our Shares, including Shares issuable upon the exercise of Share options, in the public market in Hong Kong, or the possibility of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate. The Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for a period of six months after the Listing Date, details of which are set forth in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings” in this prospectus. While we are not aware of any intention on the part of our Controlling Shareholders to dispose of significant amounts of their Shares upon the expiration of such lock-up periods, we cannot assure you that they will not dispose of any or all of the Shares they may own now or in the future.

The market price of our Shares could be lower than the Offer Price.

The initial price to the public of our Shares sold in the Global Offering will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until Share certificates are delivered, which is expected to be the fifth Business Day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during such period. Accordingly, holders of our Shares are subject to the risk that the market price of our Shares could be lower than the Offer Price.

You should rely only on this prospectus in making investment decisions with respect to our Shares.

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, which may include certain information not contained in this prospectus. We have not authorised disclosure of any such information in the press or other media. Such media coverage, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our reputation, business, financial condition and the price of our Shares. We make no representation as to the appropriateness, accuracy, completeness or reliability of such information, and disclaim responsibility for such information. Therefore, you are strongly cautioned not to rely on press articles or other media in making your investment decisions with respect to our Shares.

Accordingly, prospective investors are cautioned to make their investment decisions with respect to our Shares on the basis of the information contained in this prospectus only and should not rely on any other information. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER PURSUANT TO RULES 8.05 AND 18.04 OF THE LISTING RULES

Pursuant to Rule 8.05 of the Listing Rules, an issuer must satisfy one of the three tests in relation to: (i) profit; (ii) market capitalisation, revenue and cash flow; or (iii) market capitalisation and revenue requirements. Chapter 18 of the Listing Rules applies to mineral companies. Under Rules 8.05 and 18.04 of the Listing Rules, the requirements of Rule 8.05 of the Listing Rules may not apply if the Stock Exchange is satisfied that the directors and management of the issuer have sufficient experience relevant to the exploration and/or extraction activity that the issuer is pursuing and the directors and management relied on have a minimum of five years relevant industry experience. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05 of the Listing Rules in accordance with the reasoning under Rules 8.05 and 18.04 of the Listing Rules.

WAIVER PURSUANT TO RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the core business operations of our Group are primarily located in the PRC, our executive Directors and members of the senior management of our Company are and will continue to be based in the PRC after the Listing.

We have applied for, and the Stock Exchange has granted, a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules, subject to the following conditions:

- (a) in compliance with Rule 3.05 of the Listing Rules, we have appointed two authorised representatives, namely Mr. Wang Changchun, our chief executive officer and an executive Director, and Mr. Tao Chi Keung, the company secretary of our Company, to act as the principal channel of communication between our Company and the Stock Exchange. At present, other than Mr. Tao Chi Keung, the company secretary of our Company, who is ordinarily resident in Hong Kong, none of our executive Directors and members of the senior management of our Company is ordinarily resident in Hong Kong. Each of our authorised representatives shall be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange, and will also be accessible by telephone and facsimile;
- (b) each of our authorised representatives has the means to contact all members of the Board of Directors (including our independent non-executive Directors) and of the senior management promptly at all times as and when the Stock Exchange wishes to contact them for any matters;
- (c) in addition, all Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and are able to come to Hong Kong and meet the Stock Exchange upon reasonable notice. Any meetings between the Stock Exchange and our Directors may be arranged through our authorised representatives;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (d) in accordance with Rule 3A.19 of the Listing Rules, we have appointed Guotai Junan Capital Limited to act as our compliance adviser (the “**Compliance Adviser**”) for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The Compliance Adviser shall act as our additional channel of communication with the Stock Exchange;
- (e) we shall retain Hong Kong legal advisers to advise on on-going compliance requirements, any amendment or supplement to and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after Listing;
- (f) we shall inform the Stock Exchange promptly in respect of any change to our authorised representatives; and
- (g) each Director has provided his or her contact phone numbers, email addresses and fax numbers to the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules, Chapter 571V of the Laws of Hong Kong, and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Manager, the Underwriters, any of their respective directors, agents, employees, representatives or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Public Offer Shares are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus and in the relevant Application Forms.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including Shares which may fall to be issued upon the exercise of the Over-allotment Option) and any Shares to be issued upon the exercise of any options that may be granted under the share option scheme.

Except as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchanges and no such listing or permission to list is being or is proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares in the Stock Exchange or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after the relevant trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Manager, the Underwriters, any of their respective directors, agents, employees, representatives or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal registrar Appleby Trust (Cayman) Ltd. in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar in Hong Kong.

Dealings in our Shares will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of our Shares will be paid to our Shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the Shareholder's risk, to the registered address of each Shareholder or, if joint Shareholders, to the first-named therein in accordance with the Articles of Association.

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offering, the Stabilising Manager and/or its affiliates or any person acting for it, on behalf of the Underwriters, may to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view of stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date. Please refer to the section headed "Structure of the Global Offering - Over-allotment and Stabilisation" in this prospectus for further details of the arrangements relating to over-allotment and stabilisation in connection with the Global Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis, subject to the agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to determination of the pricing of the Offer Shares. If for any reason, the Offer Price is not agreed among our Company and the Sole Global Coordinator (on behalf of the Underwriters) by 21 March 2012, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Please refer to the section headed "Underwriting" in this prospectus for further information about the Underwriters and the underwriting arrangements.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK\$1.2286: RMB1.00

HK\$7.7628: US\$1.00

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

In this prospectus, if there is any inconsistency between the Chinese names of entities or enterprises established in China or Chinese government authorities or departments and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “*” and Chinese translation of company names in English which are marked with “*” are for identification purpose only.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Zhang Li (張力)	Room 301, No. 14, Yongtai Xiyue Yuxiu District, Guangzhou China	Chinese
Mr. Wang Changchun (王長春)	No. 201, Gate 32, Block 1 District 9 Heping Lane Dongcheng District Beijing China	Chinese
Mr. Zhang Liang, Johnson (張量)	18th Floor, No. 11 Macdonnell Road Mid-Levels Hong Kong	Canadian
<i>Non-executive Director</i>		
Ms. Zhang Lin (張琳)	Room 2201/2202 Block B2b, 3-2 Fuli Yuanshiting Yiheng Road Dongguan Zhuang Tianhe District Guangzhou China	Chinese
<i>Independent non-executive Directors</i>		
Mr. Shi Xiaoyu (史小予)	Room 1502, Block 7 35 Jianshe Fifth Road Guangzhou China	Chinese
Ms. Liu Peilian (劉佩蓮)	Room 606 77 Jiaochang East Road Guangzhou China	Chinese
Mr. Dai Feng (戴逢)	Room 501 No. 66 Taojin Road Guangzhou China	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator and
Sole Sponsor**

The Hongkong and Shanghai Banking Corporation Limited
Level 15, HSBC Main Building
1 Queen's Road Central
Hong Kong

**Joint Bookrunners
(in alphabetical order)**

The Hongkong and Shanghai Banking Corporation Limited
Level 15, HSBC Main Building
1 Queen's Road Central
Hong Kong

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Hong Kong

**Joint Lead Managers
(in alphabetical order)**

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Level 15, HSBC Main Building
1 Queen's Road Central
Hong Kong

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Hong Kong

VMS Securities Limited
Suites 4112-19, 41/F
Jardine House
1 Connaught Place
Central
Hong Kong

Co-lead Manager

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to our Company

as to Hong Kong law and U.S. law:

Latham & Watkins
18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

as to PRC law:

Jingtian & Gongcheng
34th Floor, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
China

as to Cayman Islands law:

Appleby
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

**Legal advisers to the Sole Sponsor
and the Underwriters**

as to Hong Kong law and U.S. law:

Norton Rose Hong Kong
38th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

as to PRC law:

Jun He Law Offices
20th Floor, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
China

Auditors and reporting accountants

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Independent industry consultant	Development and Research Centre of China Coal Industry* (中國煤炭工業發展研究中心) 21 Heping Lane North Dongcheng District Beijing China
Independent technical expert	Runge Asia Limited 13/F, 68 Yee Wo Street Causeway Bay Hong Kong
Property valuer and consultant	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen's Road East Hong Kong
Receiving banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarters and Principal place of business in the PRC	Dafanpu Coal Mine Majiata Village Xuejiawan Town Zhunge'er Banner, Erdos City Inner Mongolia China
Principal place of business in Hong Kong	Unit 1202, 43 Lyndhurst Terrace Central Hong Kong
Company's website	www.kineticme.com <i>(Information contained in this website does not form part of the prospectus)</i>
Company secretary	Mr. Tao Chi Keung (陶志強) FCPA FCCA
Authorised representatives	Mr. Wang Changchun (王長春) No. 201, Gate 32, Block 1 District 9 Heping Lane Dongcheng District Beijing China Mr. Tao Chi Keung (陶志強) Flat 52C, Tower 10, Le Point 8 King Ling Road Tseung Kwan O New Territories Hong Kong
Members of the audit committee	Ms. Liu Peilian (劉佩蓮) (Chairman) Mr. Dai Feng (戴逢) Ms. Zhang Lin (張琳)
Members of the remuneration committee	Mr. Shi Xiaoyu (史小予) (Chairman) Ms. Liu Peilian (劉佩蓮) Ms. Zhang Lin (張琳)

CORPORATE INFORMATION

Members of the nomination committee	Mr. Zhang Li (張力) (<i>Chairman</i>) Mr. Dai Feng (戴逢) Mr. Shi Xiaoyu (史小予)
Compliance adviser	Guotai Junan Capital Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Cayman Islands Share Registrar	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal banker	China Minsheng Banking Corp., Ltd. (Beijing-Guangzhou Sub-branch) G/F, Jingguang Centre Office Building Hujialou, Chaoyang District Beijing China

INDUSTRY OVERVIEW

This and other sections of this prospectus contain information relating to the PRC coal industry or to the international coal markets. The information has been derived from various publications or was obtained from PRC Government and non-official sources. We have also commissioned an Independent Third Party industry consultant, DRCCCI, to issue a report and provide certain industry statistics for this section and elsewhere in this prospectus. We believe these sources are appropriate sources and have taken reasonable care in the extraction, compilation and reproduction, and ensuring no material omission, of the information presented in this section. We have no reason to believe the information presented in this section is false or misleading or that any fact has been omitted that would render such information false or misleading. Neither we, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers, the Co-lead Manager, the Underwriters nor any of their respective directors, affiliates or advisers have independently verified the information and statistics directly or indirectly derived from these sources, and such information may not be consistent with other information compiled within or outside China and no representation is given as to its accuracy.

INFORMATION ON THE INDUSTRY REPORT

We have commissioned DRCCCI, an Independent Third Party industry consultant, to prepare a report on the coal industry for use in this prospectus. In particular, unless otherwise specified, most of the data presented in this Industry Overview section has been based on or derived from the report.

DRCCCI prepared its report based on its in-house database, Independent Third Party reports and publicly available data from reputable industry organisations. The information contained herein has been obtained from the official government and non-official sources believed by DRCCCI to be reliable. However, since such information is unavoidably subject to certain assumptions and estimates made by third parties, there can be no assurance as to the accuracy or completeness of included information. As certain economic data is collected on a sample basis or estimated by DRCCCI, each table and figure should be assumed to include estimated information.

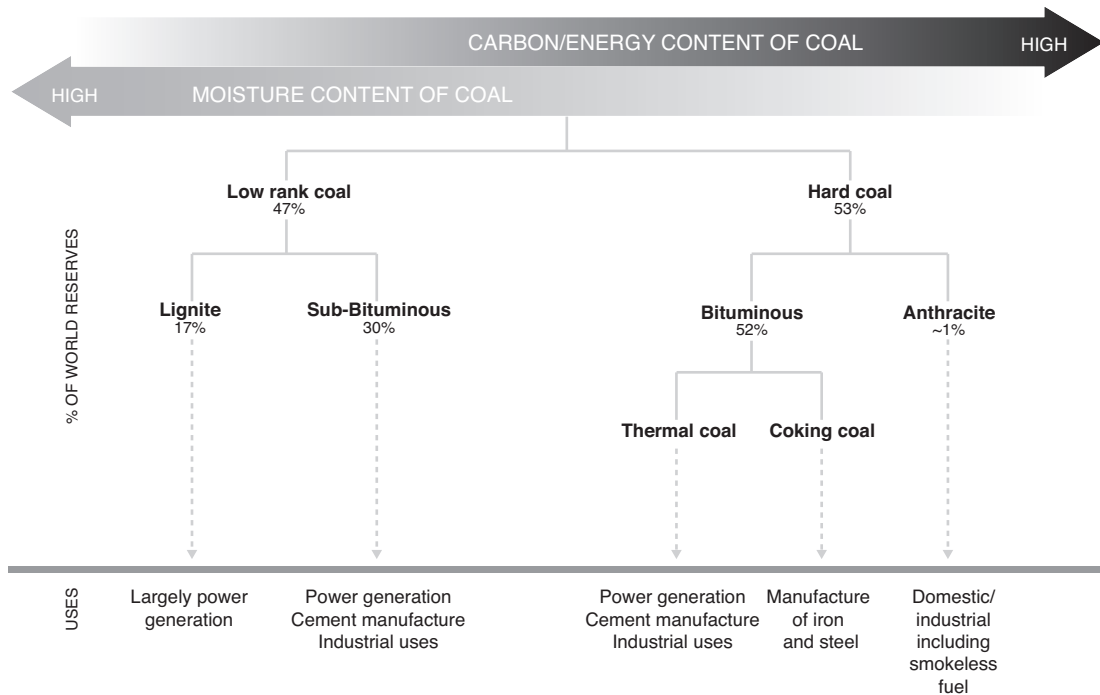
Forecasts and assumptions included in the report are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including, without limitation, the actions of governments, individuals, third parties and competitors. Specific factors that could cause actual results to differ materially include, among others, coal prices, risks inherent in the mining industry, financing risks, labour risks, uncertainty of coal reserve and coal resource estimates, equipment and supply risks, regulatory risks and environmental concerns.

A total fee of RMB200,000 is payable to DRCCCI for the preparation and update of the report. Established in 1975, DRCCCI is an institution directly affiliated with the SAWS and has certain administrative functions. It is one of the most authoritative organisation for research of China's coal industry, and is mainly engaged in the research of policies, industry planning and enterprise strategies of China's coal industry. It has been responsible for the stipulation and revision of development plans, industry policies, technologies policies and resources policies of China's coal industry during China's 6th Five Year Plan through 12th Five Year Plan.

INDUSTRY OVERVIEW

INTRODUCTION TO COAL

Coal is a fossil fuel that serves as an important source of energy for the generation of electricity, manufacturing of steel and cement and other commercial and domestic uses. The classification of coal is dependent on the level of coalification, the degree of change undergone by the coal as it matures from peat to anthracite. The following diagram summarises the different types of coal and their uses:



Source: World Coal Institute, *The Coal Resource* (2005)

Lignite coal and sub-bituminous coal are examples of low rank coal, which are typically softer, friable materials with a dull, earthy appearance. They are characterised by high moisture levels and lower levels of carbon and energy. Thermal coal, coking coal and anthracite coal are examples of higher ranking coal, which are generally harder and stronger and often have a black, vitreous lustre. They contain more carbon, have lower moisture content and produce more energy per kg of coal.

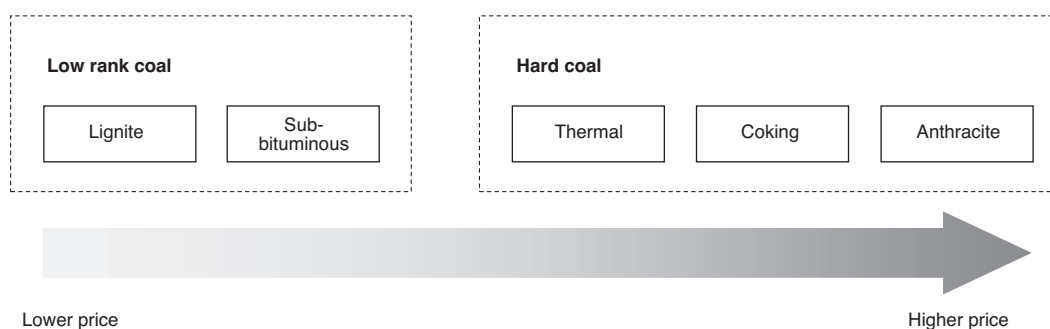
In general, coal used for power generation, locomotives and boiler combustion is thermal coal. The energy value of coal is commonly measured in kCal or MJ per kg of coal. A kilocalorie is the amount of energy required to raise the temperature of one kg of water by one degree Celsius. Coal is also classified based on its ash, moisture and sulphur content. Ash is the inorganic residue remaining after the combustion of coal. Ash content is an important characteristic of coal because it increases the percentage of incombustible material per kg of coal (thereby decreasing the energy value per kg of material), and as a result inadvertently increases transportation costs, and power plants using coal must handle and dispose of ash following combustion. The moisture content of coal varies by the type of coal, the region where it is mined and the location of coal within a seam. In general, high moisture content decreases the energy value per kg of coal. When coal is burned, it produces carbon dioxide, along with

INDUSTRY OVERVIEW

nitrogen oxide and sulphur dioxide, the amount of which varies depending on the chemical composition and the concentration of sulphur in the coal. Sulphur dioxide is a pollutant. Different users of thermal coal have different specification requirements for energy value, moisture, sulphur and other characteristics.

The price of coal is significantly influenced by its energy value, moisture and sulphur content and in certain cases the requirements of the user. Generally, if moisture and sulphur content are within acceptable ranges for the user, the price of thermal coal increases with its energy value.

The following diagram illustrates the general pricing of various types of coal:

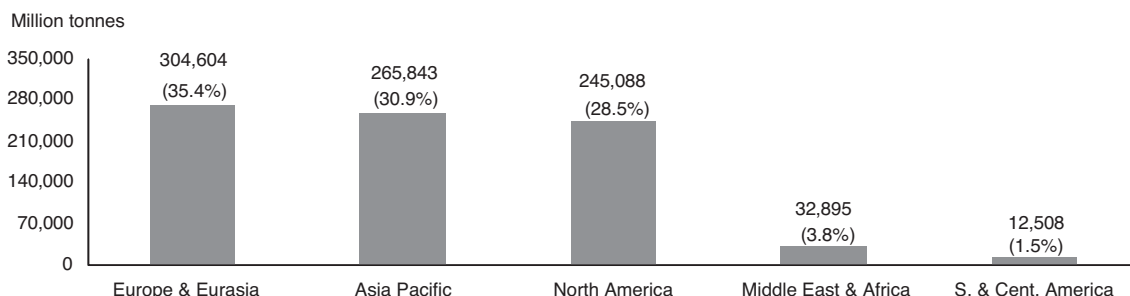


OVERVIEW OF GLOBAL COAL INDUSTRY

Global Coal Reserves

According to BP Statistical Review of World Energy June 2011, the global proven coal reserves was approximately 860,938 million tonnes as at the end of 2010 and was available for exploitation for another 118 years. The Asia-Pacific region holds the world's second largest regional coal reserves, amounting to 265,843 million tonnes as at the end of 2010, representing 30.9% of total coal reserves in the world. Based on the current production rate, those coal reserves can be sustained for 57 years.

Proven coal reserves at the end of 2010 globally

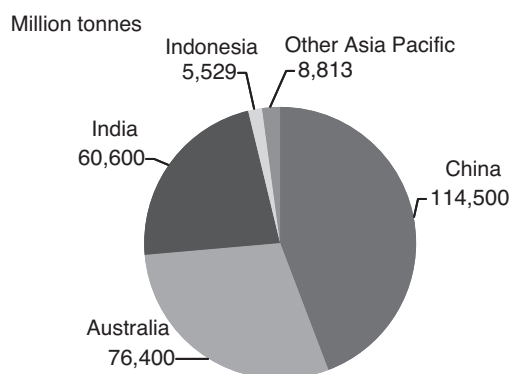


Source: BP Statistical Review of World Energy June 2011

INDUSTRY OVERVIEW

China holds the largest coal reserves in the Asia-Pacific region, also the third largest globally, with 13.3% of total coal reserves in the world.

Proven coal reserves at the end of 2010 in the Asia Pacific region



Source: BP Statistical Review of World Energy June 2011

Approximately 75.0% of total coal reserves are distributed in the top five countries around the world at the end of 2010. Quality coking coal reserves are mainly in Australia, Canada and the U.S., while thermal coal reserves are distributed in Australia, China, India, Russia and Indonesia. The following table illustrates the coal reserves in the top five countries at the end of 2010:

Ranking	Country	Proven Reserves (million tonnes)	Percentage (%)
1	U.S.	237,295	27.6
2	Russia	157,010	18.2
3	China	114,500	13.3
4	Australia	76,400	8.9
5	India	60,600	7.0

Note: Proven minable coal reserves, according to BP Statistical Review of World Energy June 2011, generally refer to those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known deposits under existing economic and operating conditions.

Source: BP Statistical Review of World Energy June 2011

Global Coal Trading Markets

Coal is generally regarded as one of the most affordable sources of energy in the world. The total volume of coal traded between different regions of the world has increased steadily, as a result of uneven distribution of coal reserves in different regions of the world, continued economic development and industrialisation in Asia and the decline of the European coal mining industry.

INDUSTRY OVERVIEW

Currently, the international coal trade is divided between the Atlantic and the Pacific markets. In 2009, global coal trade volume was approximately 900 million tonnes, among which over 75% was for thermal coal. The following table sets forth the major coal export and import countries in the Asia Pacific region in 2009:

Country / District	Net export volume	Country / District	Net import volume
	(million tonnes)		(million tonnes)
Australia	256.09	Japan	145.13
Indonesia	207.53	China (Including Hong Kong)	94.50
Vietnam	63.77	Korea	89.87

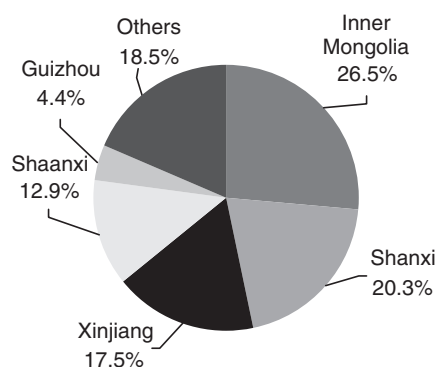
Source: US Energy Information Administration

China has the largest coal reserves in the Asia-Pacific region and is the region's largest producer. However, China still needs to import coal to satisfy its domestic demand and ranks as the second largest net importer in the Asia-Pacific region. Currently, China's coal production is mainly consumed domestically. To fuel its growing economy, China may continue to increase its coal imports. China's net import volume of coal is expected to grow from approximately 100 million tonnes in 2010 to approximately 200 million tonnes by 2020, a CAGR of 14.9%.

OVERVIEW OF THE COAL INDUSTRY IN THE PRC

PRC Coal Resources

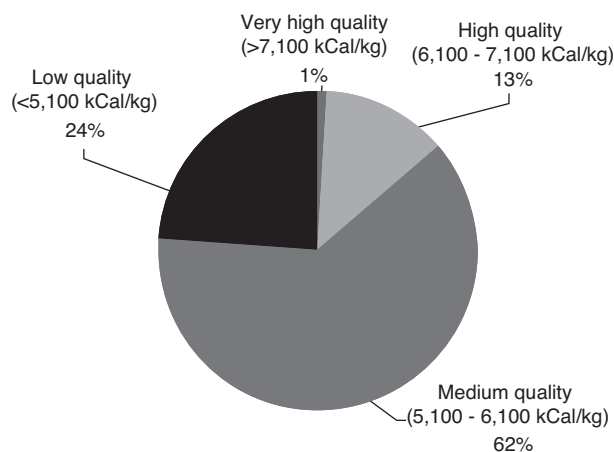
According to the MLR, at the end of 2009, it was estimated that China possessed 1,309,680 million tonnes of coal resources, 81.5% of which can be found in Inner Mongolia, Shanxi Province, Xinjiang, Shaanxi Province and Guizhou Province. These are the top coal producing provinces in China. Inner Mongolia, where our Dafanpu Coal Mine is located, holds the largest amount of coal resources in China. The total coal resources in Inner Mongolia amounted to 346,590 million tonnes at the end of 2009, constituting 26.5% of China's total coal resources. The following chart illustrates the regional distribution of coal resources in China:



Source: MLR

INDUSTRY OVERVIEW

Most of China's coal resources are thermal coal, accounting for 72.54% of total resources. In general, China's coal resources are predominantly medium or lower energy yielding coal, with very high and high quality coal only constituting less than 15% of total coal resources. The following chart illustrates the percentage distribution of coal resources with different energy yields in China:



Source: World Coal Institute: *The Coal Resource* (2005)

According to the Properties, Classification and Utilisation of Coal in China, Second Edition, the average sulphur content of thermal coal in China is approximately 1.15%. Coal with sulphur content less than 1% comprises 63.5% of total coal from China, and is primarily produced in Northern China, Northeast China and Northwest China. Coal with sulphur content greater than 2.0% comprises 16.4% of total coal from China, and is mainly produced in southern China and provinces such as Shandong Province, Shaanxi Province, Shanxi Province and western Inner Mongolia. The ash content of coal from China is generally high, predominantly between 15% and 25%. Coal with ash content less than 10% comprises 15% to 20% of total coal reserves in China, and is primarily produced in northern China and the Erdos region.

Coal Industry Consolidation

Since 2005, the PRC Government has adopted measures and policies to intensify mergers and consolidation in China's coal industry to eliminate outdated production capacity and improve efficiency. The PRC Government supports both state-owned and privately-owned coal companies to conduct mergers and acquisitions, and to improve safety conditions, technology and mechanisation level. In October 2010, the NDRC issued a circular to order coal producers in major coal producing regions, including Shanxi, Inner Mongolia, Henan and Shaanxi, to concentrate coal mines and eliminate outdated small mines. The objective of the policy is to form more coal producers with an annual output capacity of 50 million tonnes or above and the total output of these coal producers should account for more than 50% of the country's coal output. The circular also provides that the average annual production capacity of coal producers in China should be increased to over 800,000 tonnes.

INDUSTRY OVERVIEW

The provincial government of Inner Mongolia and the municipal government of Erdos City also implemented a series of policies to promote consolidation in the local coal industry and to eliminate outdated production capacity. According to a circular issued by the provincial government of Inner Mongolia in March 2011, coal producers who (i) have at least one single underground coal mine with an annual production capacity of more than 1.2 million tonnes, (ii) have no material accident in the last three years, and (iii) have assets of good quality are entitled to have priority to acquire other coal producers. The municipal government of Erdos City issued another circular in December 2011 (“the **Erdos Circular**”), which further provided that a coal enterprise that fails to meet the foregoing criteria may still be qualified to acquire other coal enterprises if it has good corporate governance, assets and potential. For new coal production projects, the annual production capacity of an underground coal mine and an open coal mine must exceed 1.2 million tonnes and 3.0 million tonnes, respectively. Coal processing and other ancillary projects must be constructed concurrently with new coal production projects. In addition, Inner Mongolia plans to form 20 large-scale coal producers through mergers or restructuring, and the surviving coal producers are required to have a minimum annual production capacity of 1.2 million tonnes by the end of 2013. The Erdos Circular further raised the required minimum annual production capacity of the surviving coal producers in Erdos City to 3.0 million tonnes.

The circulars issued by the NDRC, the provincial government of Inner Mongolia and the municipal government of Erdos City provide that the mergers and acquisitions must be conducted at the discretion of participating coal enterprises and through market practice. The government supports, promotes and supervises mergers and acquisitions of coal enterprises.

The restructuring of the PRC coal industry will be a long-term trend and outdated production capacity will gradually be eliminated. Small coal companies may be affected to a greater extent than large coal groups.

THERMAL COAL MARKET IN THE PRC

Supply and Demand

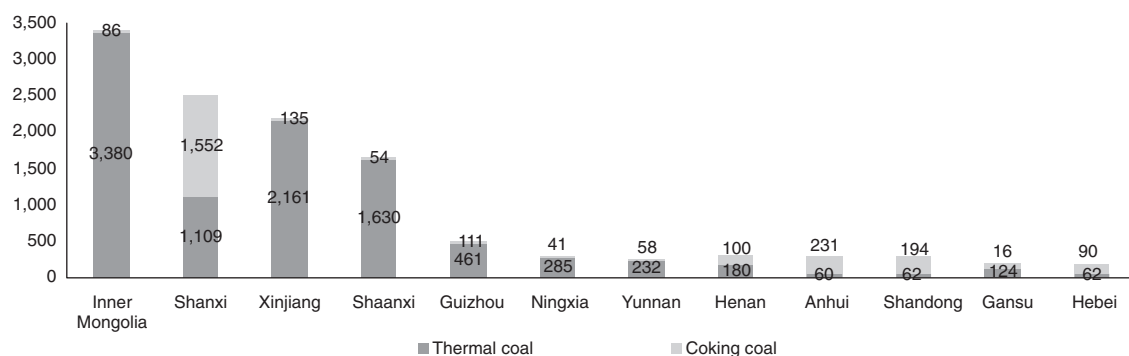
China is the world’s largest producer of thermal coal. The production increased from 1,684 million tonnes in 2005 to 2,303 million tonnes in 2009, representing a CAGR of 8.14%. This is expected to increase further to 2,866 million tonnes in 2015 according to DRCCCI.

In China, provinces with ample coal resources, namely Inner Mongolia, Shanxi Province, Xinjiang, Shaanxi Province and Guizhou Province, are mostly also top coal producers. Among the top five coal producing provinces, Inner Mongolia not only has the largest thermal coal resources in China, but also is the largest thermal coal producing province. In 2009, these five provinces collectively produced 1,576 million tonnes of thermal coal, constituting 68.4% of the national production, among which, Inner

INDUSTRY OVERVIEW

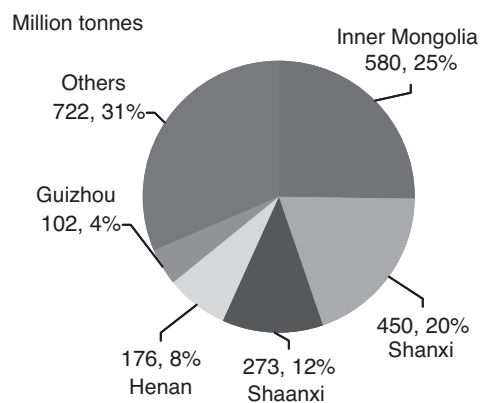
Mongolia produced 580 million tonnes of thermal coal, accounting for 25% of total thermal coal production in China that year. The following charts illustrate China's 2009 thermal coal production and the distribution of thermal coal and coking coal resources for key coal producing provinces:

**Distribution of coal resources for key coal producing provinces in China
(in 100 million tonnes)**



Source: DRCCCI

China's 2009 thermal coal production by province



Source: DRCCCI

INDUSTRY OVERVIEW

As one of China's primary coal production areas, Inner Mongolia has experienced extensive development in coal mining recently. Coal production grew from 226 million tonnes in 2005 to approximately 580 million tonnes in 2009, resulting in a CAGR of 27.6%. As of the end of 2009, there were approximately 500 coal mines in the region, 15% of which are large-scale mining operations that have annual capacity over 1.2 million tonnes, and there are 16 coal mines with annual capacity greater than 10 million tonnes. In particular, the Erdos region of Inner Mongolia, where our Dafanpu Coal Mine is located, accounts for over half of the province's coal resources and coal production, and holds a significant number of super large scale (i.e., annual capacity greater than 10 million tonnes) coal mines. With coal production of 330 million tonnes in 2009, the Erdos region contributed 55% of total coal production in Inner Mongolia and 11% of total coal production in China.

Favourable government policy and the huge development potential in terms of both scale and growth of coal resources in Inner Mongolia have attracted many top energy, resource and infrastructure conglomerates to the region to invest in production, transportation, electricity generation, refinery, manufacturing and other coal related infrastructure projects. China's largest coal producers including China Shenhua and Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司), and China's five largest independent power producers, who are the key downstream consumers of thermal coal, have made significant investment into this region.

Approximately 65% of China's thermal coal demand comes from electricity generation. Due to strong power demand to fuel economic growth, China is relatively short of domestic coal supply. Thermal coal demand has increased from 1,746 million tonnes in 2005 to 2,424 million tonnes in 2009, representing a CAGR of 8.55%. And it is expected to further increase to 3,000 million tonnes in 2015 according to DRCCCI. The following table illustrates the production and demand of thermal coal in China:

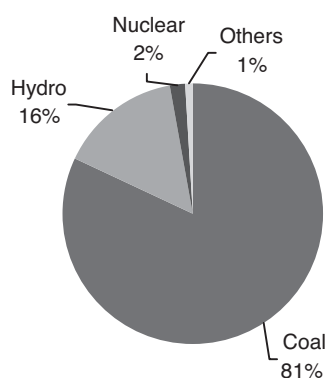
Thermal coal	2005	2006	2007	2008	2009	2015E
			(in million tonnes)			
Production	1,684	1,794	1,960	2,145	2,303	2,866
Demand	1,746	1,907	2,058	2,227	2,424	3,000
Demand for Electricity Generation . . .	1,168	1,334	1,459	1,474	1,564	2,000

Source: DRCCCI

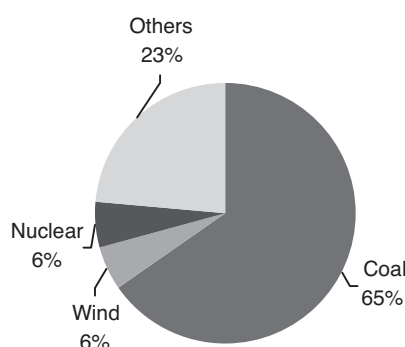
INDUSTRY OVERVIEW

Since 1980s, the main source of fuel for power generation in China is coal. As of 2009, electricity generated from coal accounted for approximately 81% of total power generation in the country. The PRC Government has increasingly emphasised coal mining safety and environmental issues due to its focus on sustainable and harmonious economic growth. The PRC Government has set a series of targets including increasing China's non-fossil energy consumption to 15% of total energy consumption and reducing carbon dioxide emission per dollar of GDP by 40-45% between 2005 and 2020. Nevertheless, the reliance on coal for power generation in China is not expected to change dramatically in the near future. Coal-fired power generation will still account for 65% of power generation by 2020 according to the China Electricity Council. The following charts illustrate the change in China's reliance on coal for power generation by 2020:

2009 China power generation



2020E China power generation

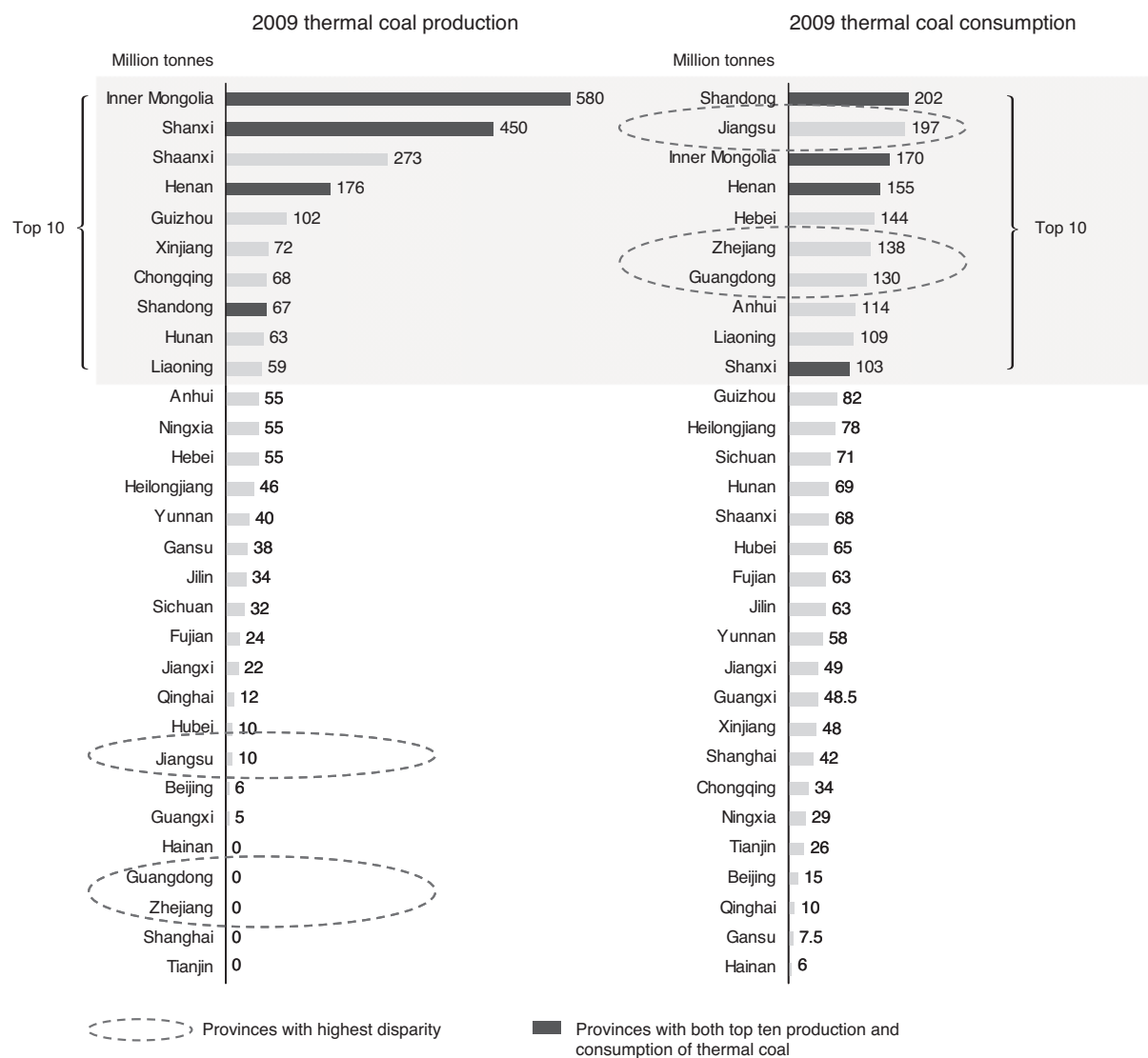


Source: China Electricity Council

Since the 11th Five-Year Plan period, China's coal consumption has increased by an average of 200 million tonnes per year in order to support its near 10% annual GDP growth. It is expected that demand for electricity will increase to 5,974 billion kWh by 2015 from a level of 3,660 billion kWh in 2009, representing a CAGR of 8.5%. To satisfy China's growing energy demand, the national demand in thermal coal is expected to rise from 2,424 million tonnes in 2009 to 3,000 million tonnes by 2015, of which 2,000 million tonnes will be used in electricity generation. As such, growth in electricity demand is expected to continue to be a driver for the coal industry.

INDUSTRY OVERVIEW

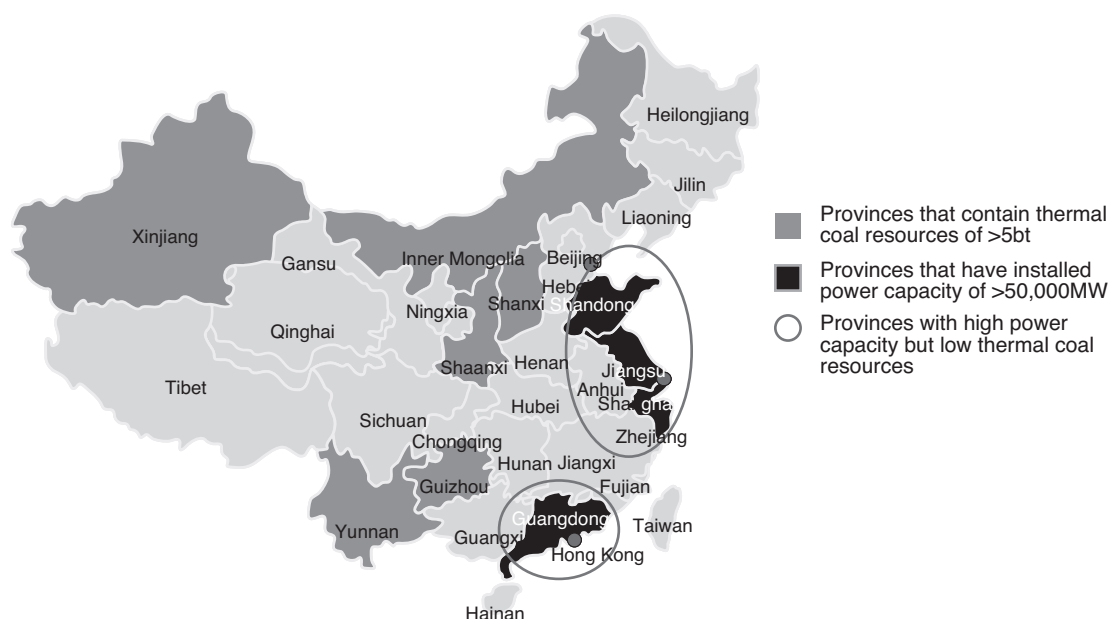
However, those provinces with large thermal coal production are not the key thermal coal consumers. Among the top 10 provinces for thermal coal production and consumption respectively, only Inner Mongolia, Shanxi Province, Henan Province and Shandong Province are on both lists. Big thermal coal consumers such as Jiangsu Province, Zhejiang Province and Guangdong Province do not have or only have minimal thermal coal production. The following charts illustrate disparity between demand and supply for thermal coal in various Chinese provinces:



Source: DRCCCI

INDUSTRY OVERVIEW

Such disparity also applies to the mismatched distribution of coal-fired power plants. Coastal regions in eastern and southern China have the highest levels of coal consumption for electricity generation. Currently, the eastern region has the highest coal-fired installed power capacity, accounting for 29% of the entire country. The south-central region is the next highest, with 26% of total installed capacity, followed by the northern region (15%), northeastern region (11%), southwestern region (11%) and northwestern region (8%). The eastern power grid, covering Jiangsu Province, Zhejiang Province, Anhui Province and Shanghai, has experienced the most rapid increases in coal consumption for power generation in recent years. The following map illustrates the distribution of thermal coal production and power generating capacity in China:



Source: DRCCI

Coal Transportation

Coal resources and production in China are mainly located in northern and western regions, while coal consumption is primarily in the eastern and south-central regions. As a result of such disparity, coal is primarily transported through the rail network and waterways from major supply centres in northern and western China to major demand centres in eastern and central-southern China. Suppliers of coal in various regions in China depend on the national rail system to transport their supplies to either the final destination or to the shipping ports. Despite government efforts to increase rail capacity, China's national rail system has been unable to satisfy the need for coal transportation. With both demand and supply for coal on the increase, shortage of transportation capacity has become a key bottleneck in the PRC energy sector. Coal producers who have secured reliable and sufficient access to rail and port transportation are able to enjoy a significant competitive advantage. While the PRC Government has adopted a medium to long-term plan to expand the capacity of the national rail system, the inadequacy of coal transportation capacity on the national rail system is expected to continue for the foreseeable future.

INDUSTRY OVERVIEW

Inner Mongolia, Shanxi Province and Shaanxi Province are the primary production centres from which coal is transported. In 2009, Shanxi Province had 533 million tonnes of outbound coal sales, Inner Mongolia had 352 million tonnes of outbound coal sales and Shaanxi Province had 203 million tonnes of outbound coal sales. Those outbound coal sales accounted for approximately two-thirds of their total production that year. Out of this total of 1,088 million tonnes of outbound coal sales, approximately 658 million tonnes were transported through railways and highways to the eastern, south-central, northeastern and Beijing-Tianjin-Hebei regions, with the remaining 430 million tonnes shipped through waterways to power plants in the south-eastern coastal and south-central regions, among which, approximately 200 million tonnes were transported via Qinhuangdao Port.

In China, the railway network for coal transportation mainly serves the country's ten coal production bases, namely, Datong City of Shanxi Province, Shenfu of Shaanxi Province, Taiyuan City of Shanxi Province, southeast Shanxi Province, Shaanxi Province, Henan Province, Shandong Province, Lianghuai area of Anhui Province, Guizhou Province and eastern Inner Mongolia. There are three key railway networks for outbound coal sales from Inner Mongolia, Shanxi Province and Shaanxi Province: the North Line (北通路), Central Line (中通路) and South Line (南通路). The North Line is the main railway network for outbound coal sales from Inner Mongolia, and includes Daqin line (大秦線), Fengshada line (豐沙大線), Jitong line (集通線) and Shenshuohuang line (神朔黃線). Inner Mongolia is the most important production base for outbound coal sales in China. In 2009, outbound coal sales of Inner Mongolia were 352 million tonnes, representing a CAGR of 23.36% since 2005. Coal produced in the Erdos region, where the Dafanpu Coal Mine is located, also utilises the above mentioned four railway lines for outbound coal sales. Currently, annual transportation capacity of these four lines is 577 million tonnes. Given the rising energy demand, the PRC Government has adopted plans to expand the capacity of the national rail system. According to the Economic Planning Research Institute of the Ministry of Railways* (中國鐵道部經濟規劃設計研究院), the total outbound transportation capacity of the railway system in Western Inner Mongolia (mainly the Erdos region) is expected to be 395 million tonnes in 2015 and 495 million tonnes in 2020, compared to 281 million tonnes in 2010, and is expected to be able to fulfil projected transportation needs for the region. The following table illustrates the forecast transportation capacity of the railway system in western Inner Mongolia:

	Total cargo transportation capacity	Total cargo transportation capacity			
		2015E		2020E	
		Assigned to western Inner		Assigned to western Inner	
		Total ⁽¹⁾	Mongolia	Total ⁽¹⁾	Mongolia
(in million tonnes)					
Fengshada line (豐沙大線)	70	57	10	57	7
Daqin line (大秦線)	350	420	200	430	208
Jitong line (集通線)	22	35	35	50	50
Shuohuang line (朔黃線)	135	250	110	350	120
Zhangtang line (張唐線)	—	40	40	130	110
Total	577	802	395	1,017	495

Note:

(1) Total coal transportation capacity assigned to Shaanxi Province, Shanxi Province and western Inner Mongolia.

Source: Economic Planning Research Institute of the Ministry of Railways

INDUSTRY OVERVIEW

With regards to waterway transportation for coal, a significant portion of outbound coal from Inner Mongolia is first transported by railway to ports in eastern China, and then shipped via waterways to regions with high demand, both domestically and abroad. Qinhuangdao Port is currently the largest coal port in China and the world, dispatching 50% of coal transported via waterway shipping in China. The Qinhuangdao Port connects to coal transportation networks from Inner Mongolia, Shanxi Province and Shaanxi Province, and coastal regions in eastern and southern China. It has 21 dedicated docks designed to dispatch 193 million tonnes of coal per year and storage facilities capable of stockpiling 10.4 million tonnes of coal.

In 2009, approximately 406 million tonnes of coal were shipped from the seven primary ports in northern China to power plants in the southeastern coastal and central-southern regions, with approximately 200 million tonnes through Qinhuangdao Port. The Chinese government plans to increase the annual capacity to 750 million tonnes by 2015 to satisfy waterway shipping needs from the seven primary ports in northern China, with Qinhuangdao Port expected to contribute approximately one-third, or 250 million tonnes, of such capacity.

Coal Pricing in the PRC

The market price of thermal coal produced in China is largely dependent on its energy yield, fluctuations in international prices and the various expenses incurred in the supply chain as illustrated below. Generally, if moisture and sulphur content are within acceptable ranges for users, the price of thermal coal increases with its energy value.

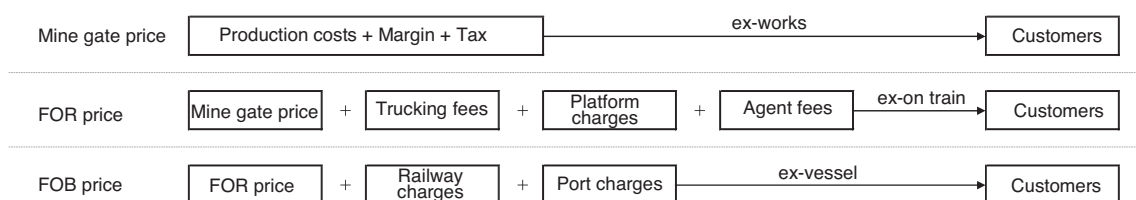
From 1992 to 2005, the PRC Government regulated the price of coal through a dual pricing system of “planned coal” and “market coal”. This resulted in generally low coal prices which adversely affected the profitability of the coal industry. In 2005, the PRC Government announced general increases for contracted planned coal prices and in 2006 the government lifted the dual pricing system. However, due to the significant impact of electricity costs on the national economy, the PRC Government maintains control over the price of thermal coal used for power generation, especially the contract price with PRC’s major independent power producers for thermal coal. Contract prices are generally lower than spot prices and may impact the trend of spot prices. In June 2008 and December 2011, the PRC Government adopted temporary measures to limit increases in coal prices. The temporary measures, which were adopted in December 2011 and became effective on 1 January 2012, limit increases in the contract price with PRC’s major independent power producers for thermal coal and cap spot prices of thermal coal at China’s major coal transshipment ports. The temporary measures provide that from 1 January 2012 onwards the benchmark FOB price for 5,500 kCal/kg thermal coal used for power generation at China’s major coal transshipment ports cannot exceed RMB800 per tonne. The FOB price cap of thermal coal with different energy values should be calculated accordingly. In addition, prices for thermal coal used for power generation transported directly from producers to purchasers by railway or road cannot exceed the prices settled by the same parties at the end of April 2011. The temporary measures will be abolished to release restrictions over coal prices after the price of thermal coal used for power generation is stabilised nationwide. For more details, please refer to the section headed “Regulations — China’s Coal Industry — Temporary measures relating to the control of the price of thermal coal to be used for power

INDUSTRY OVERVIEW

generation” in this prospectus. The PRC Government’s control over the price of thermal coal used for power generation, including temporary measures adopted by the PRC Government from time to time, may impact the pricing of coal suppliers, especially state-owned coal suppliers.

Currently, there are three common pricing systems in China: mine gate price, free on rail (FOR) price and FOB price. Mine gate price refers to the price set at the mine gate, and is usually used by smaller coal mines without transportation facilities and access to railways. FOR price refers to the price set at the loading point of railways, and is influenced by mine gate price, trucking fees, platform charges and agent fees. FOB price refers to the price set at the loading point of shipping ports, and is influenced by FOR price, railway charges and port charges. The following diagram illustrates the three common pricing systems:

China coal pricing flow



Source: DRCCI

Railway charges are one of the most important factors in FOB coal price, especially for those coal producers with transportation facilities and access to railways, as this cost will have a material impact on their profitability. In China, railway charges include railway transportation costs, loading and unloading charges and other handling fees. Railway transportation cost varies depending on the value of the coal to be transported, train size, speed, distance, etc. Transportation costs using government railways are controlled by the Ministry of Railways of the PRC (中華人民共和國鐵道部), and are roughly consistent across the country, while coal transported by company specific railways has certain flexibility in pricing, but still needs to be approved by the local price control administration.

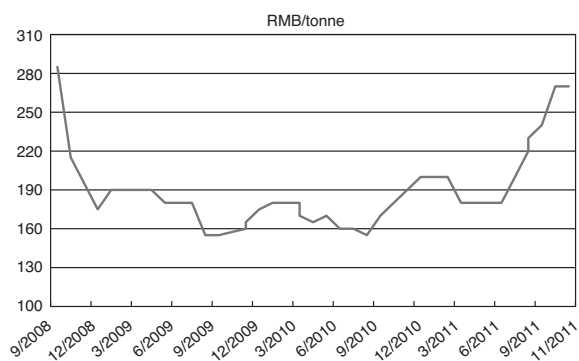
In general, the price of thermal coal is higher in major coal consumption regions such as eastern China and lower in production regions such as western China. For example, in August 2010, the price of 6,000 kCal/kg coal was approximately RMB430 per tonne in Shaanxi Province, RMB380 per tonne in Inner Mongolia and RMB500 per tonne in Shanxi Province, compared to approximately RMB660 per tonne for 5,700 kCal/kg coal in Jiangsu Province.

In addition, coal prices at Qinhuangdao Port generally set the benchmark price for China’s coal market and, in particular, coal transported via waterway shipping in China. Thermal coal can be sold at a much higher price at Qinhuangdao Port compared with selling it in Inner Mongolia.

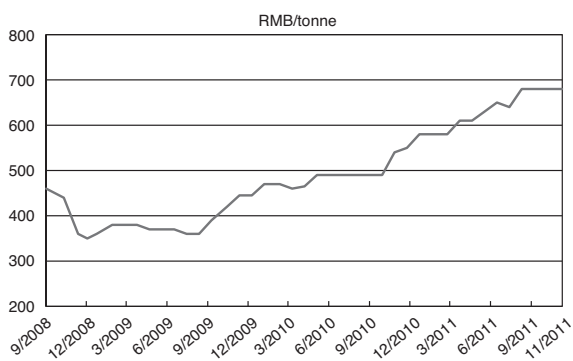
INDUSTRY OVERVIEW

The following charts illustrate the historical market trend of coal price from September 2008 to November 2011 in the PRC for lignite coal, sub-bituminous coal, thermal coal, coking coal and anthracite, respectively:

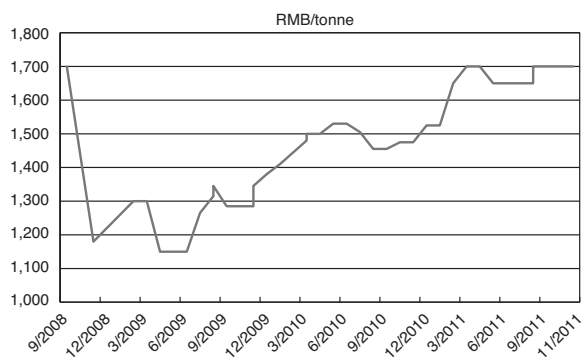
Inner Mongolia Lignite Coal Price Trend



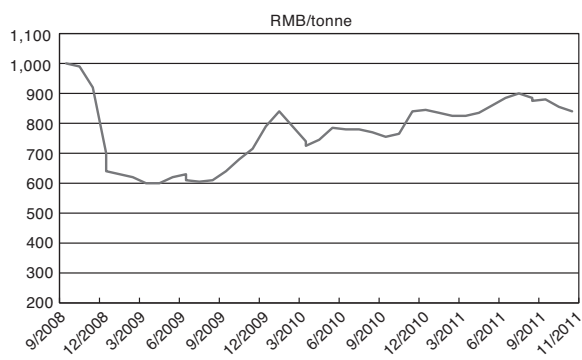
Heilongjiang Shuangyashan Sub-bituminous Coal Price Trend



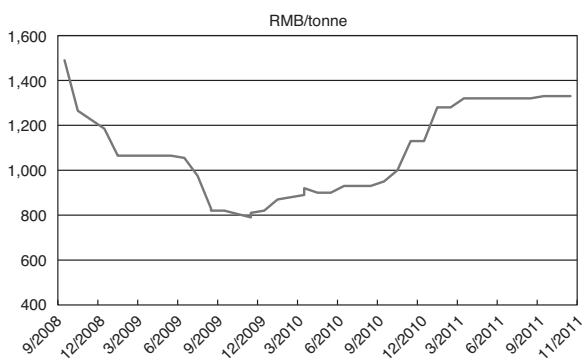
Shanxi Liulin Coking Coal Price Trend



Qinhuangdao 5,500 kCal/kg Thermal Coal Price Trend



Shanxi Jincheng Anthracite Coal Price Trend

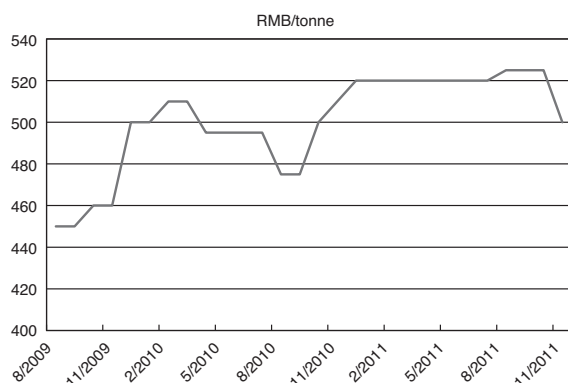


Source: sxcoal.com

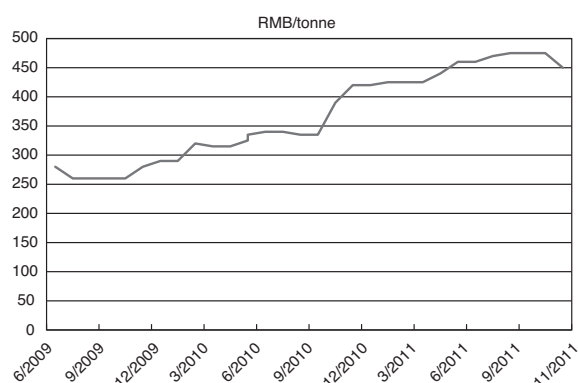
INDUSTRY OVERVIEW

The following charts illustrate the historical market trend of coal price from August 2009 to November 2011 for lump coal, and June 2009 to November 2011 for fine coal, respectively:

**Inner Mongolia Erdos 6,000 kCal/kg
Lump Coal Price Trend**



**Inner Mongolia Erdos 5,500 kCal/kg
Fine Coal Price Trend**



Source: en.sxcoal.com

According to China Coal Resource* (中國煤炭資源網), the price of 5,500 kCal/kg fine coal sold in Erdos City, Inner Mongolia increased from approximately RMB290 per tonne at the end of 2009 to approximately RMB420 per tonne at the end of 2010 and further to approximately RMB450 per tonne in November 2011. The price of 5,500 kCal/kg fine coal sold at Qinhuangdao Port increased from approximately RMB770 per tonne at the end of 2009 to approximately RMB795 per tonne at the end of 2010 and further to approximately RMB840 per tonne in November 2011.

Future Trend for Coal Price in the PRC

As a result of growing demand for coal to fuel China's industrialisation and urbanisation and steady production cost increases due to higher royalties and environmental and social related costs, the price of coal is expected to continue to increase.

In recent years, the PRC Government has encouraged the development of large-scale coal production enterprises in order to increase domestic production through industrialisation. According to DRCCI in 2009, 39 out of a total of approximately 16,000 coal production companies in China are considered to be large-scale operations. These 39 companies constituted 52.8% of the national production, with the top 4 companies constituting 19.3%. Increased industrialisation of the PRC coal industry is expected to increase the supply of coal and stabilise domestic prices. The number of small-scale operations is expected to dramatically reduce in the long run, due to their inability to meet production and safety standards, and their inability to compete with large-scale operations in terms of pricing.

In addition to domestic factors that may steadily increase PRC coal prices in the long run, price dynamics in the global coal market may also influence PRC coal prices, given that China's traded coal volume accounts for over 20% of the world's traded coal volume.

INDUSTRY OVERVIEW

Since 2008, the oversupply of coal in the international market has driven down prices globally. On the other hand, domestic demand for coal in China continues to be greater than domestic supply, resulting in increased levels of coal imports due to the inability of domestic producers to meet demand and cheaper international prices. Additionally, since September 2010, floods in the key coal-producing Asia-Pacific countries of Australia and Indonesia have had significant negative impacts on their coal production, resulting in a record high Australia Newcastle coal price of US\$129.99 per tonne in early 2011, which in turn led to coal prices being higher internationally than in the PRC. However, this price disparity should not be sustainable in the long run. With gradual economic recovery in the PRC and increasing domestic coal demand, freight costs in the PRC may increase accordingly and, as a result, reduce the disparity between the international and PRC coal prices.

Recently, there have been protests in Inner Mongolia. The protests may have caused disturbances among the local populations and disrupted the operations of some local businesses. Our Directors confirm that none of such protests were related to our Group and these protests had no material and adverse effect on our business and operations.

REGULATIONS

CHINA'S COAL INDUSTRY

China's coal industry 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 the State Council's Decision on the Institutional Reform of Investment System (國務院關於投資體制改革的決定) promulgated on 16 July 2004 and the Catalogue of Investment Projects Approved by the Government (2004)《政府核准的投資項目目錄》(2004年本), applications for all coal mine development projects within the State plan mining areas are required to be submitted to the NDRC for approval, while other general coal mining development projects are to be submitted to the competent investment department of local governments.

Pursuant to the Guidance Catalogue of Industries for Foreign Investment (revised in 2011) (外商投資產業指導目錄 (2011年修訂)), 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.

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 the Coal Law of the PRC (中華人民共和國煤炭法) (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 and the protection of mining areas from destructive exploitation, the protection of miners and administrative supervision.

All mineral resources in China are owned by the State under the current Mineral Resources Law of the PRC (中華人民共和國礦產資源法) (the "**Mineral Resources Law**"), which was promulgated on 19 March 1986 and amended on 29 August 1996. The MLR is responsible for the supervision and administration of the mining and exploration of mineral resources nationwide. The geology and mineral resources bureaus of each province, autonomous region and municipality directly under the central government are responsible for the supervision and administration of the exploration, development and exploitation of mineral resources within their own jurisdictions. Enterprises engaged in the exploration and exploitation of mineral resources must obtain exploration rights and 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 the MLR and the relevant local mineral resource bureaus and coal administration departments. Upon approval, an exploration licence for each exploration area or a mining licence for each mine will be granted by the MLR or the relevant local mineral resource bureau 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 licence with the relevant

REGULATIONS

administrative authorities that issue 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 China. A coal producer is also required to obtain mine chief qualification certificates for its mine chiefs. In addition, the production capacity of each coal mine is subject to annual review by the NDRC or its provincial counterpart.

Pursuant to the Procedures for the Registration of Mining of Mineral Resources (礦產資源開採登記管理辦法), which was promulgated and implemented on 12 February 1998, an applicant for mining rights 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. In addition to the mining right usage fees paid annually based on the size of the licensed area (i.e., RMB1,000 per km² per year), an applicant who applies for the state-contributed exploration and has ascertained the mining right within the tenement area shall pay the purchase price for the mining rights which is formed by the state-contributed exploration and determined through an evaluation process. Anyone with mining rights shall file an application for registration of change(s) with the appropriate registration administration authority within the duration of the mining permit term in the cases of (a) change in the scope of the mining area; (b) change in the main exploited mineral categories; (c) change in the exploitation mode; (d) change in the name of the mining enterprise; and (e) the transfer of the mining right according to the relevant laws.

Under the Coal Law and the Mineral Resources Law, coal producers are required to achieve certain reserve recovery rates. Failure to achieve the applicable recovery rate may result in penalties, including the revocation of the production permits of coal producers. It is unlawful for an entity or individual to conduct mining operations in areas previously authorised for exploitation by other mining operators. An entity whose mining operations cause harm to others in terms of production or living standards is liable to compensate the affected parties and to take necessary remedial measures.

Pursuant to the Provisions for 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 and mineral resources and land bureaus of the PRC and upon satisfaction of other conditions as stipulated under PRC law and regulations. A holder of a mining licence has the right to and is also obligated to conduct mining activities in the area and within the time period designated in the mining licence. A holder of a mining licence has certain additional rights including, among others, rights to (i) set up necessary production and living facilities within the designated area; and (ii) acquire the land use rights necessary for production. A holder of a mining licence has certain additional obligations including, among others, obligations to (i) conduct reasonable exploitation, and protect and fully utilise mineral resources; (ii) pay resources tax and resources compensation levy; (iii) comply with the laws and regulations relating to occupational safety, soil and water conservation, reclamation and environmental protection; and (iv) submit mineral resource reserve and utilisation reports to relevant government authorities as required.

REGULATIONS

Temporary measures relating to the control of the price of thermal coal to be used for power generation

Pursuant to the notice and circular relating to the temporary intervention of the price of thermal coal to be used for power generation and the strengthening of regulatory intervention (《關於對電煤實施臨時價格干預和加強電煤價格調控的公告》與《關於加強發電用煤價格調控的通知》) issued by NDRC on 29 November 2011 and 30 November 2011, respectively, the PRC Government adopted temporary measures to (i) limit increases in the contract price of thermal coal to be sold directly to major independent power producers in the PRC (only when the relevant contracts take advantage of the inter-provincial rail transportation capacity included in the annual guidance plan announced by NDRC, or specify that such thermal coal will be used locally in coal-producing provinces for power generation); (ii) cap spot prices of thermal coal at China's major coal transshipment ports, including Qinhuangdao Port from 1 January 2012; and (iii) cap spot prices of thermal coal used for power generation transported directly from producers to purchasers by railway or road. The temporary measures provide that from 1 January 2012 onwards the benchmark FOB price for 5,500 kCal/kg thermal coal used for power generation at China's major coal transshipment ports cannot exceed RMB800 per tonne. The FOB price cap of thermal coal with different energy values should be calculated accordingly. However, the temporary measures do not provide the formula for such calculations. In addition, prices for thermal coal used for power generation transported directly from producers to purchasers by railway or road cannot exceed the prices settled by the same parties at the end of April 2011. The temporary measures will be abolished to release restrictions over coal prices after the price of thermal coal used for power generation is stabilised nationwide. The relevant authorities have the power to confiscate income derived from the violation of the temporary measures. If there is no such income or such income cannot be determined, a maximum penalty of RMB5 million may be imposed. Persons responsible may be held accountable by the relevant supervisory authority and details of serious violations may be disclosed to the public.

Safety-related laws and regulations

The SAWS and the SACMS under the supervision of the 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 the 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 the SACMS or its local offices of the facilities and conditions is required. The SACMS also conducts regular safety inspections of coal producers pursuant to the Safety Production Law (中華人民共和國安全生產法), the Mining Safety Law of the PRC (中華人民共和國礦山安全法) and applicable safety regulations. Producers who fail to comply with safety regulations will be subject to penalties, including fines and suspension of the safety operation licence. In addition, mining companies are required to truthfully report to the head office of labour administration and management of coal companies, within 24 hours, any safety accident that causes serious personal injuries or fatalities.

Pursuant to the Rules on Supervision of Coal Mine Construction Project Safety Facilities (煤礦建設項目安全設施監察規定) 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

REGULATIONS

production or use). In addition, the design of safety facilities for a coal mine construction project shall be examined and approved by the coal mine safety administration; if not, no construction work is permitted. Upon completion, a coal mine construction project can be put into normal production or use after it goes through a combined trial operation. The term of combined trial operation shall be no less than one month but no more than six months. The safety facilities and conditions for a coal mine construction project can be put into production and use only after being inspected and accepted by the coal mine safety administration.

Under the implementation measures for coal production safety permits (煤礦企業安全生產許可證實施辦法), effective from 17 May 2004, each operating coal mine is required to apply for a coal production safety permit from the SACMS or its provincial bureau. The coal production safety permits will be valid for an initial period of three years, after which they will be renewable. To further strengthen the safety regulation of coal mines, the SAWS and the SACMS issued the amended coal mine safety procedures effective from 1 January 2005. The amended coal mine safety procedures set forth higher production safety requirements and stricter safety standards for coal producers in China.

Under the Safety Regulations in Coal Mine (煤礦安全規程), 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 the SACMS or its provincial bureau.

Laws and regulations in relation to environmental protection

The MEP is responsible for overall supervision and control of environmental protection in China. It formulates national standards for discharging waste materials and environmental protection and monitors the PRC environmental protection system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction. The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (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. If an enterprise fails to report or register the environmental pollution caused by it, it will receive a warning or be penalised. Enterprises which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate any losses or damages suffered as a result of such environmental pollution. A material violation of the Environmental Protection Law that causes a material loss of public or private belongings or personal injuries or death may result in criminal liability.

The Water Pollution Prevention Law

The PRC Water Pollution Prevention Law (中華人民共和國水污染防治法) (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

REGULATIONS

divisions under the local governments are vested with the functions to supervise and administer the prevention and control of water pollution, while the MEP is in charge of the formulation of State water quality standards and State pollutant discharge standards. The provincial governments can supplement non-formulated items by setting local standards and filing reports to the 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 discharges in excess of the prescribed level and has to take corrective measures for the excess within a time limit. The urban centralised water pollutant disposal institutions provide services and charge water pollutant disposal fees to secure the normal operation of sewage-centred processing facilities. Any enterprise or institution which has paid a sewage treatment fee is not subject to the pollutant discharge fees. Entities that fail to comply with the Water Pollution Prevention Law will be subject to a warning notice, a penalty payment, suspension of operations and closure of business as determined by the relevant environmental authority-in-charge. Any entity that causes water pollution is obliged to ensure the elimination of the pollution and compensate direct losses suffered by entities or individuals.

The Atmospheric Pollution Prevention Law

The PRC Atmospheric Pollution Prevention Law (中華人民共和國大氣污染防治法) (the “**Atmospheric Pollution Prevention Law**”) was promulgated on 5 September 1987 and revised on 29 August 1995 and became effective on 1 September 2000, and 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. Administrative departments of environmental protection under the government at or above the 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 should not exceed the standards prescribed by the State and local authorities. In addition, a system of collecting fees has been implemented 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, confiscation of illegal earnings, a suspension of operations and the closure of their operations as determined by the competent environmental authority-in-charge. They may also be subject to potential criminal liability. Any entity that has caused an atmospheric pollution hazard shall have the responsibility to eliminate the pollution and compensate relevant entities or individuals for the loss.

Provisions on the Protection of the Geologic Environment of Mines

Pursuant to the Provisions on the Protection of the Geologic Environment of Mines (礦山地質環境保護規定) promulgated on 2 March 2009 and effective on 1 May 2009, (a) a holder of mining permit 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 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 organise the restoration using the security deposit and the relevant mine owner shall be liable for any shortfall if the security deposit is insufficient.

REGULATIONS

Regulations in relation to construction project environmental protection

On 29 November 1998, the State Council promulgated the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例). (the “**Regulations on Construction Project Environmental Protection**”). On 28 October 2002 the Standing Committee approved the Law of the PRC on Appraising of Environment Impact (中華人民共和國環境影響評價法) which became effective on 1 September 2003. According to the aforesaid laws, the PRC Government has set up a system to evaluate the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, a thorough environmental impact report on the potential environmental impact is required. If the construction project may result in a slight impact on the environment, an environmental impact analysis statement or special evaluation will be required. If the construction project may only result in very little impact on the environment, an environmental impact appraisal is not required but an environmental impact registration form must be filed. The construction units responsible for the construction projects must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval. If the construction units fail to submit the aforesaid environmental impact appraisal documents according to the applicable PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for examination and approving the relevant construction projects shall not approve such projects and the construction units shall not commence construction.

Pursuant to the 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 be commissioned, until its installations for the prevention and control of pollution are examined and assessed to be up to standard by the relevant department of the environmental protection administration that will examine and approve the environmental impact statement of the applicant.

Regulations in relation to water-drawing

According to the Water Law of the PRC (中華人民共和國水法) which was promulgated by the Standing Committee of the National People’s Congress on 29 August 2002, and took effect on 1 October 2002, any units and persons drawing water from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for water-drawing permit (取水許可證) and pay water resource fees in order to obtain water-drawing rights in accordance with the national water-drawing permit system and the water resource fee system. The State Council is responsible for formulating specific measures on the implementation of the water-drawing permit system and levies on the water resource fees system.

Laws and regulations in relation to land

Pursuant to the Land Administration Law of the PRC (中華人民共和國土地管理法) promulgated on 25 June 1986 and effective on 1 January 1987 and amended on 28 August 2004, land owned by the State and land collectively-owned by collective economic entities may be allocated and used by units or individuals according to law. The ownership of land and land use rights registered according to the

REGULATIONS

relevant laws shall be protected by law. Pursuant to the Implementation Rules on the Mineral Resources Law of the PRC (中華人民共和國礦產資源法實施細則) promulgated and effective on 26 March 1994, a mining rights holder shall have the right to obtain the land use rights according to the relevant PRC laws for the purposes of production and construction.

Under 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"**) (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) promulgated and enforced by the State Council on 19 May 1990, a system in relation to the grant 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, mortgage or otherwise commercially use the land use rights within the term of use. Under the Interim Regulations on Assignment and Transfer and the Urban Real Estate Administration Law (中華人民共和國城市房地產管理法), the land administration authority under the local government of the relevant city or county shall enter into a land grant contract with the land user for the grant of land use rights. The land user shall pay the land premium as 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 land use rights. The Regulations on the Administration of the Development and Sales of Urban Real Estate (城市房地產開發經營管理條例) provide that land use rights for a site intended for property development shall be obtained through government grant, except for land use rights which may be obtained through allocation pursuant to PRC laws or the stipulations of the State Council.

According to the Urban and Rural Planning Law of the People's Republic of China (中華人民共和國城鄉規劃法), the Administrative Measures on Planning of Grant and Transfer of Urban State-owned Land Use Rights (城市國有土地使用權出讓轉讓規劃管理辦法) enacted by the MHURD on 4 December 1992 and effective on 1 January 1993 and the "Notice of the MHURD on Strengthening the Planning Administration of Grant of State-owned Land Use Rights (關於加強國有土地使用權出讓規劃管理工作的通知)" enacted by the MHURD and effective on 26 December 2002, after signing an assignment contract, a land user shall apply for an opinion on construction project's site selection if the land was obtained through government allocation and a permit for construction site planning from the city and county planning authority with the assignment contract. After obtaining a permit for construction site planning, a land user shall organise the necessary planning and design work with regard to planning and design requirements, and apply for a permit for construction work planning from the city and county planning authority with the relevant approval documents.

Labour law

Pursuant to the Labour Contract Law of the PRC (the **"Labour Contract Law"**) (中華人民共和國勞動合同法), which became effective on 1 January 2008, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers. Enterprises and institutions are forbidden to force labourers to work beyond the time limit and employers shall pay labourers for overtime work in accordance with national regulations. In addition, labour wages shall not be lower than local standards on minimum wages and shall be paid to labourers timely.

REGULATIONS

According to the Labour Law of the PRC (中華人民共和國勞動法) promulgated on 5 July 1994 and effective on 1 January 1995, enterprises and institutions shall establish and perfect their system of work place safety and sanitation, strictly abide by state rules and standards on work place safety, educate labourers in labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall comply with state-fixed standards. Enterprises and Institutions shall provide labourers with a safe work place and sanitation conditions which are in compliance with state stipulations and the relevant articles of labour protection.

Laws and regulations in relation to occupational diseases

Pursuant to the Law on Prevention and Control of Occupational Diseases of the PRC (中華人民共和國職業病防治法), which was adopted by the Standing Committee of the National People's Congress on 27 October 2001 and revised on 31 December 2011, the State adopted an occupational healthcare supervision system, and work safety regulatory authorities, health administration authorities, occupational security authorities and other relevant authorities under local people's governments at the country level or above shall be responsible for the local supervision, administration and other relevant work on the prevention and control of occupational diseases according to their respective duties and obligations and within their respective jurisdiction. For construction projects, including projects to be constructed, expanded or altered, and projects for technical renovation and introduction (hereinafter collectively referred to as construction projects) which may produce occupational diseases hazards, the unit responsible for a construction project shall, during the period of feasibility study, submit to the work safety regulatory department a preliminary assessment report on such hazards. Where a unit fails to submit such a report to or its report is not approved by the relevant health administrative department, relevant authorities shall not grant approval to construct such project.

Pursuant to abovementioned regulations, the expense of the occupational disease prevention facilities for any construction project shall be included in the engineering budget of the construction project, and the occupational disease prevention facilities should be designed, engineered and put to operation concurrently with the subjects of the project. For construction projects that produce serious occupational diseases hazards, the design of the protective facilities shall be subject to examination by the health administration department. Only when the design conforms to the national norm for occupational health and meets the requirements for occupational health, construction can be started. Before the construction project is completed for inspection and acceptance, the construction unit shall assess the effect of the control of occupational disease hazards when the project is completed and ready for inspection and acceptance. The facilities for prevention of occupational diseases may be put into formal operation and use only after they have passed the inspection by the public health administration department.

Taxation

Enterprise income tax

According to the EIT Law and the Implementation Regulations of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) enacted on 6 December 2007 and took effect on 1 January 2008 (collectively the "**Income Tax Law**") the enterprise income tax for both domestic and

REGULATIONS

foreign-invested enterprises is unified at 25%. For those enterprises established before 16 March 2007 and entitled to enjoy preferential income tax treatments by tax-related laws and administrative regulations, the EIT Law provides a five-year transitional period, during which the applicable enterprise income tax rate shall be converted to the unified rate of 25% gradually.

Value added tax

In accordance with the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中華人民共和國增值稅暫行條例) promulgated by the State Council and came into effect on 1 January 2009 and the Rules for Implementation of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中華人民共和國增值稅暫行條例實施細則), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Resources tax

Pursuant to the Provisional Regulation of Resources Tax (資源稅暫行條例) and the Rules Administering Levy of Mine Resource Compensation Fees (礦產資源補償費徵收管理規定), the coal industry has been levied resources taxes and resources compensation fees. Since 2004, the Ministry of Finance of the PRC (中華人民共和國財政部) and the SAT have issued a series of notices on coal resource taxation adjustments.

Pursuant to the Notice on the Adjustment of the Rate of the Coal Resources Tax in Inner Mongolia (關於調整內蒙古自治區煤炭資源稅稅額標準的通知) (Cai Shui [2005] No.172) issued by the Ministry of Finance of the PRC and the SAT, and the Implementing Rules for the Interim Regulations on Resources Tax (資源稅暫行條例實施細則) issued by the Ministry of Finance of the PRC in October 2011, the applicable rate of coal resources tax in Inner Mongolia shall be increased to RMB3.2 per tonne since 1 January 2006 except for coking coals.

Foreign exchange

Under the Foreign Currency Administration Rules (中華人民共和國外匯管理條例) promulgated by the State Council in 1997 and various regulations issued by SAFE, Renminbi is convertible into other currencies for the purpose 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 China for the purpose 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.

SAFE regulations on offshore special purpose companies held by PRC residents or citizens

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Circular No. 75, issued in October 2005 by SAFE, PRC citizens or residents are required to register with SAFE

REGULATIONS

or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a roundtrip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the PRC citizens or residents. In addition, such PRC citizens or residents must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to increases or decreases in investment amount, transfers or exchanges of shares, mergers or divisions, long-term equity or debt investments, external guarantees, or other material events that do not involve roundtrip investments. If the shareholders of the offshore holding company who are PRC citizens or residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions.

M&A Rules

On 8 August 2006, six PRC regulatory agencies, including CSRC, promulgated the M&A Rules to regulate foreign investment in PRC. The M&A rules, among other things, requires an overseas special purpose vehicle, formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of CSRC prior to publicly list their securities on an overseas stock exchange. The M&A Rules also establishes procedures and requirements that make the said acquisition more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise.

In respect of the acquisition of Kinetic Coal by Kinetic (Asia) from Fuliang Coal Mining in 2010 (the “**Acquisition**”), we have been advised by our PRC legal advisers, Jingtian & Gongcheng, that, taking into account the background of Kinetic (Asia) and Fuliang Coal Mining and the relationship between Mr. Zhang Liang, Johnson (who was the sole ultimate shareholder of Kinetic (Asia) and a Canadian resident at the time of the Acquisition) and Mr. Zhang Li (who was the controlling shareholder of Fuliang Coal Mining at the time of the Acquisition and the father of Mr. Zhang Liang, Johnson), Kinetic (Asia) would not be considered a special purpose vehicle controlled by PRC domestic companies or individuals and the Acquisition would not be considered a “connected acquisition” under Article 11 of the M&A Rules, and therefore, approvals from MOFCOM would not be required.

Our Company, with the assistance of our PRC legal advisers, has consulted the competent government authority, namely the Administration for Industry & Commerce of Inner Mongolia, and they have affirmed the conclusion of our PRC legal advisers.

As further advised by our PRC legal advisers, Jingtian & Gongcheng, that, taking into account that Kinetic (Asia) is not a special purpose vehicle controlled by PRC domestic companies, Kinetic (Asia) did not acquire Kinetic Coal in 2010 by means of a share swap and Mr. Zhang Liang, Johnson is not a Chinese national, we are not required to obtain further approvals from CSRC for listing or other purposes.

REGULATIONS

Security Review by MOFCOM

Pursuant to the “Circular of the State Council on Establishment of the Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors” (“**Circular 6**”), which came into effect as of 4 March 2011, and the “Provisions of MOFCOM on the Implementation of the Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors” (the “**Implementation Provisions**”), which came into effect as of 1 September 2011, a security review is required to be conducted on a merger or an acquisition of a foreign investor if it takes de facto control of a domestic Chinese enterprise which may be of importance to national security (a “**Relevant Enterprise**”).

A foreign investor may apply to MOFCOM for a security review under Circular 6 and the Implementation Provisions. If the intended merger or acquisition of a domestic Chinese enterprise by the foreign investor is determined to have material impact on national security, MOFCOM may, in conjunction with other relevant government bodies, request the termination of the intended merger or acquisition or the transfer of the relevant equity interests or assets or take other measures that it may consider appropriate.

As advised by our PRC legal advisers, Jingtian & Gongcheng, since the Reorganisation was completed prior to the promulgation of Circular 6 (except for the establishment of Kinetic Qinhuangdao and Xiaojia JV, which would not be regarded as a merger or an acquisition of a domestic Chinese enterprise by a foreign investor), Circular 6 and the Implementation Provisions would not apply to our Group for the purposes of the Reorganisation. However, since there is currently no guideline confirming the type of industries that would be subject to a security review pursuant to Circular 6 and the Implementation Provisions, Circular 6 and the Implementation Provisions may be relevant to future merger or acquisition activities of our Group if the target enterprise is determined or may be determined to be a Relevant Enterprise.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY AND DEVELOPMENT

The Dafanpu Coal Mine, currently our Company's only mining asset, comprising a concession area of approximately 9.6 km² in size, is located 13 km to the southwest of Xuejiawan Town in Zhunge'er Banner, Erdos City of Inner Mongolia, China. The Dafanpu Coal Mine was created through the acquisition and consolidation of the Original Dafanpu Mine, the Original Yintai Mine and an adjacent mining block.

While our Company was incorporated in the Cayman Islands on 27 July 2010, our Group's history dates back to 2006, when Mr. Zhang Li, the father of our ultimate Controlling Shareholder Mr. Zhang Liang, Johnson, initiated the process to obtain the mining rights to the Original Dafanpu Mine and the Original Yintai Mine.

Original Yintai Mine

On 18 August 2006, Mr. Zhang Li entered into an agreement with Ningxia Fulong Highway Construction Group Limited* (寧夏富龍公路工程集團有限公司), a company incorporated in the PRC and an Independent Third Party, and Mr. Ma Long (馬龍), an Independent Third Party, to acquire a 95% equity interest in Fuliang Coal Mining, which held the mining rights to the Original Yintai Mine, for a total consideration of approximately RMB4.7 million (in addition to the payment of approximately RMB123.5 million for the transfer of the mining rights to the Original Yintai Mine and further approximately RMB25.5 million owed to the government in relation to the grant of mining rights over the Original Yintai Mine). On 14 November 2006, Mr. Zhang Li completed the purchase of 84.9% of the equity interest in Fuliang Coal Mining. The consideration for the transfer of the mining rights to the Original Yintai Mine was increased to approximately RMB125.8 million pursuant to a supplemental agreement dated 29 November 2006. On 22 December 2006, Kinetic Coal was incorporated in the PRC with Fuliang Coal Mining as its sole member. On 17 January 2007, a mining licence in respect of mining rights over the Original Yintai Mine was issued to Kinetic Coal. On 17 December 2009, Mr. Zhang Li completed the purchase of a further 9.9% equity interest in Fuliang Coal Mining, with the remaining 5.2% of Fuliang Coal Mining held by six other natural persons. On 26 October 2011, Mr. Zhang Li acquired the remaining 5.2% equity interest in Fuliang Coal Mining and became the sole owner of Fuliang Coal Mining.

Original Dafanpu Mine

On 18 August 2006, Mr. Zhang Li entered into an agreement for the transfer of mining rights over the Original Dafanpu Mine from Zhunge'er Banner Yintai Coal Limited* (准格爾旗銀泰煤炭有限責任公司) ("Yintai Coal"), a company incorporated in the PRC and an Independent Third Party which held the mining rights to the Original Dafanpu Mine, to Fuliang Coal Mining (or another new company to be incorporated under Fuliang Coal Mining) with the intention of consolidating the Original Dafanpu Mine and the Original Yintai Mine. On 22 December 2006, Kinetic Coal was incorporated in the PRC with Fuliang Coal Mining as its sole member. On 30 May 2007, Mr. Zhang Li entered into a supplemental agreement with Yintai Coal pursuant to which the mining rights to the Original Dafanpu Mine were transferred for RMB170 million (in addition to the payment of approximately RMB22.0 million owed to the government in relation to the grant of mining rights over the Original Dafanpu Mine), with such rights to be held by Kinetic Coal, which was wholly-owned by Fuliang Coal Mining at the time.

HISTORY AND CORPORATE STRUCTURE

Consolidation of mines and extension of duration of mining rights

Upon obtaining the mining rights to the Original Dafanpu Mine and the Original Yintai Mine, Kinetic Coal submitted an application to the relevant PRC authorities to consolidate the two mines. On 21 November 2007, the Department of Land and Resources of Inner Mongolia granted to Kinetic Coal a mining licence for two years for the mining concession area which incorporated the mining concession areas for the Original Dafanpu Mine, the Original Yintai Mine and an adjacent mining block which was originally held by the government, indicating the completion of the consolidation process and the establishment of the Dafanpu Coal Mine. Kinetic Coal was required to pay an additional amount of approximately RMB223.3 million for the mining rights over the adjacent mining block. Kinetic Coal successfully obtained an extension of the duration of our mining rights to the Dafanpu Coal Mine up to 2039 on 31 August 2009 with the issuance of a mining licence and a new mining licence was further issued on 9 May 2011.

As confirmed by our PRC legal advisers, Jingtian & Gongcheng, we have settled all amounts payable under PRC laws and regulations in respect of the mining rights that we hold and all equity or asset transfer transactions and mine consolidation procedures as described above have been conducted in compliance with applicable laws and regulations in the PRC.

Development of Dafanpu Coal Mine

We have been undertaking work to bring the Dafanpu Coal Mine to operation. An Independent Third Party design institute was engaged in 2008 to conduct a feasibility study for the Dafanpu Coal Mine and approval from the Coal Industry Bureau of Inner Mongolia was obtained on the preliminary mine design for the Dafanpu Coal Mine in March 2009. Construction of the mine commenced in July 2008.

Some important milestones since the commencement of the construction of the Dafanpu Coal Mine are set out below:

Time	Milestones
July 2008	Commencement of construction of coal-mining production benches in the industrial yard.
March 2009	Preliminary mine design with a production capacity of 2.4 million ROM tonnes of coal per year approved by the Coal Industry Bureau of Inner Mongolia.
November 2009	Completion of construction of ventilation shaft.
December 2009	Completion of construction quality inspection of ventilation shaft.
September 2010	Commencement of ground work for the coal washing plant.
March 2011	Completion of construction of the main and supplementary inclined shafts and associated conveyor systems.

HISTORY AND CORPORATE STRUCTURE

	Commencement of ground work for Xiaojia Station, a loading station which is expected to have a handling capacity of 15.0 million tonnes per year by June 2012, and associated rail spur lines connecting to the Nanping Rail Line.
May 2011	Completion of construction quality inspection of the main and supplementary inclined shafts.
August 2011	Completion of a feasibility study outlining a plan for expansion of production capacity to 5.0 million ROM tonnes of coal per year and submission of an application to increase the production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year to the relevant government authority.
December 2011	Completion of the construction of the Dafanpu Coal Mine with an annual production capacity of 2.4 million ROM tonnes of coal. Completion of the coal washing plant with a feed capacity of 5.0 million ROM tonnes of coal per year.
January 2012	Commencement of trial production at the Dafanpu Coal Mine.

As of the Latest Practicable Date, we have completed construction of three shafts, including the main inclined shaft, a supplementary inclined shaft and a ventilation shaft, a conveyor system, a coal washing plant and ground work for a loading station with associated rail spur lines. We installed underground mine equipment and commenced trial production at the Dafanpu Coal Mine in January 2012. Please refer to the section headed “Business” in this prospectus for further information on the development of the Dafanpu Coal Mine.

PRE-LISTING REORGANISATION

In preparation for the Listing, the following group restructuring steps were undertaken:

Acquisition of Kinetic Coal by intermediate holding companies

Two intermediate investment holding companies, Blue Gems and Kinetic (Asia), were incorporated on 11 December 2009 and 21 January 2010, respectively, for the purpose of holding equity interests in Kinetic Coal. Kinetic (Asia) has been wholly-owned by Blue Gems since its incorporation. Blue Gems was initially wholly-owned by our ultimate Controlling Shareholder through an investment holding company, King Lok, until its entire issued share capital was transferred from King Lok to our Company as detailed in the section headed “History and Corporate Structure — Pre-Listing Reorganisation — Establishment of our Company” in this prospectus.

On 11 June 2010, upon completion of the relevant registration with the Administration for Industry & Commerce of Inner Mongolia (內蒙古自治區工商行政管理局), Kinetic (Asia) purchased the entire equity interest in Kinetic Coal from Fuliang Coal Mining for RMB200 million, pursuant to an equity transfer agreement dated 5 February 2010, whereby the underlying mining assets were transferred

HISTORY AND CORPORATE STRUCTURE

outright from Mr. Zhang Li to Mr. Zhang Liang, Johnson. The amount of the consideration was determined with reference to an independent valuation of Kinetic Coal as at the end of 2009 undertaken by Beijing China Faith, Appraisers Co., Ltd.* (北京國友大正資產評估有限公司), a professional appraisal firm, as part of the equity transfer approval and registration procedure at that time. The valuation team comprised members of the China Appraisal Society. A second independent valuation was conducted as at 31 May 2010 by Mr. Simon Chan, Regional Director of Jones Lang LaSalle Corporate Appraisal and Advisory Limited (formerly known as Jones Lang LaSalle Sallmanns Limited), based on the income approach, a generally accepted valuation method which converts expected periodic benefits of ownership into an indication of value. Mr. Simon Chan has extensive work experience in valuation and corporate advisory industries and is a Certified Valuation Analyst, a member of The International Association of Consultants, Valuers and Analysts, a member of the Canadian Institute of Mining, Metallurgy and Petroleum, a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Certified Public Accountants of Australia. Our executive Director, Mr. Zhang Li, was a controlling shareholder of Fuliang Coal Mining at the time of the transaction. As advised by our PRC legal advisers, Jingtian & Gongcheng, all necessary approvals and registration procedures required under PRC laws and regulations in relation to the acquisition of Kinetic Coal have been obtained or completed. At the time of the acquisition of Kinetic Coal by Kinetic (Asia), only a small portion of the mining structure construction of the Dafanpu Coal Mine had commenced and most of the mining equipment had not yet been purchased nor had the underground mining workforce been contracted. Please refer to the section headed “History and Corporate Structure — Our History and Development — Development of Dafanpu Coal Mine” in this prospectus for important milestones in relation to the development and construction of the Dafanpu Coal Mine before the acquisition of Kinetic Coal by Kinetic (Asia).

Establishment of our Company

Our Company was incorporated on 27 July 2010. At the time of our Company’s incorporation, one ordinary share with par value of US\$0.1 was issued to Reid Services Limited, an Independent Third Party, at par as fully paid. On the date of incorporation, that ordinary share was transferred to King Lok, an investment holding company wholly-owned by Mr. Zhang Liang, Johnson at the time, at a consideration of US\$0.1.

Capitalisation of loans payable by Kinetic (Asia)

On 19 July 2011, the authorised share capital of Kinetic (Asia) was increased from HK\$10,000 divided into 10,000 shares of HK\$1.00 each to HK\$229,330,000 divided into 229,330,000 shares of HK\$1.00 each by the creation of an additional 229,320,000 new shares of HK\$1.00 each. Immediately after the increase of its authorised share capital, Kinetic (Asia) allotted and issued a total of 229,320,000 new shares of HK\$1.00 each to Blue Gems at par, credited as fully paid by way of capitalisation of an aggregate amount of HK\$229,320,000 of non-interest bearing loans payable by Kinetic (Asia) to Mr. Zhang Liang, Johnson, the then sole ultimate beneficial owner of Kinetic (Asia).

Share swap and share transfers

On 20 July 2011, each of the 500,000 ordinary shares with par value of US\$0.1 each in the authorised share capital of our Company was subdivided into 100 ordinary shares with par value of

HISTORY AND CORPORATE STRUCTURE

US\$0.001 each (the “**Subdivision**”) resulting in an authorised share capital of our Company of US\$50,000 consisting of 50,000,000 Shares. The total number of ordinary shares that was registered under the name of King Lok in our Company’s register of members after the Subdivision became 100 fully paid Shares. Immediately following the Subdivision, the authorised share capital of our Company was increased from US\$50,000 consisting of 50,000,000 Shares to US\$500,000,000 consisting of 500,000,000,000 Shares (the “**Share Capital Increase**”).

Immediately after the Share Capital Increase, the entire issued share capital of Blue Gems, the holding company of Kinetic (Asia) and Kinetic Coal, was transferred from King Lok, the sole shareholder of our Company at the time, to our Company in consideration for our Company’s allotment and issue of 7,499,999,900 Shares, credited as fully paid to King Lok (the “**Share Swap**”).

Immediately after the Share Swap on 20 July 2011, King Lok transferred 450,000,000 Shares, 45,000,000 Shares, 448,500,000 Shares, 368,925,000 Shares, 442,500,000 Shares and 437,625,000 Shares, or approximately 6.0%, 0.6%, 6.0%, 4.9%, 5.9% and 5.8% respectively of its shareholding in our Company, to Ms. Cheung Yee Man Elisa, Mr. Lu Jing, Mr. Yeung Hoi Ching, Mr. Zhang Xiaolin, Mr. Luk Ngai Landy and Mr. Chu Ka Lun Simon, respectively, for respective considerations of approximately US\$9.6 million, US\$1.0 million, US\$9.6 million, US\$7.9 million, US\$9.4 million and US\$9.3 million. After the transfers, King Lok’s shareholding in our Company decreased from 100% to approximately 70.8%. The consideration for these transfers were determined after arm’s length negotiation with reference to our net asset value. Ms. Cheung Yee Man Elisa, Mr. Lu Jing and Mr. Luk Ngai Landy are Independent Third Parties. Mr. Yeung Hoi Ching, an executive director of Kinetic Coal and Kinetic Qinhuangdao, is a connected person of our Company. Mr. Zhang Xiaolin is a connected person of our Company by reason that he is the brother of Mr. Zhang Li, the chairman and an executive Director, and Ms. Zhang Lin, a non-executive Director, and the uncle of Mr. Zhang Liang, Johnson, a Controlling Shareholder. Mr. Chu Ka Lun Simon is the son-in-law of Ms. Zhang Lin and is a connected person of our Company.

Establishment of Kinetic Qinhuangdao

On 4 August 2011, Kinetic Qinhuangdao was incorporated in the PRC with Kinetic (Asia) as its sole member for our wholesale and retail operations in (i) coal and (ii) iron and other metal products. We currently do not engage in and do not have plans to engage in wholesale and retail operations in iron and other metal products.

Establishment of Xiaojia JV

On 21 September 2011, Xiaojia JV was established in the PRC to engage in coal storage, delivery and handling businesses (including the construction and operation of Xiaojia Station) with Shenhua Zhunge’er Resources and Kinetic Coal holding 55% and 45% of the equity interest, respectively, pursuant to a joint venture agreement dated 8 September 2011.

HISTORY AND CORPORATE STRUCTURE

SAFE registration

SAFE issued a public notice in October 2005, namely SAFE Circular No. 75, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an “offshore special purpose company”. As advised by our PRC legal counsel, Jingtian & Gongcheng:

- since Mr. Zhang Liang, Johnson, our ultimate Controlling Shareholder, is a Canadian citizen and does not habitually reside in the PRC for purposes of economic gain, he is not a PRC resident under SAFE Circular No. 75 and is not required to register with SAFE;
- since Ms. Cheung Yee Man Elisa, Mr. Yeung Hoi Ching, Mr. Zhang Xiaolin, Mr. Luk Ngai Landy and Mr. Chu Ka Lun Simon are citizens of Hong Kong and do not habitually reside in the PRC for purposes of economic gain, they are not PRC residents under SAFE Circular No. 75 and are not required to register with SAFE; and
- since Mr. Lu Jing is an Australian citizen and does not habitually reside in the PRC for purposes of economic gain, he is not a PRC resident under SAFE Circular No. 75 and is not required to register with SAFE.

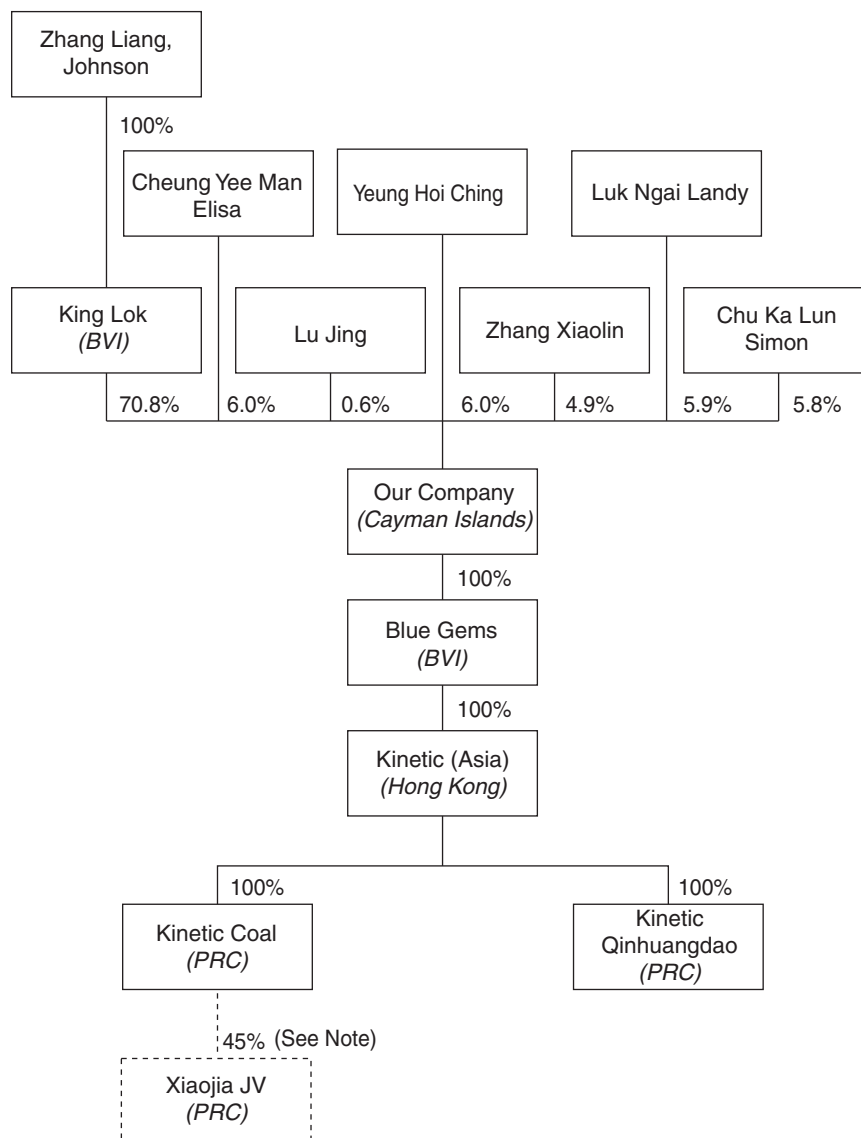
For further information, please refer to the sections headed “Risk Factors — Risks Relating to the PRC — PRC regulations relating to loans to and direct investment by offshore holding companies in PRC entities may affect our use of the proceeds of the Global Offering to contribute additional capital or make loans to our PRC subsidiaries” and “Regulations — China’s Coal Industry — SAFE regulations on offshore special purpose companies held by PRC residents or citizens” in this prospectus.

HISTORY AND CORPORATE STRUCTURE

OUR CORPORATE STRUCTURE

The following charts set out our corporate and shareholding structure immediately prior to and after the close of the Global Offering, assuming the Over-allotment Option is not exercised.

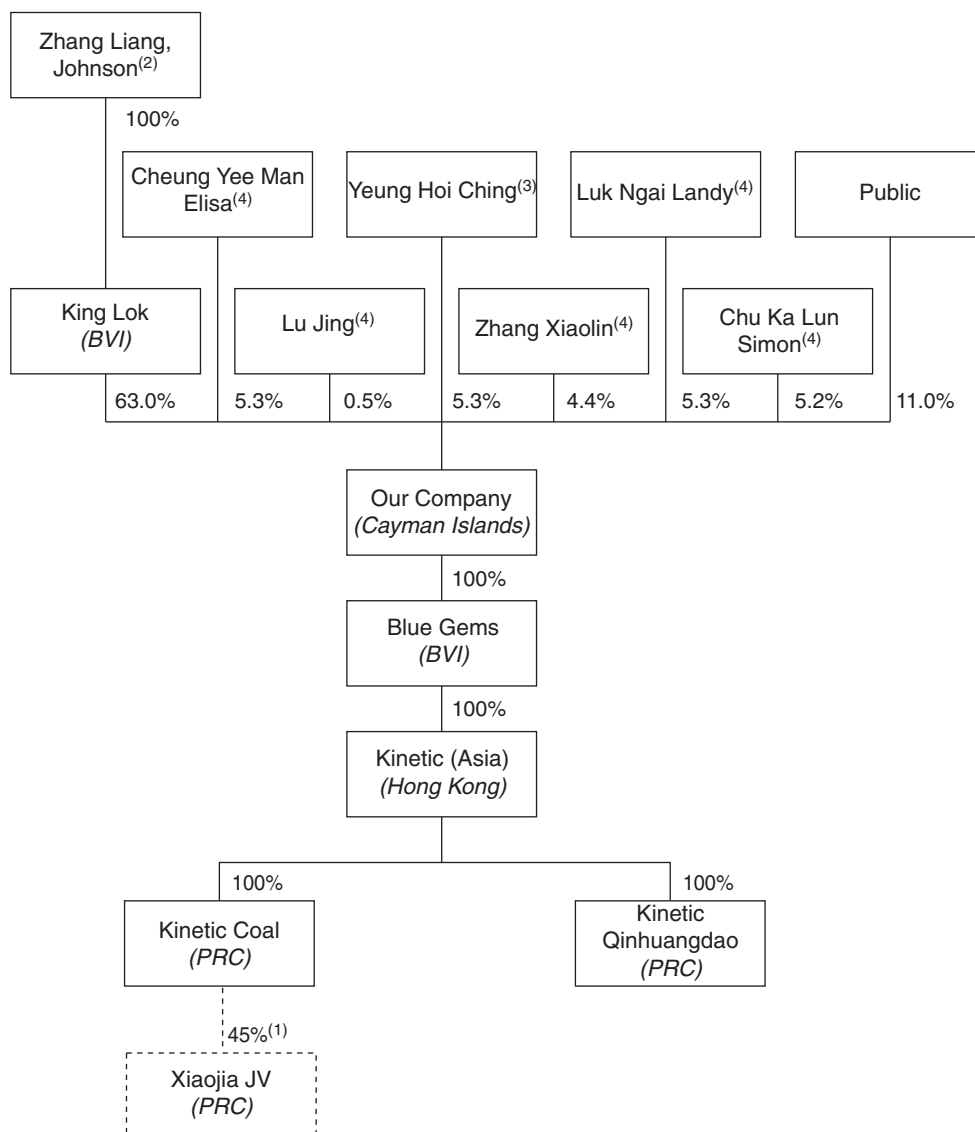
Corporate structure of our Group immediately prior to the Global Offering



Note: Shenhua Zhunge'er Resources is the holder of the remaining 55% of the equity interest in Xiaojia JV.

HISTORY AND CORPORATE STRUCTURE

Corporate structure of our Group immediately after the Global Offering (assuming the Over-allotment Option is not exercised)



Notes:

- (1) Shenhua Zhunge'er Resources is the holder of the remaining 55% of the equity interest in Xiaojia JV.
- (2) Mr. Zhang Liang, Johnson, the ultimate Controlling Shareholder and a Director, is a connected person of our Company and the Shares held by him indirectly through King Lok will not be included as part of our Company's public float (within the meaning of Rule 8.24 of the Listing Rules) upon Listing.
- (3) Mr. Yeung Hoi Ching, an executive director of Kinetic Coal and Kinetic Qinhuangdao, is a connected person of our Company and the Shares held by him will not be included as part of our Company's public float (within the meaning of Rule 8.24 of the Listing Rules) upon Listing.
- (4) Shares held by Ms. Cheung Yee Man Elisa, Mr. Lu Jing, Mr. Zhang Xiaolin, Mr. Luk Ngai Landy and Mr. Chu Ka Lun Simon will be included as part of our Company's public float (within the meaning of Rule 8.24 of the Listing Rules) upon Listing.

BUSINESS

OVERVIEW

We are focused on constructing and developing the Dafanpu Coal Mine, and seek to operate highly efficient and safe coal mines. Our vision is to become a leading private-sector, integrated coal provider in China with mining, processing, transportation and storage capabilities.

Coal Resources, Coal Reserves and Coal Properties

The Dafanpu Coal Mine is an underground mine, occupying a concession area of approximately 9.6 km² located in Zhunge'er Banner, Erdos City, Inner Mongolia, China. We have engaged Runge Asia Limited to estimate the Coal Resources and Coal Reserves at our Dafanpu Coal Mine in accordance with the JORC Code and to prepare the Report. According to the Report, as of November 2010, our Dafanpu Coal Mine had JORC-compliant Coal Resources of approximately 449.9 million tonnes, comprising 145.6 million tonnes of Measured Coal Resources, 247.7 million tonnes of Indicated Coal Resources and 56.6 million tonnes of Inferred Coal Resources, and as of October 2011, the estimated JORC-compliant Coal Reserves were approximately 201.2 million tonnes, comprising 67.2 million tonnes of Proven Coal Reserves and 134.0 million tonnes of Probable Coal Reserves. We hold 30-year mining rights to the Dafanpu Coal Mine and can apply for renewal of these rights with the relevant PRC authorities prior to their expiration on 23 November 2039.

According to the Report, approximately 23.4% of the Coal Reserves at our Dafanpu Coal Mine (or 47.1 million tonnes of the Coal Reserves) is expected to be lump coal, a type of coal that does not need to be washed or otherwise processed and can be sold after a simple separation process. The remaining 76.6% of the Coal Reserves (or 154.1 million tonnes of the Coal Reserves) is expected to be fine coal, which is a post-wash saleable product. The approximate proportion of final saleable product results from the 20%/80% split of ROM coal tonnes of lump/fine coal being subject to the varying washability yields of the fine coal portion. The volume of the fine Coal Reserves is estimated by taking the appropriate washability yields of raw coal into consideration. The estimated washability yields range from 71% to 84%. We believe that our mining operations at the Dafanpu Coal Mine will be highly efficient, due to favourable geological mining conditions, moderate to thick coal seams, our employment of advanced mining techniques and a fully mechanised mining process. We expect to produce coal quality with a mid to high energy value and low sulphur content.

Development Plan

We aim to achieve total coal production capacity of 5.0 million ROM tonnes of coal per year for the Dafanpu Coal Mine through a two-stage development plan. We initiated the first stage of the development plan in 2006 through our acquisition and consolidation of the Original Dafanpu Mine, the Original Yintai Mine and an adjacent mining block into the Dafanpu Coal Mine. We completed the construction of mining and coal washing facilities in December 2011 and commenced trial production at the Dafanpu Coal Mine in January 2012. Our current mining permit allows us to produce 2.4 million ROM tonnes of coal per year, which we expect to achieve on a pro-rata basis (exclusive of the trial production period) towards the end of the first year of production. We will commence commercial production after we pass certain safety and environmental inspections on our facilities and obtain the required production permits and safety production permits. To obtain such permits, we are required to arrange with the

BUSINESS

relevant governmental authorities to conduct certain safety and environmental protection inspections on our facilities before or during the trial production period. We plan to file applications to obtain permits required for commercial production in March 2012, after the equipment has been sufficiently run in, and systems are integrated and function smoothly. Commercial production is currently anticipated to commence within one to six months of trial production.

We have submitted an application to increase the production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year for the second stage of our development plan. The competent government authority is reviewing our application. As advised by our PRC legal advisers, Jingtian & Gongcheng, we will not be required to make any significant payment to the government to obtain or maintain a mining permit for increased production capacity unless there is significant increase in the coal reserves discovered in our concession area. We intend gradually to ramp up to full production capacity to the second stage target of 5.0 million ROM tonnes of coal per year by 2013. According to the Report, our development plan to ramp up the total coal production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year is reasonable and achievable in accordance with our projected schedule.

Our licensed production rate is 2.4 million ROM tonnes of coal per year which we expect to achieve on a pro-rata basis (exclusive of the trial production period) towards the end of the first year of production. We intend gradually to ramp up to a production rate of 5.0 million ROM tonnes of coal per year by 2013. As advised by Runge Asia Limited, in respect of the Dafanpu Coal Mine, the depletion rate is equivalent to production rate. Based on the production rate of 5.0 million ROM tonnes of coal per year, the estimated future mining right amortisation rate will be RMB1.60 per ROM tonne.

The unit operating costs for the Dafanpu Coal Mine are estimated to be RMB114.7 per tonne of coal. Our Directors are of the view that such estimated operating costs are in line with industry norms. The following table sets forth the estimated unit operating costs for the Dafanpu Coal Mine:

Mining costs	RMB101.79 per ROM tonne
Coal processing costs	RMB12.91 per tonne of feed
Unit operating costs	RMB114.7 per tonne of coal

Operational Safety

Our expected operational efficiency will be complemented by our expected high level of operational safety, resulting from a combination of inherent geological features, stringent safety standards and supervision, and advanced mining techniques and equipment. According to the Report, the Dafanpu Coal Mine contains very low amounts of methane gas and is classified as a "Category I low gas mine" as defined by the Chinese Standard. In addition, the geological mining conditions are favourable and water supplies are adequate for our business needs. We plan to use equipment which meets or exceeds industry safety standards, such as hydraulic props, and advanced mining techniques, such as longwall mining and longwall top coal caving. We also plan to implement advanced safety measures, such as installing an advanced monitoring system, to oversee the safety of the miners and operations.

BUSINESS

Facilities

Our facilities are expected to enable us to offer our customers quality coal across a spectrum of varying specifications. Based on the Report, we expect our raw coal to have a mid to high energy value and low sulphur content, and to be suitable for use in coal-fired power plants. We expect the extractable coal in the Dafanpu Coal Mine to have an average energy value of approximately 6,443 kCal or 26.98 MJ per kg on an air dried basis.

We have completed the construction of a coal washing plant with a feed capacity of 5.0 million tonnes per year in our concession area. The coal washing plant will enable us to wash our raw coal and raw coal purchased from third parties to produce a range of coal products to meet the varying energy value requirements of our customers. We and Shenhua Zhunge'er Resources, through Xiaojia JV, are jointly constructing Xiaojia Station, a loading station with associated rail spur lines connecting to the Nanping Rail Line, which is expected to have a handling capacity of 15.0 million tonnes per year by June 2012. We plan to use the handling capacity of Xiaojia Station to transport our coal from the Dafanpu Coal Mine and coal purchased from third parties. To utilise fully the excess handling capacity of Xiaojia Station, we and Shenhua Zhunge'er Resources are in discussions to construct jointly a coal washing plant with an annual feed capacity of 10.0 million tonnes to wash coal purchased from third parties.

We are setting up a trading centre at Qinhuangdao Port, which is China's largest coal transshipment port. We are in the process of establishing storage and blending facilities at our trading centre at Qinhuangdao Port, which will provide us with a secondary blending facility to blend coal purchased from third parties. We have also entered into a long-term lease with China Coal Qinhuangdao Tower, an Independent Third Party, for offices with a gross floor area of 547 m² to be used as the office space for our trading centre and a long-term lease with Qinhuangdao China Coal Storage and Transportation Co., Ltd., an Independent Third Party, for a parcel of land with a site area of approximately 20,000 m² to be used as the site for our storage and blending facilities. On basis of the above, we expect to be able to provide coal products with various energy values, sulphur and ash content to our customers to meet their specific combustion and environmental needs.

Marketing and Sales

Our current sales strategy is to capture market share in southern China and eastern China, where there is high demand for coal from power plants but low supply due to the lack of coal resources in proximity, while maintaining flexibility to sell to local markets in Inner Mongolia if sales there provide a higher profit margin after taking into account transportation and other associated costs. We executed non-binding agreements of intent in June and July 2011 with Independent Third Parties, namely Shanghai Shenergy Fuel Co., Ltd.* (上海申能燃料有限公司), Shandong Jinglu Zhongmei Coal Co., Ltd.* (山東京魯中煤煤業有限公司) and Guangzhou Pearl River Electric Power Fuel Co., Ltd.* (廣州珠江電力燃料有限公司), for the sale of a total of approximately 2.9 million tonnes of coal. These agreements provide a preliminary framework for the delivery of coal in 2012. These potential purchasers do not have any obligations to purchase, and we do not have any obligations to sell, any coal products under these agreements. We intend to enter into legally binding agreements with these potential customers with regards coal amounts, prices and other commercial terms to be determined according to the then prevailing market practice.

BUSINESS

Loading and Transportation

We have entered into an agreement with Shenhua Zhunge'er Resources, an Independent Third Party, to utilise the capacity of the Nanping Rail Line, to which Shenhua Zhunge'er Resources has the exclusive right of use, in exchange for our commitment not to mine certain areas along the Nanping Rail Line that runs across our concession area. Please refer to the section headed "Business — Properties — Land" in this prospectus. As advised by our PRC legal advisers, Jingtian & Gongcheng, the agreement is legally binding. The Nanping Rail Line is a branch rail line of the Datong-Zhunge'er Rail Line, which connects to the Datong-Qinhuangdao Rail Line, a major national railway to Qinhuangdao Port, China's largest coal transshipment port.

The binding agreement with Shenhua Zhunge'er Resources does not provide for the specific amount of rail capacity to be committed to us and the duration of the agreement, and may be terminated by consent of both parties to the agreement. We and Shenhua Zhunge'er Resources have a mutual commercial understanding that Shenhua Zhunge'er Resources will allocate sufficient rail capacity for us to transport a total of 5.0 million tonnes of coal per annum to Qinhuangdao, and ensure our access to the rail capacity of the Nanping Rail Line. However, we and Shenhua Zhunge'er Resources have not entered into a legally binding supplemental agreement to document this mutual understanding to commit to us rail capacity of 5.0 million tonnes of coal per annum. As advised by our PRC legal advisers, Jingtian & Gongcheng, unless a legally binding supplemental agreement is entered into, we will not be entitled to any remedies or compensation under PRC law in the event that Shenhua Zhunge'er Resources fails to allocate sufficient rail capacity to us. Please refer to the sections headed "Risk Factors — Risks Relating to Our Business — If reliable coal transportation capacity is unavailable or insufficient, our ability to supply coal to our customers may be impaired or affected" and "Business — Production Process — Loading and transportation" in this prospectus for further details.

To enable us to utilise the capacity of the Nanping Rail Line, a joint venture company, Xiaojia JV, owned as to 55% by Shenhua Zhunge'er Resources and 45% by us has been formed to construct and operate Xiaojia Station. According to the articles of association of Xiaojia JV, the term of Xiaojia JV shall initially be 30 years and we have the right to nominate the general manager of Xiaojia JV. We will be charged a railway transportation cost of RMB139 per tonne to transport our coal from Zhunge'er Banner to Qinhuangdao. The railway transportation cost is calculated at a rate fixed by relevant government authorities and may be adjusted according to the government rate as modified from time to time. The cost for transportation from Zhunge'er Banner to Datong will be charged by Xiaojia JV, and that from Datong to Qinhuangdao will be collected by Xiaojia JV and paid onwards to state-owned railway transportation enterprises.

Xiaojia Station is designed to connect to our stockpile near our processing facilities. It is located in our concession area and is adjacent to both our mining site and processing facilities. Due to these conditions, Xiaojia Station can only be used to transport coal processed by our existing processing facilities and the processing facilities to be constructed by us with Shenhua Zhunge'er Resources in the future. We expect Xiaojia Station to have a handling capacity of 15.0 million tonnes per year by June 2012. As of the Latest Practicable Date, Xiaojia Station was still under construction.

BUSINESS

The joint construction and operation of Xiaojia Station with Shenhua Zhunge'er Resources will reinforce the mutual commercial understanding that Shenhua Zhunge'er Resources will allocate sufficient rail capacity for us to transport a total of 5.0 million tonnes of coal per annum from Xiaojia Station, through associated rail spur lines connecting to the Nanping Rail Line, to Qinhuangdao, and ensure our access to the rail capacity of the Nanping Rail Line. We plan to use the majority of such rail capacity to transport our coal from the Dafanpu Coal Mine, and any surplus capacity to transport coal purchased from third parties. With our high-speed loading station and the access to rail capacity, we will be able to transport our coal to Qinhuangdao, Hebei Province, the site of China's largest coal transshipment port.

Before the construction of Xiaojia Station is completed, we plan to sell our coal locally. The Dafanpu Coal Mine is easily accessible by public roads. It is only six km southeast of National Highway No. 109, a national highway connecting to Beijing, allowing easy access to local power plants in Inner Mongolia and connection to the PRC highway network (including Provincial Highway S103, which connects Zhunge'er and Hohhot). National Highway No. 210, which connects Baotou and Nanning, is about 130 km west of our concession area.

Capital Expenditure

We estimate that the total capital expenditure in relation to the project, including mine development, and the construction of the coal washing plant, loading facilities and associated rail spur lines, will be approximately RMB1,241 million. The capital expenditures incurred up to 31 December 2011 amounted to approximately RMB602 million. The storage and blending facilities in Qinhuangdao were estimated to cost approximately RMB5 million. Our principal sources of funds have been capital contributions from our shareholders, shareholders' loans and bank loans. We plan primarily to use bank loans and proceeds from the Global Offering to finance our future capital expenditure. We do not anticipate any additional funding requirements to proceed from trial production to commercial production.

Expansion Plans

We plan to increase our Coal Reserves through a strategy of upgrading our Coal Resources to Coal Reserves within our concession area and acquiring coal resources in Inner Mongolia and throughout China. We have entered into a purchase option agreement with Mr. Zhang Li and Fuliang Coal Mining on 9 March 2012, pursuant to which we have a right to purchase an 85% equity interest in Guizhou Fuliang, which is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine, an anthracite coal mine in Bijie, Guizhou Province, China, with an expected annual production capacity of 600 thousand tonnes, through its wholly-owned subsidiary Guizhou Yangmei Longtai. We have the right to exercise the purchase option at any time after the Listing, so long as the purchase option agreement is not terminated and we have complied with all applicable requirements of the Listing Rules. For details, please refer to the section headed "Relationship with Controlling Shareholders — Competition — Excluded business — Guizhou project" in this prospectus.

BUSINESS

OUR STRENGTHS

We believe that the following strengths will enable us to develop a strong position in the PRC coal mining market:

Large Coal Reserve base that can be increased by upgrading our Coal Resources

Our Dafanpu Coal Mine is part of the Zhunge'er Coal Formation, which is located in the north-east of Zhunge'er County, Inner Mongolia. According to the Report, as of October 2011, we had Proven Coal Reserves and Probable Coal Reserves of approximately 201.2 million tonnes, which can support annual production of 5.0 million ROM tonnes of coal for over 40 years. Based on the Report, we expect our raw coal to have mid to high energy value and low sulphur content and expect mining conditions at the Dafanpu Coal Mine to be favourable with low gas and favourable geology. In addition, according to the Report, as of November 2010, our aggregate Coal Resources comprised 393.3 million tonnes of Measured Coal Resources and Indicated Coal Resources and 56.6 million tonnes of Inferred Coal Resources. With additional drilling and exploration activities, we expect to be able to upgrade these resources, and as a result, increase our Coal Reserve base, enabling capacity increase and mine life extension.

Highly efficient operations and strong ramp-up potential

We believe that our mining operations at the Dafanpu Coal Mine will be highly efficient due to favourable geological conditions, relatively thick coal seams, an ample supply of underground water onsite, the close proximity of water supply system and electric grid, advanced mining techniques such as longwall mining and longwall top coal caving and our fully mechanised process using advanced mining equipment.

In our Dafanpu Coal Mine, there are four mineable coal seams in the concession area. From top to bottom, they are the No. 5, No. 6^{upper}, No. 6 and No. 9 seams. We expect to mine these four coal seams in sequence and focus our mining operations on No. 6 seam, a single seam averaging 23m in thickness and mineable across the entire Dafanpu Coal Mine. We believe this seam is capable of producing coal with high energy value and low sulphur content and can be mined efficiently due to its thickness and stability. The lateral extensive and thick seams should allow us to mine for an extended duration before relocation of equipment is necessary. We plan to begin to mine the No. 6 seam in the fourth quarter of 2012.

The Dafanpu Coal Mine has an ample supply of water from the mine's underground aquifers and from the adjacent water supply system for domestic uses. The region in which our Dafanpu Coal Mine is located has a well-developed power industry with multiple coal-fired plants and a hydroelectric power station. The supplies of water and power will improve our operational efficiency and reduce the costs of procuring these resources. We intend to use advanced mining techniques, such as longwall top coal caving, and a fully mechanised process using advanced mining equipment for our operations.

We aim to achieve total coal production capacity of 5.0 million ROM tonnes of coal per year for the Dafanpu Coal Mine through a two-stage development plan. We initiated the first stage of the development plan in 2006 through our acquisition and consolidation of the Original Dafanpu Mine, the Original Yintai Mine and an adjacent mining block into the Dafanpu Coal Mine. We completed the construction of mining and coal washing facilities in December 2011 and commenced trial production at the Dafanpu Coal Mine in January 2012. Our current mining permit allows us to produce 2.4 million ROM

BUSINESS

tonnes of coal per year, which we expect to achieve on a pro-rata basis (exclusive of the trial production period) towards the end of the first year of production. We will commence commercial production after we pass certain safety and environmental inspections on its facilities and obtain the required production permits and safety production permits. To obtain such permits, we are required to arrange with the relevant governmental authorities to conduct certain safety and environmental protection inspections on our facilities before or during the trial production period. We plan to file applications to obtain permits required for commercial production in March 2012, after the equipment has been sufficiently run in, and systems are integrated and function smoothly. Commercial production is currently anticipated to commence within one to six months of trial production.

We have submitted an application to increase the production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year for the second stage of our development plan. The competent government authority is reviewing our application. We intend gradually to ramp up to full production capacity to the second stage target of 5.0 million ROM tonnes of coal per year by 2013. We aim to complete the second stage of development by 2013 through adding another working face, including employment of an additional longwall top coal caving unit, an additional road header and additional auxiliary equipment. Based on the Report, we believe that our development plan to ramp up the total coal production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year is reasonable and achievable in accordance with our projected schedule.

High level of operational safety

Our expected operational efficiency is complemented by our expected high level of operational safety, resulting from a combination of inherent geological features, stringent safety standards and supervision, and advanced mining techniques and equipment. The safety of coal mine operations is generally subject to five factors, including methane gas content, coal dust quantity, hydrogeological setting, roof and floor conditions and quality of equipment. According to the Report, the Dafanpu Coal Mine contains very low amounts of methane gas and is classified as a “Category I low gas mine” as defined by the Chinese Standard. The low gas content of the seam decreases the likelihood of methane explosions, which in turn will decrease the likelihood of coal dust explosions. In addition, the geological mining conditions are favourable. As there is no surface water in our mining area and the rock below the surface is less permeable, the rate of water flow in our Dafanpu Coal Mine is low. The roof and floor of the coal seams are solid. We plan to use equipment which meets or exceeds industry safety standards, such as hydraulic props, and advanced mining techniques such as longwall mining and longwall top coal caving. We also plan to implement advanced safety measures, such as the installation of an advanced monitoring system, to protect the safety of our workers and we have a supervisory team with extensive experience in the mining industry responsible for overseeing the safety of our personnel and operations.

Access to transportation networks and loading facilities

Although we will sell coal of lower economic value to local customers in Inner Mongolia, we plan to sell most of our coal products on the spot market in Qinhuangdao Port to take advantage of higher prices. Because of the scarcity of transportation capacity to Qinhuangdao Port and the inability of current rail and highway networks to meet the transportation demands of coal producers in Inner Mongolia, the spot price of coal in Qinhuangdao Port is significantly higher than prices for local transactions in Inner Mongolia.

BUSINESS

We have entered into a legally binding agreement with Shenhua Zhunge'er Resources to utilise the capacity of the Nanping Rail Line, to which Shenhua Zhunge'er Resources has the exclusive right of use, in exchange for our commitment not to mine certain areas along the Nanping Rail Line that runs across our concession area. Please refer to the section headed "Business — Properties — Land" in this prospectus. The joint construction and operation of Xiaojia Station with Shenhua Zhunge'er Resources will reinforce the mutual commercial understanding that Shenhua Zhunge'er Resources will allocate sufficient rail capacity for us to transport 5.0 million tonnes of coal per annum from Xiaojia Station, through associated rail spur lines connecting to the Nanping Rail Line, to Qinhuangdao, and ensure our access to the rail capacity of the Nanping Rail Line. We plan to use the majority of such rail capacity to transport our coal from the Dafanpu Coal Mine, and any surplus capacity to transport coal purchased from third parties.

The binding agreement with Shenhua Zhunge'er Resources does not provide for the specific amount of rail capacity to be committed to us, and we and Shenhua Zhunge'er Resources have not entered into a legally binding supplemental agreement to document our mutual understanding to commit to us rail capacity of 5.0 million tonnes of coal per annum. Please see the sections headed "Risk Factors — Risks Relating to Our Business — If reliable coal transportation capacity is unavailable or insufficient, our ability to supply coal to our customers may be impaired or affected" and "Business — Production Process — Loading and transportation" in this prospectus for further details. The Nanping Rail Line is adjacent to our coal washing plant.

The Nanping Rail Line is a branch rail line of the Datong-Zhunge'er Rail Line, which connects to Datong-Qinhuangdao Rail Line. Datong-Qinhuangdao Rail Line is one of the two primary eastbound rail lines designed for coal transport and connects Datong City in Shanxi Province, a major coal production centre and coal transportation hub, with Qinhuangdao. In the future, we may fill excess transportation capacity on the Nanping Rail Line through the purchase of coal at low prices from local third parties who are unable to access the Qinhuangdao market and sell such coal at higher prices on the Qinhuangdao market.

The Dafanpu Coal Mine is located close to our coal processing facilities, reducing the time and cost for processing mined raw coal. In addition, we and Shenhua Zhunge'er Resources, through Xiaojia JV, are jointly constructing Xiaojia Station, which is expected to have a handling capacity of 15.0 million tonnes per year by June 2012. Xiaojia Station is designed to connect to our stockpile near our processing facilities. It is located in our concession area and is adjacent to both our mining site and processing facilities and the Nanping Rail Line and will be one of a limited number of stations permitted on the Nanping Rail Line. We have a 45% equity interest in this loading station, which will enable us to meet our loading needs and to reduce third-party service provider costs. For more details on the joint venture arrangements, please refer to the section headed "Business — Facilities and Equipment — Loading station and associated rail spur lines" in this prospectus.

The Dafanpu Coal Mine is easily accessible by public roads. It is only six km southeast of National Highway No. 109, a national highway connecting to Beijing, allowing easy access to local power plants in Inner Mongolia and connection to the PRC highway network (including Provincial Highway S103, which connects Zhunge'er and Hohhot). National Highway No. 210, which connects Baotou and Nanning, is about 130 km west of our concession area.

Flexible selling and pricing strategy to adjust to changing market trends

As one of the few private company members of the CCTDA through Kinetic Coal, a national industry association of coal enterprises, we participate in annual government mandated meetings on the PRC coal market, allowing us to stay up-to-date with regard to pricing, market, transportation, demand, technology, safety and management trends. Through our CCTDA membership, we are also able to obtain the most current information relating to general trends in market demand from our target customer base of power plants in southern China and eastern China. With access to this information, we expect to be able to adjust our sales and pricing strategy in anticipation of rising or falling coal prices or demand. Additionally, we will be able to identify new industry trends in technology, safety and management and implement corresponding measures timely and effectively.

Under applicable PRC government policies and industry practice, state-owned coal suppliers are generally prevented from taking full advantage of the higher spot market prices available in recent years. State-owned coal suppliers are required by governmental authorities to sell the majority of their coal stock at lower state-controlled contract prices of thermal coal compared with spot prices to satisfy national coal consumption and ensure stable prices in downstream industries such as power generation. As a result, state-owned coal suppliers with information of future pricing and demand trends may only take advantage of rising spot prices with respect to the small portion of coal stock that they are able to sell without pricing constraints. In contrast, as a private company, we are able to take full advantage of spot market prices and the industry trend information to which we have access through our CCTDA membership.

We are also able to offer our coal products to a wide range of customers across China as a result of our access to national rail and highway networks. This allows us the option to sell our coal products to remotely located customers when pricing and demand conditions are favourable.

Diverse offering of quality products according to customers' specifications

We aim to provide a diverse offering of premium quality coal products to meet the varying specifications and requirements of our customers. Based on the Report, we expect our raw coal to have mid to high energy value and low sulphur content, and to be suitable for use in coal-fired power plants. We expect the extractable coal in the Dafanpu Coal Mine to have an average energy value of approximately 6,443 kCal or 26.98 MJ per kg on an air dried basis. We are developing and expanding our ability to provide a wide spectrum of coal products to our customers. We have completed the construction of a coal washing plant in our concession area, which will enable us to wash our raw coal and raw coal purchased from third parties to produce a range of coal products to meet the varying energy value requirements of our customers. On basis of the above, we expect to be able to provide coal products with various energy values, sulphur and ash content to our customers to meet their specific combustion and environmental needs.

Xiaojia Station, which is currently under construction, and our access to transportation networks will enhance further such advantage by making it possible to deliver and realise a higher selling price outside of Inner Mongolia. We are also in the process of establishing storage and blending facilities at

BUSINESS

Qinhuangdao Port, which will provide us with a secondary blending facility to blend coal purchased from third parties to meet the varying energy value requirements of our customers. For detailed information regarding our products, please refer to the section headed “Business — Coal Properties” in this prospectus.

Competence in identifying potential acquisition targets and consummating acquisition and consolidation in mining industry

In 2007, we acquired the Original Yintai Mine and Original Dafanpu Mine and received approval from the Department of Land and Resources of Inner Mongolia to consolidate the two mines and an adjacent mining block into the Dafanpu Coal Mine. Through this process, our management team acquired significant experience in mine consolidation, which we believe will enable it to better identify potential acquisition targets and consummate mine acquisitions and consolidations in a timely and cost efficient manner. Our management team also has experience in working with relevant government authorities to obtain approvals, licences and mining rights in our expansion efforts.

We have entered into a purchase option agreement with Mr. Zhang Li and Fuliang Coal Mining on 9 March 2012, pursuant to which we have a right to purchase an 85% equity interest in Guizhou Fuliang, which is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine, an anthracite coal mine in Bijie, Guizhou Province, China, with an expected annual production capacity of 600 thousand tonnes, through its wholly-owned subsidiary Guizhou Yangmei Longtai. The purchase option under the purchase option agreement can be exercised at a purchase price equal to the prevailing fair market value of Guizhou Fuliang as determined by one or more independent firm of international valuers in accordance with the purchase option agreement. Our Directors will consider various factors, including the status of the development of the Yangmei Longtai Coal Mine, our operational and development needs and our financial position at such time, in determining whether and when to exercise the purchase option. Under our current plans, we will only consider whether or not to exercise the purchase option after the mining permit in respect of the mining rights over the Yangmei Longtai Coal Mine is obtained. Our exercise of the purchase option, which will constitute a connected transaction, will be subject to the approval by our independent non-executive Directors and our compliance with the provisions of the Listing Rules (including Chapters 14, 14A and 18).

Yangmei Longtai Coal Mine is still in the early stages of development and construction has not yet commenced. Based on information made available to us and assuming no unforeseen changes, we expect (i) the relevant mining permit to be issued by June 2012 and the commencement of the construction of the basic infrastructure required for trial production to follow thereafter, (ii) trial production to begin at the Yangmei Longtai Coal Mine in the fourth quarter of 2013, and (iii) commercial production to begin at the Yangmei Longtai Coal Mine in the first half of 2014. For more details, please refer to section headed “Relationship with Controlling Shareholders — Competition — Excluded business — Guizhou project” in this prospectus.

Experienced senior management team

Our senior management has extensive experience in the coal and mining industry, with most members having over 15 years of experience in mining and exploration activities. In addition, they possess significant experience in financial management and operations. Members of our senior management have served in high-ranking posts of coal and mining related governmental and regulatory agencies, as head engineers for mines across China and are among the leading experts in various

BUSINESS

mining disciplines. Mr. Wang Changchun, our chief executive officer and an executive Director, has over 40 years of experience in the coal mining industry and has served as head of the General Office of the Ministry of Coal Industry* (煤炭工業部) and chairman and president of China National Coal Industry Import and Export Group Company* (中國煤炭工業進出口集團公司). Mr. Gu Jianhua, the general manager of our Group, has nearly 40 years of experience in the coal mining industry, having served as general manager of a company under the Ministry of Coal Industry in Qingdao, China. Mr. Gu is a member of various coal industry committees and associations and an author of numerous dissertations in relation to coal mining and production. Both Mr. Wang and Mr. Gu are coal mine operation and safety experts. Mr. Wang was the deputy director of the logistics service bureau of the SAWS and the SACMS. We believe that our management's substantial experience and knowledge in the mining industry will assist us in our goal of becoming a leading private-sector player in China's coal mining industry.

OUR STRATEGIES

We aim to become a leading private-sector, integrated coal provider in China through the following strategies:

Establish integrated coal supply chain

We seek to become an integrated coal provider with mining, processing, transportation and storage capabilities. We plan to establish an integrated coal supply chain. We have completed the construction of a coal washing plant with an annual feed capacity of 5.0 million tonnes in our concession area. We and Shenhua Zhunge'er Resources are jointly constructing Xiaojia Station, which is expected to have a handling capacity of 15.0 million tonnes per year by June 2012. We have a 45% equity interest in this loading station, which will enable us to meet our loading needs and to reduce third-party service provider costs. For more details on the joint venture arrangements, please refer to the section headed "Business — Facilities and Equipment — Loading station and associated rail spur lines" in this prospectus.

We have entered into a legally binding agreement with Shenhua Zhunge'er Resources to utilise the capacity of the Nanping Rail Line, to which Shenhua Zhunge'er Resources has the exclusive right of use, in exchange for our commitment not to mine certain areas along the Nanping Rail Line that runs across our concession area. Please refer to the section headed "Business — Properties — Land" in this prospectus. The joint construction and operation of Xiaojia Station with Shenhua Zhunge'er Resources will reinforce the mutual commercial understanding that Shenhua Zhunge'er Resources will allocate sufficient rail capacity for us to transport a total of 5.0 million tonnes of coal per annum from Xiaojia Station, through associated rail spur lines connecting to the Nanping Rail Line, to Qinhuangdao, and ensure our access to the rail capacity of the Nanping Rail Line. We plan to use the majority of such rail capacity to transport our coal from the Dafanpu Coal Mine, and any surplus capacity to transport coal purchased from third parties.

The binding agreement with Shenhua Zhunge'er Resources does not provide for the specific amount of rail capacity to be committed to us, and we and Shenhua Zhunge'er Resources have not entered into a legally binding supplemental agreement to document our mutual understanding to commit to us rail capacity of 5.0 million tonnes of coal per annum. Please see the sections headed "Risk

BUSINESS

Factors — Risks Relating to Our Business — If reliable coal transportation capacity is unavailable or insufficient, our ability to supply coal to our customers may be impaired or affected” and “Business — Production Process — Loading and transportation” in this prospectus for further details.

In addition, we are in the process of establishing a storage facility of 200,000 tonnes and a blending facility with a handling capacity of 5.0 million tonnes per year at Qinhuangdao Port. We intend to provide coal processing, loading, blending, storage and transportation services to third party mine operators. We also plan to engage in coal trading to diversify our revenue sources by sourcing coal from third-party mine operators and sell that coal to our customers after it is processed and blended through our integrated coal supply chain.

Acquire and consolidate coal mines

We plan to continue to acquire and consolidate coal mines into our operations as a core strategy to increase our coal resources and coal reserves. We have entered into a purchase option agreement with Mr. Zhang Li and Fuliang Coal Mining on 9 March 2012, pursuant to which we have a right to purchase an 85% equity interest in Guizhou Fuliang, which is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine, an anthracite coal mine in Bijie, Guizhou Province, China, with an expected annual production capacity of 600 thousand tonnes, through its wholly-owned subsidiary Guizhou Yangmei Longtai.

According to a report issued by GLSPI, a unit of the Department of Land and Resources of Guizhou Province, China, and confirmed by the Department of Land and Resource of Guizhou Province in 2009, based on GLSPI’s review of another report prepared by the GSI, the organisation that conducted site inspections and explorations of the Yangmei Longtai Coal Mine (including obtaining geological samples), Yangmei Longtai Coal Mine had estimated coal resources of approximately 66.06 million tonnes based on a resource/reserve classification system established by the MLR. Please refer to the section headed “Forward-Looking Statements — Cautionary Note to Investors regarding Mining Reserves and Resources Data” in this prospectus.

We have the right to exercise the purchase option at any time after the Listing so long as the purchase option agreement is not terminated and we have complied with all applicable requirements of the Listing Rules. For details of the terms of the purchase option agreement, please refer to the section headed “Relationship with Controlling Shareholders — Competition — Excluded business — Guizhou project” in this prospectus.

We plan to leverage our management’s prior experience and proven track record in our industry and our technological and capital resources to search for other suitable acquisition targets. We have had discussions with potential acquisition targets in line with our current location and overall business strategy, and we may continue to strategically pursue consolidation and expansion opportunities.

Maintain a flexible sales and marketing strategy

We intend to retain flexibility in our selling and marketing strategy to adjust to changing market trends. We plan to allocate our product supply among sales customers in local regions and customers in other parts of China through the Qinhuangdao spot market and adjust our sales and marketing

BUSINESS

strategy optimally using up-to-date market information accessed from our membership in the CCTDA. Additionally, we also seek to sign letters of intent or long-term supply contracts with certain customers to ensure stability of our sales in weak spot market conditions and develop and maintain relationships with these customers to our benefit. We are also in the process of establishing storage and blending facilities at Qinhuangdao Port, which will provide us with a secondary blending facility to blend coal purchased from third parties to meet the varying energy value requirements of our customers.

Maintain environmentally friendly operations and improve worker health and safety

We plan to complement and support our mining operations with environmentally friendly initiatives and a focus on the protection and safety of our workers. We have established a department responsible for environmental, health and safety matters, which coordinates environmental impact assessments, occupational disease and hazards assessments, testing, ecology and rehabilitation projects, among others. This department will formulate appropriate manuals, policies and standards to improve our mining facilities and working environment. We provide safety training on a regularly basis for all of our mining employees and workers, and implement a clear set of safety rules for our operations. We will also ensure that our mining and production process is supervised by qualified individuals to help ensure compliance with safety standards.

Adopt effective financial management and investment practices

We intend to build and maintain our financial and capital strength and soundness through careful management of key financial and operational measures, such as capital expenditures, cash flows and costs of production. We plan to optimise our capital structure to efficiently fund our expansion and capital expenditures. Additionally, we plan to strengthen our financial management capabilities and internal controls by implementing a fully integrated information management system to streamline our operations and information sharing and recruiting additional qualified financial and accounting personnel.

OVERVIEW OF OUR DAFANPU COAL MINE

According to the Report, as of November 2010, our Dafanpu Coal Mine had JORC-compliant Coal Resources of approximately 449.9 million tonnes, comprising 145.6 million tonnes of Measured Coal Resources, 247.7 million tonnes of Indicated Coal Resources and 56.6 million tonnes of Inferred Coal Resources. There were no material changes made to the JORC Resource Estimates from November 2010 to October 2011.

BUSINESS

According to the Report, as of October 2011, the estimated JORC-compliant Coal Reserves of the Dafanpu Coal Mine were approximately 201.2 million tonnes. The following tables summarise Dafanpu Coal Mine's Coal Reserves under the JORC Code as of October 2011:

JORC-Compliant Coal Reserves ⁽¹⁾							
	Proven	Probable	Total Reserves	Specific Energy	Total Sulphur	Ash	Moisture
	(in million tonnes)			MJ/kg ⁽²⁾ (ad)	% (ad)	% (ad)	% (ad)
Lump coal	15.8	31.3	47.1	23.19	0.68	23.28	4.74
Fine coal ⁽³⁾	51.4	102.7	154.1	28.15	0.63	9.91	4.87
Total/Average . .	67.2	134.0	201.2	26.98	0.64	13.05	4.84

Notes:

- (1) All tonnes reported at 7% product moisture.
- (2) 1 MJ/kg equals to approximately 238.8 kCal/kg.
- (3) Fine Coal Reserves are presented on a post-wash basis.

Our Mining Rights

Mine method:	Underground mining (mechanised longwall and mechanised longwall top coal caving)
Minefield area:	9.6108 km ²
Validation:	23 November 2009 to 23 November 2039, further renewable
Product:	Long flame coal, suitable for use as steaming and civil thermal coal

Capacity and Construction Schedule

	Capacity	Commencement Date
	million tonnes per year	
Coal mine — Stage I	2.4 ⁽¹⁾	January 2012
— Stage II	5 ⁽¹⁾	by 2013
Coal washing plant	5 ⁽²⁾	March 2012
Xiaojia Station	15 ⁽³⁾	by June 2012
Qinhuangdao storage and blending facilities .	5 ⁽³⁾	by June 2012

Notes:

- (1) Represents production capacity.
- (2) Represents feed capacity.
- (3) Represents handling capacity.

DETAILS OF THE DEVELOPMENT OF OUR DAFANPU COAL MINE AND OTHER MAJOR FACILITIES

At our Dafanpu Coal Mine, we have constructed shafts, a conveyor system and a coal washing plant, and are constructing a loading station and associated rail spur lines. We are also in the process of establishing storage and blending facilities in Qinhuangdao. The following table sets forth the development status and estimated timeline for the construction of our major facilities as of the Latest Practicable Date:

Facilities	Capacity Million tonnes per year	Required permits/ approvals	Development status	Expected timeline	Capital expenditure		
					Budgeted	Incurred ⁽⁴⁾	Estimated to be incurred
(RMB in million)							
Shafts and conveyor system							
Stage 1: Achieve Annual Production Capacity of 2.4 Million ROM Tonnes	2.4 ⁽¹⁾	• Production permit; • Safety production permit	• Obtained mining permit for annual production capacity of 2.4 million ROM tonnes; • Completed construction; • Completed equipment testing; • Commenced trial production	• Pass various inspections, including but not limited to safety and environmental protection inspections; • Obtain production permit and safety production permit; • Commence commercial production	778	481	• 257⁽⁵⁾ in 2012; • 40⁽⁵⁾ in 2013.
Stage 2: Achieve Annual Production Capacity of 5.0 Million ROM Tonnes	5.0 ⁽¹⁾	• Mining permit	• Applied to increase our annual production capacity to 5.0 million ROM tonnes; • Our application has been accepted by the Coal Industry Bureau of Zhunge'er Banner (准格爾旗煤炭工業管理局) and referred to the Coal Industry Bureau of Inner Mongolia (內蒙古自治區煤炭工業管理局) for review and approval	• Commence construction for the second stage of development; • Obtain the new mining permit for 5.0 million ROM tonnes production capacity; • Commence commercial production with increased annual production capacity of 5.0 million ROM tonnes	200	—	• 180 in 2012; • 20 in 2013.

BUSINESS

Facilities	Capacity Million tonnes per year	Required permits/ approvals	Development status	Expected timeline	Capital expenditure		
					Budgeted	Incurred ⁽⁴⁾	Estimated to be incurred
<i>Coal washing plant</i>	5.0 ⁽²⁾	Inspection for completion of construction	- Completed the initial stage construction; - Completed installation of auxiliary equipment; - Completed equipment testing	- Pass necessary inspections; - Commence operation	220	97	112 ⁽⁵⁾ in 2012; 11 ⁽⁵⁾ in 2013.
<i>Loading station and associated rail spur lines</i>	15.0 ⁽³⁾	- Project approval from local branches of the Ministry of Railways and NDRC; - Approval from environmental protection authority; - Inspection for the completion of construction	Established Xiaojia JV	- Complete the construction of rail spur lines; - Install equipment; - Complete equipment testing; - Obtain necessary approvals; - Pass necessary inspections; - Commence operation	43	24	19 in 2012.
<i>Qinhuangdao storage and blending facilities</i>	5.0 ⁽³⁾	Coal sales and trading permit	- Established Kinetic Qinhuangdao; - Entered into a lease for offices to be used as the office space for our trading centre and a lease for a parcel of land to be used as the site for storage and blending facilities	- Obtain coal sales and trading permit; - Commence operation	5	—	5 in 2012.

Notes:

- (1) Represents production capacity.
- (2) Represents feed capacity.
- (3) Represents handling capacity.
- (4) Represents the capital expenditures incurred up to 31 December 2011.
- (5) Although the construction of these facilities were completed by the end of 2011, we will continue to incur capital expenditure in 2012 and 2013 as certain payment obligations under the relevant contracts will not be due until 2012 or 2013.

The following timetable sets out the dates when we anticipate completing the steps necessary to commence commercial production at the Dafanpu Coal Mine at (i) an annual production capacity of 2.4 million ROM tonnes; and (ii) an annual production capacity of 5.0 million ROM tonnes:

Shafts and Conveyor System		
Stage 1: Annual production capacity of 2.4 million ROM tonnes	January 2012 – Commenced trial production	- First Half 2012 – Pass various inspections, including construction completion, safety and quality inspections - First Half 2012 – Obtain production permit and safety production permit - First Half 2012 – Commence commercial production
		Stage 2: Annual production capacity of 5.0 million ROM tonnes
		July 2012 – Commence construction for the second stage of development
		- First Quarter 2013 – Obtain the new mining permit for 5.0 million ROM tonnes production capacity - First Quarter 2013 – Commence commercial production with increased annual production capacity of 5.0 million ROM tonnes
Coal Washing Plant		
	- March 2012 – Pass necessary inspections - March 2012 – Commence operation	
Loading Station and Associated Rail Spur Lines		
	- June 2012 – Complete the construction of rail spur lines - June 2012 – Install equipment - June 2012 – Complete equipment testing - June 2012 – Obtain necessary approvals - June 2012 – Pass necessary inspections - June 2012 – Commence operation	
Qinhuangdao Blending and Trading Facilities		
	- First Quarter 2012 – Obtain coal sales and trading permit - June 2012 – Commence operation	
2011	2012	2013

BUSINESS

Based upon our current development plan and subject to timely completion of all requisite steps leading to our mining operations, we intend to utilise fully our estimated production capacity to achieve an expected production volume of 2.4 million ROM tonnes of coal in 2012 and 5.0 million ROM tonnes of coal in 2013.

For further details, please refer to the section headed “Business — Facilities and Equipment” in this prospectus. As advised by our PRC legal advisers, Jingtian & Gongcheng, there is no material legal impediment for us to obtain the production permit and the safety production permit once we pass all requisite inspections and there is no material legal impediment for us to obtain the relevant prior approvals and the new mining permit to increase our annual production capacity to 5.0 million ROM tonnes. Our Directors are of the view that we will not have any practical difficulty in obtaining those permits.

MINING RIGHTS

Upon obtaining the mining rights to the Original Dafanpu Mine and the Original Yintai Mine, Kinetic Coal submitted an application to the relevant PRC authorities to consolidate the two mines. On 21 November 2007, the Department of Land and Resources of Inner Mongolia granted to Kinetic Coal a mining licence for two years for the mining concession area which incorporated the mining concession areas for the Original Dafanpu Mine, the Original Yintai Mine and an adjacent mining block which was originally held by the government, indicating the completion of the consolidation process and the establishment of the Dafanpu Coal Mine. Kinetic Coal successfully obtained an extension of the duration of our mining rights to the Dafanpu Coal Mine up to 2039 on 31 August 2009 with the issuance of a mining licence and a new mining licence was further issued on 9 May 2011. The mining rights are renewable upon application with the relevant PRC authorities prior to their expiration.

Our current mining permit allows us to produce 2.4 million ROM tonnes of coal per year, which we expect to achieve on a pro-rata basis (exclusive of the trial production period) towards the end of the first year of production. As advised by our PRC legal advisers, Jingtian & Gongcheng, such mining permit allows us to explore and extract underground coal at the Dafanpu Coal Mine, even though we do not hold the land use rights for the surface land of the mining concession area.

We will commence commercial production after we pass certain safety and environmental inspections on our facilities and obtain the required production permits and safety production permits. To obtain such permits, we are required to arrange with the relevant governmental authorities to conduct certain safety and environmental protection inspections on our facilities before or during the trial production period. We plan to file applications to obtain permits required for commercial production in March 2012, after the equipment has been sufficiently run in, and systems are integrated and function smoothly. Commercial production is currently anticipated to commence within one to six months of trial production.

We have submitted an application to increase the production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year for the second stage of our development plan. The competent government authority is reviewing our application. We intend gradually to ramp up to full production capacity to the second stage target of 5.0 million ROM tonnes of coal per year by 2013. According to the

BUSINESS

Report, our development plan to ramp up the total coal production capacity of the Dafanpu Coal Mine to 5.0 million ROM tonnes of coal per year is reasonable and achievable in accordance with our projected schedule.

The following table sets forth a summary of our mining licence as of the Latest Practicable Date:

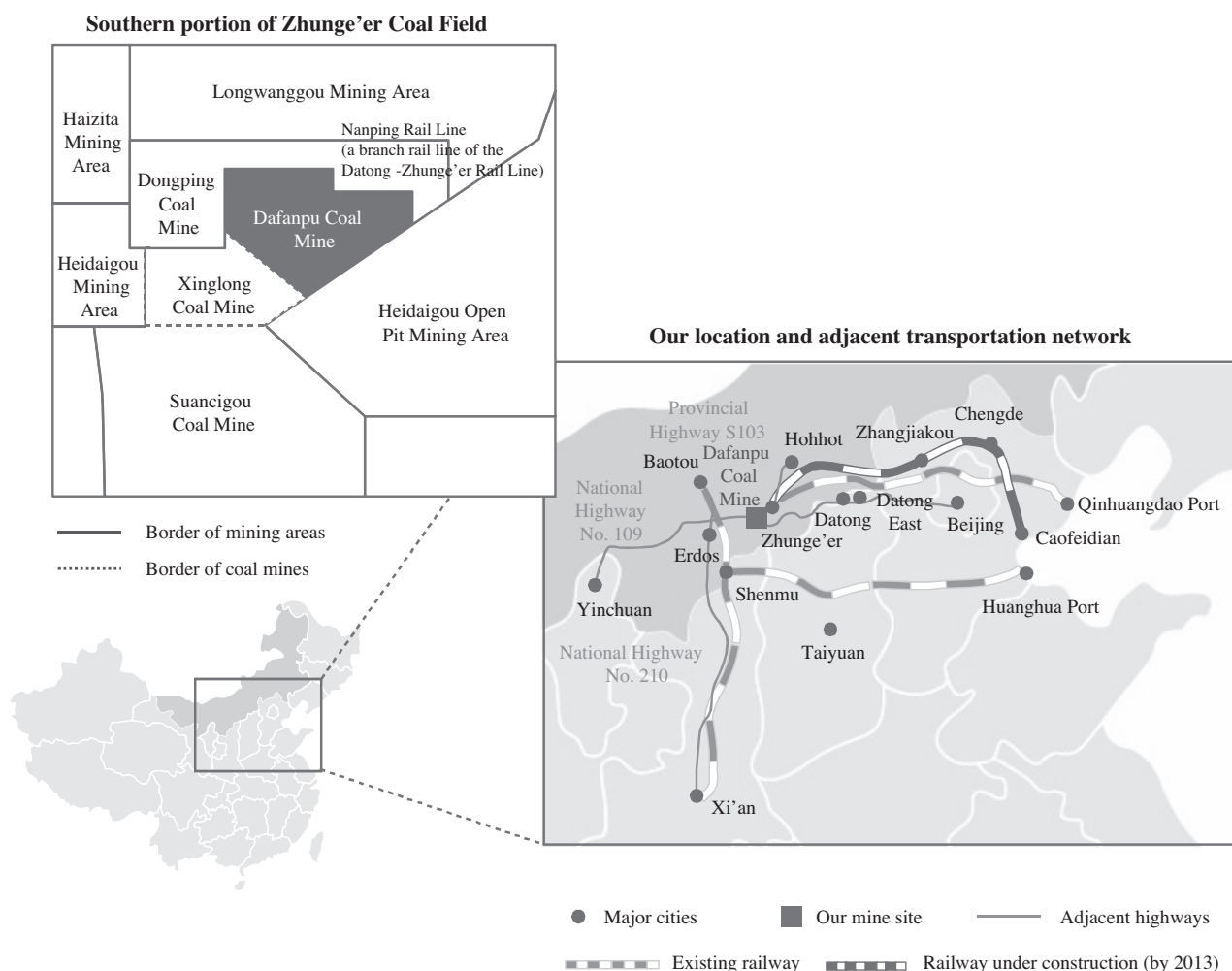
Location	Area	Production Rate ⁽¹⁾	Registered Holder	Licence Number	Licence Expiration Date
Zhunge'er Banner Erdos City, Inner Mongolia, China	9.6108 km ²	2.4 million tonnes per year	Kinetic Coal	C1000002009081120035462	23 November 2039

Note:

(1) As advised by Runge Asia Limited, in respect of the Dafanpu Coal Mine, the depletion rate is equivalent to production rate.

LOCATION AND INFRASTRUCTURE

The following map details the location of our mining operations:



BUSINESS

Our mining concession area of approximately 9.6 km² is located in Zhunge'er Banner, Erdos City, Inner Mongolia, China. The closest regional centre is Xuejiawan Town, which is 13 km northeast of our concession area. Our mining concession area lies within the triangular area defined by the Longwanggou Detailed Exploration Area, the Heidaigou Exploration Area and the Haizita Detailed Exploration Area, in the southern portion of Zhunge'er Coal Field.

Our mine is accessible by both railway and public roads. The Nanping Rail Line runs through our mining concession area and is adjacent to our coal washing plant. The Nanping Rail Line is a branch rail line of the Datong-Zhunge'er Rail Line, which connects to the national rail system's Datong-Qinhuangdao Rail Line. Datong-Qinhuangdao Rail Line is one of the two primary eastbound rail lines designated for coal transport, between Datong, Shanxi Province, a major coal production centre, and Qinhuangdao, Hebei Province, one of the major coal markets in China and the site of China's largest coal transshipment port. Additionally, National Highway No. 109, which connects Beijing and Lhasa, is six km northwest of our concession area. National Highway No. 109 connects to the Provincial Highway S103 between Zhunge'er and Hohhot, allowing ease of access to local power plants in Inner Mongolia and the PRC highway network for land transport. In addition, the National Highway No. 210, which connects Baotou and Nanning, is about 130 km west of our project site.

COAL RESOURCES AND COAL RESERVES

According to the Report, as of November 2010, our Dafanpu Coal Mine had JORC-compliant Coal Resources of approximately 449.9 million tonnes, comprising 145.6 million tonnes of Measured Coal Resources, 247.7 million tonnes of Indicated Coal Resources and 56.6 million tonnes of Inferred Coal Resources, and as of October 2011, our Dafanpu Coal Mine had JORC-compliant Coal Reserves of approximately 201.2 million tonnes, comprising 67.2 million tonnes of Proven Coal Reserves and 134.0 million tonnes of Probable Coal Reserves. Approximately 23.4% of the Coal Reserves (or 47.1 million tonnes of the Coal Reserves) is expected to be lump coal, a type of coal that does not need to be washed and can be sold after a simple separation screen. The remaining 76.6% of the Coal Reserves (or 154.1 million tonnes of the Coal Reserves) is expected to be fine coal, which is a post-wash saleable product. The volume of fine Coal Reserves is estimated by taking appropriate washability yields of raw coal into consideration. The estimated washability yields range from 71% to 84%.

BUSINESS

The following tables set out the estimated Coal Resources as of November 2010 and the estimated Coal Reserves as of October 2011 contained within the Dafanpu Coal Mine:

Coal Resources as of November 2010

Coal Seam	Measured ⁽¹⁾	Indicated ⁽²⁾	Inferred ⁽³⁾	Total
	(Mt)	(Mt)	(Mt)	(Mt)
5	10.7	23.7	1.3	35.7
6 ^{Upper}	10.4	13.7	11.6	35.7
6 (6L ₁ + 6L ₂)	124.5	201.7	28.1	354.3
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	<u>145.6</u>	<u>247.7</u>	<u>56.6</u>	<u>449.9</u>

Coal Reserves⁽⁴⁾ as of October 2011

Coal Seam	Proven Coal Reserves ⁽⁵⁾	Probable Coal Reserves ⁽⁶⁾	Total Coal Reserves
	(Mt)	(Mt)	(Mt)
5	6.2	10.7	16.9
6 ^{Upper}	6.7	9.4	16.1
6 (6L ₁ + 6L ₂)	<u>54.3</u>	<u>113.8</u>	<u>168.2</u>
Total	<u>67.2</u>	<u>134.0</u>	<u>201.2</u>

Notes:

- (1) Please refer to the section headed "Glossary of Technical Terms" in this prospectus for the definition of "Measured Coal Resource".
- (2) Please refer to the section headed "Glossary of Technical Terms" in this prospectus for the definition of "Indicated Coal Resource".
- (3) Please refer to the section headed "Glossary of Technical Terms" in this prospectus for the definition of "Inferred Coal Resource".
- (4) Estimated Measured Coal Resource and Indicated Coal Resource were converted to Proven Coal Reserve and/or Probable Coal Reserve based on Coal Resource classification and operational considerations.
- (5) Please refer to the section headed "Glossary of Technical Terms" in this prospectus for the definition of "Proven Coal Reserve".
- (6) Please refer to the section headed "Glossary of Technical Terms" in this prospectus for the definition of "Probable Coal Reserve".

BUSINESS

In the Dafanpu Coal Mine, there are four mineable coal seams in the concession area. From top to bottom, they are No. 5, No. 6^{upper}, No. 6 and No. 9 seams. No. 6 seam is the thickest coal seam and will be the focus of our mining operation.

Coal Seam	Average Seam Thickness	Reliability	Stability	Mineable
5.	2.1 metres	Reliable	Relatively Stable	Mostly
6 ^{upper}	2.0 metres	Reliable	Relatively Stable	Mostly
6.	23.0 metres	Reliable	Relatively Stable	Wholly
9.	1.19 metres	Reliable	Not Stable	Regionally

We commenced trial production at the Dafanpu Coal Mine through underground mining of seam No. 5 in January 2012 with an initial production capacity of 2.4 million ROM tonnes of coal per year. The mining of the seams will be in sequential order from the top seam to bottom seam. No. 5 and No. 6^{upper} seams are thinner and have less production value than No. 6 seam. We expect to commence mining of No. 6 seam in 2012 and gradually increase our production capacity to 5.0 million ROM tonnes of coal per year by 2013. We plan to apply for necessary approvals, licences and permits after the commencement of trial production to increase our maximum production capacity to 5.0 million tonnes per year. The mining life is expected to be approximately 80 years based on annual production capacity of 2.4 million ROM tonnes of coal or over 40 years based on annual production capacity of 5.0 million ROM tonnes of coal.

COAL PROPERTIES

According to the Report, the raw coal from our Dafanpu Coal Mine is partly non-caking and longflame coal, which is most suited for use as steaming coal and for thermal purposes. With coal crushing and sizing facilities in our coal washing plant, we plan to sell our products as lump coal, fine coal, slimes or rejects. We expect that raw coal from our Dafanpu Coal Mine will have a mid to high energy value and low sulphur content.

Energy value

The energy value of coal is commonly measured in kCal or MJ per kg of coal. A kilocalorie is the amount of energy required to raise the temperature of one kg of water by one degree Celsius. Lump coal is not required to be washed and is sold as a raw product, while fine coal is washed and sold as a clean product. Based on the Report, we expect the lump coal from our Dafanpu Coal Mine to have an average energy value of approximately 5,539 kCal/kg on an air dried basis, the washed fine coal to have an average energy value of approximately 6,722 kCal/kg on an air dried basis and the combined weighted average energy value of both products to be 6,443 kCal/kg on an air dried basis.

Sulphur content

Sulphur content can vary from seam to seam and within each seam itself. When coal is burned, it produces carbon dioxide, nitrogen oxide and sulphur dioxide, the amount of which varies depending on the chemical composition and the concentration of sulphur in the coal. Sulphur dioxide is a pollutant and the amount of sulphur dioxide that power generators in the PRC may emit is regulated by the MEP. The

BUSINESS

sulphur content of the coal seams of the deposit in our Dafanpu Coal Mine is consistently low, with recoverable Coal Reserves having an average sulphur content of 0.64%. According to GB/T 15224.2-2004, the national classification for coal quality, the sulphur content of our Dafanpu Coal Mine is classified as “low”.

Ash content

Ash is the inorganic residue remaining after the combustion of coal. As with sulphur content, ash content varies across coal seams. High concentrations of ash negatively affect profits by raising costs such as the transport cost per tonne of coal. Power plants using coal must handle and dispose of ash following combustion. The average product ash content (ad) reported in the Coal Reserves was estimated at 13.05%. This final product includes weighted average of lump coal (raw) and a washed fine coal product.

Moisture content

The moisture content of coal varies by the type of coal, the region where it is mined and the location of coal within a seam. In general, high moisture content causes the energy value per kg of coal to decrease. Moisture content in coal is variable and typically ranges from approximately 6% to 9% of the coal’s weight. The coal seams of the Dafanpu Coal Mine are all moderately low in moisture. The average moisture content (ad) reported in the Coal Reserves was estimated at 4.84% on raw coal basis. All Coal Reserve tonnes have been reported on a 7% product moisture basis.

Others

Tests have shown that the seams in our proposed mine area contain very low residual gas comprising mainly nitrogen, carbon dioxide and some methane gas. These results classify the proposed underground mine as a “Category I low gas mine” as defined by the Chinese Standard.

Coal from the Dafanpu Coal Mine has exhibited a moderate propensity for spontaneous combustion. However, incidents of spontaneous combustion have not been identified as occurring in adjacent mines. To avoid spontaneous combustion, we have placed vigilance on monitoring of all gas detection sites, ventilation monitoring points and structural integrity of mine shafts and pillars for cracks and deterioration, particularly in areas of high-velocity ventilation. We have also implemented measures to keep mine shafts, particularly those associated with our conveyor systems, and mine floors clear of loose or built up coal.

PRODUCTION PROCESS

Mining area

The underground mining area will be divided into a northern and southern mining district, as defined by a dividing line through the underground bin of the main roadway. The area to the north will be referred to as the No. 1 Mining District and the area to the south will be referred to as the No. 2 Mining District. From a pit bottom facility, a system of three main headings will be developed to provide access to the

longwall gate roads, the coal haulage conveyor, mine employees and materials and to provide ventilation. The belt, rail, and ventilation headings are separately deployed in No. 5, No. 6^{upper} and No. 6 coal seams. The set of three main headings are being planned to access all areas of No. 1 Mining District. Longwall panels will run off the main headings through link roadways to access all coal seams.

Coal mining

In the Dafanpu Coal Mine, there are four mineable coal seams. From top to bottom, they are the Nos. 5, 6^{upper}, 6, and 9 seams. The mining of the seams will be in sequential order from top seam to bottom seam. We expect coal to be mined from the Dafanpu Coal Mine in one pit, using underground mining methods. We plan to use two different techniques: longwall mining and longwall top coal caving. Longwall mining and longwall top coal caving methods generally use mechanised hydraulic roof supports (shields) and a shearer to mine the coal. We will use road header units to extract coal from the development roadways.

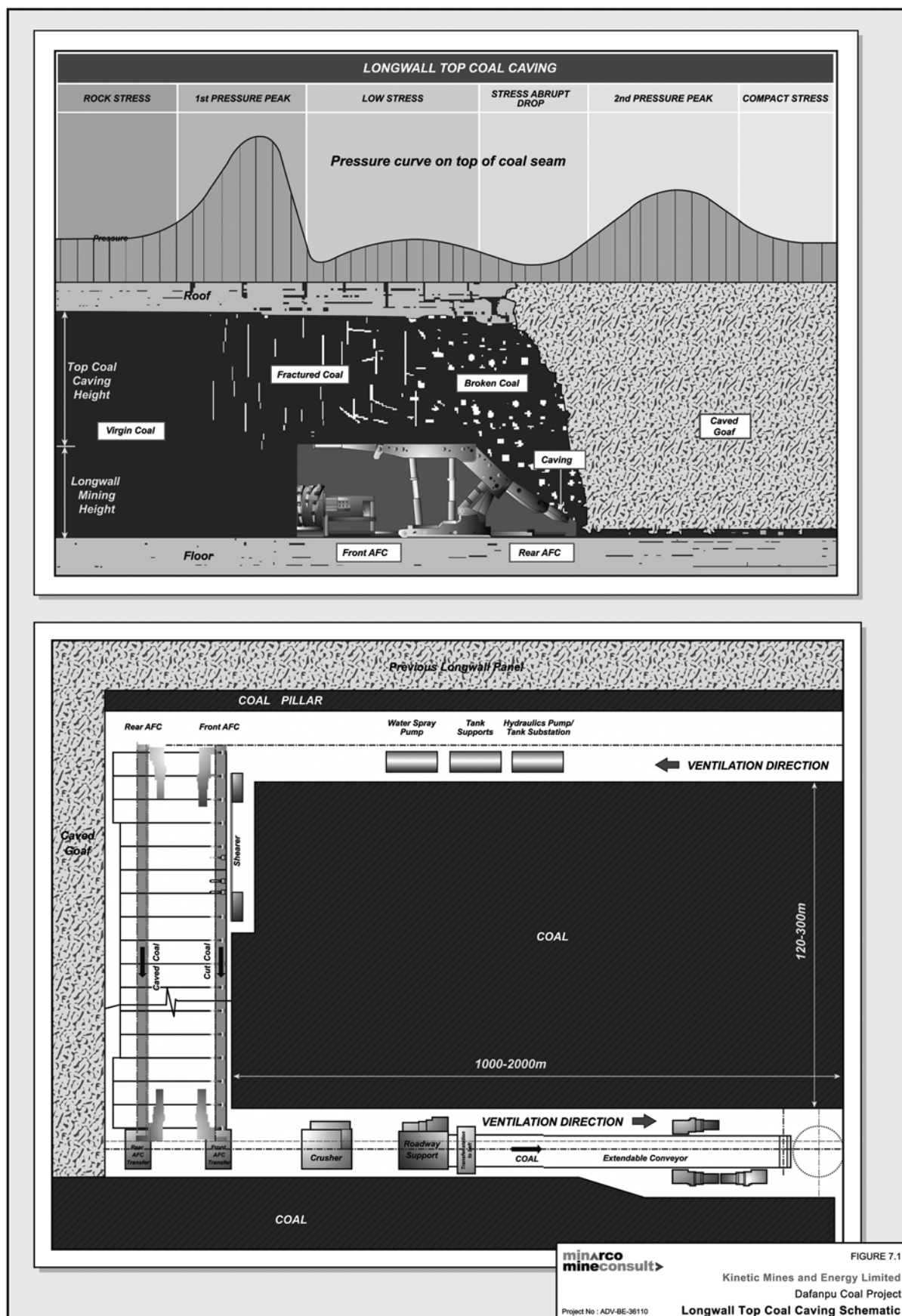
The specific mining technique or combination of techniques chosen is dependent on the particular geological conditions of the seams. The longwall mining method is suitable for the No. 5 and No. 6^{upper} seams. To achieve a production capacity of 5.0 million ROM tonnes of coal per year, we plan to utilise two longwall systems with six development units from the top seam working down to the bottom seam. The longwall top coal caving mining method is suitable for parts of the No. 6 seam. Due to the nature of the main No. 6 seam, it will be mined in two passes.

Longwall mining

A longwall mining system is a high production mining method which utilises a shearer to cut coal across a mining face. Longwall faces can vary from 30 to 400 metres in width and one to five metres in height. In longwall mining, rotating cutting drums are dragged mechanically across the face of the coal seam to cut or “shear” the coal, which is subsequently loaded onto a chain conveyor. During the shearing process, the roof of the mine is supported by a system of hydraulic powered roof supports (shields). Chain conveyors haul the mined coal to an underground mine conveyor system for transport to the surface.

Longwall top coal caving

Longwall top coal caving is a special type of longwall mining utilised in seams with a thickness greater than five metres where good quality coal is otherwise sterilised because of height constraints and limits imposed on conventional longwall equipment, which is generally limited to a mining height of five metres. The lower section of the seam is cut by a conventional shearer/longwall, except that the longwall supports have a longer rear canopy extending into the void that is left as the face retreats. The extended canopies have a retractable sliding door fitted into them. An additional chain conveyor is attached to the rear of the chocks and runs directly below the canopy openings. As the face line retreats, the coal left above the section cut by the shearer falls onto the extended canopies, providing the goaf is caving normally. The sliding doors in the canopies are sequentially opened, and the coal falls through onto the rear trailing chain conveyor. The maingate beam stage loader is extended beyond the face conveyor to enable the rear chain conveyor to discharge coal directly onto it and carry coal to the maingate conveyor system.



BUSINESS

Coal handling and stockpiling

We plan to transport coal from the working faces underground via a network of conveyors leading to a main inclined drift conveyor. The network of conveyors will be used to remove coal from the working faces in the gate roads and development districts, which are then delivered to the surface stockpile.

Coal processing and blending

From the mine, a surface conveyor belt will transport the coal to our coal screening plant, where it will be screened and split into lump coal and fine coal. The lump coal will be directed to the lump coal stockpile and sold as a raw unwashed product and the fine coal will be washed. Both lump coal and fine coal can be used as thermal coal. The coal washing plant separates impurities from coal, which improves the quality and energy value of the coal. Processing requires additional expense and results in loss of some coal, but higher sales prices can be sought for the processed coal product.

Additionally, coal of varying energy value, sulphur and ash content from the Dafanpu Coal Mine and coal mines of third parties can be mixed or “blended” at our coal washing plant in our concession area to meet the specific combustion and environmental needs of customers. Coal blending helps increase profitability by reducing the cost of meeting the quality requirements of specific customer contracts, thereby optimising contract revenue.

Loading and transportation

We expect our lump coal and fine coal to be transported by railway to the market in Qinhuangdao after the construction of Xiaojia Station is completed by June 2012, whilst slimes and rejects will be sold locally in Inner Mongolia. After processing, we plan to load coal onto rail cars at Xiaojia Station, our planned automated, high-speed loading station connecting our mine with the rail line. After loading, we plan to dispatch the rail cars from the Dafanpu Coal Mine along the Nanping Rail Line for further transportation via the Datong-Zhunge'er Rail Line. The Datong-Zhunge'er Rail Line connects to the Datong-Qinhuangdao Rail Line of the national rail system at Datong, which is one of the two primary eastbound rail lines designated for coal transport.

We have entered into an agreement with Shenhua Zhunge'er Resources to utilise the capacity of the Nanping Rail Line, to which Shenhua Zhunge'er Resources has the exclusive right of use, in exchange for our commitment not to mine certain areas along the Nanping Rail Line that runs across our concession area. Please refer to the section headed “Business — Properties — Land” in this prospectus. As advised by our PRC legal advisers, Jingtian & Gongcheng, the agreement is legally binding. We will be charged a railway transportation cost of RMB139 per tonne to transport our coal from Zhunge'er Banner to Qinhuangdao. The railway transportation cost is calculated at a rate fixed by relevant government authorities and may be adjusted according to the government rate as modified from time to time. The cost for transportation from Zhunge'er Banner to Datong will be charged by Xiaojia JV, and that from Datong to Qinhuangdao will be collected by Xiaojia JV and paid onwards to state-owned railway transportation enterprises.

The joint construction and operation of Xiaojia Station with Shenhua Zhunge'er Resources will reinforce the mutual commercial understanding that Shenhua Zhunge'er Resources will allocate

BUSINESS

sufficient rail capacity for us to transport a total of 5.0 million tonnes of coal per annum from Xiaojia Station, through associated rail spur lines connecting to the Nanping Rail Line, to Qinhuangdao, and ensure our access to the rail capacity of the Nanping Rail Line. We plan to use the majority of such rail capacity to transport our coal from the Dafanpu Coal Mine, and any surplus capacity to transport coal purchased from third parties.

The binding agreement with Shenhua Zhunge'er Resources does not provide for the specific amount of rail capacity to be committed to us, and we and Shenhua Zhunge'er Resources have not entered into a legally binding supplemental agreement to document our mutual understanding to commit to us rail capacity of 5.0 million tonnes of coal per annum. In addition, as advised by our PRC legal advisers, Jingtian & Gongcheng, unless a legally binding supplemental agreement is entered into, we will not be entitled to any remedies or compensation under PRC law in the event that Shenhua Zhunge'er Resources fails to allocate sufficient rail capacity to us. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — If reliable coal transportation capacity is unavailable or insufficient, our ability to supply coal to our customers may be impaired or affected" in this prospectus.

In addition, the capacity of the Datong-Zhunge'er Rail Line is expected to be expanded by 2013 and Shenhua Zhunge'er Resources has assured us that it will provide us with access to the expanded capacity of Datong-Zhunge'er Rail Line. We expect that such arrangement will be able to meet or exceed our coal transport needs of 5.0 million tonnes per year in the foreseeable future. The excess rail-line capacity can also be used to transport coal purchased from third parties. Please refer to the section headed "Business — Location and Infrastructure" in this prospectus for details on the location and nearby transportation infrastructure of the Dafanpu Coal Mine.

FACILITIES AND EQUIPMENT

Industrial yard

Our shaft exits and coal washing plant are situated in this industrial yard in the Majiata Area, which is located in the southern coal field of the Dafanpu Coal Mine. A narrow-gauge railway and an auxiliary road will be the main methods of transportation within the industrial yard. A rail spur line connecting to the Nanping Rail Line will be built for the transportation of our coal products. We commenced trial production at the Dafanpu Coal Mine in January 2012.

Shafts and conveyor system

We have completed construction of three shafts, including the main inclined shaft, a supplementary inclined shaft and a ventilation shaft, as well as a conveyor system. The main inclined shaft serves as the sole means of conveying coal to the surface and also serves as an air intake. The supplementary inclined shaft is used for delivering supplies and equipment and transporting workers. The transportation underground is via a rail heading system located in both mining districts. Rail haulage within the inclined shaft is used for transporting workers, materials, equipment, waste rock and other items between the surface and the main underground level. The supplementary inclined shaft serves all the mineable coal seams. The ventilation shaft serves as the return air shaft for the mine while the main and supplementary shafts, serves as intakes. We uses a 1.2 metres wide conveyor to transport coal from the working face

BUSINESS

to an underground coal storage bin with 2,000 tonnes capacity and then uses a 1.4 metres wide enforced conveyor to bring coal to the surface. The pit bottom area is located at the base of the inclined shafts and contains the underground coal storage bin, the pumping station, substations and other associated infrastructure and services.

Underground mine water drainage system and pumping

We place the water drainage pipe in the supplementary inclined shaft. The mine water collection systems comprises a mix of ditches, collection pumps, local (mobile) pumps and stationary pumping facilities. The typical water discharge is 120 m³ per hour and the maximum water discharge is 300 m³ per hour. We have installed three mine pumps. During a typical operating period, one pump is operational, one pump is on standby and one pump is undergoing maintenance. During any period which requires maximum water discharge, all three pumps will become available, if necessary.

Ventilation

We have set up a centralised parallel exhaust ventilation system with the main and supplementary inclined shafts as air intakes and the ventilation inclined shaft as an air return. The preliminary planned ventilation capacity is 120 m³ per second.

Monitoring system

We plan to install environmental monitoring sensors at strategic locations throughout the mine. All monitored data is to be transmitted to the surface for monitoring of site personnel. The mine monitoring system for the Dafanpu Coal Mine, including 15 sub-monitoring systems, is to be designed for monitoring airflows, carbon monoxide, carbon dioxide and methane in the mine atmosphere at multiple locations throughout the underground mine. Preset alarms are to be programmed into the system to warn designated personnel for immediate response and to automatically de-energise power when gas concentrations exceed applicable PRC statutory limits. In addition, the mine monitoring system is to monitor the performance of numerous pieces of equipment and assemblies of components of the mine via a fibre optic interface.

Coal washing plant

We have completed the construction of a coal washing plant with an annual feed capacity of 5.0 million tonnes, which is designed to be fully mechanised and equipped with advanced coal washing technology. Lump coal is not required to be washed and is sold as a raw product, while fine coal is washed and sold as a clean product. According to the Report, the combined weighted average energy value of both products is approximately 6,443 kCal/kg on an air dried basis. Operation is expected to commence in March 2012. In addition, we are in discussions with Shenhua Zhunge'er Resources to establish a joint venture to construct another coal washing plant with an annual feed capacity of 10.0 million tonnes.

Loading station and associated rail spur lines

Xiaojia Station, a loading station which is expected to have a handling capacity of 15.0 million tonnes per year by June 2012, and associated rail spur lines connecting to the Nanping Rail Line, which is a branch rail line of the Datong-Zhunge'er Rail Line that connects to the Datong-Qinhuangdao Rail Line of the national rail system, are being jointly constructed by Shenhua Zhunge'er Resources and our Group in our concession area in order to bring our coal products to markets outside of Inner Mongolia to obtain a higher price than the price at which coal which is sold locally.

Xiaojia Station is designed to connect to our stockpile near our processing facilities. It is located in our concession area and is adjacent to both our mining site and processing facilities. Due to these conditions, Xiaojia Station can only be used to transport coal processed by our existing processing facilities and the processing facilities to be constructed by us with Shenhua Zhunge'er Resources in the future. We expect to equip the loading station with a fully mechanised train loadout facility to load coal wagons. We plan to use the handling capacity of Xiaojia Station to transport our coal from the Dafanpu Coal Mine and coal purchased from third parties. To utilise fully the excess handling capacity of Xiaojia Station, we and Shenhua Zhunge'er Resources are in discussions to construct jointly a coal washing plant with an annual feed capacity of 10.0 million tonnes to wash coal purchased from third parties.

Xiaojia Station is located on a parcel of land for which Shenhua Zhunge'er Resources is in the process of applying for relevant land use rights. As of the Latest Practicable Date, Shenhua Zhunge'er Resources had received a preliminary approval for its application for the land use right and the competent government authorities were in the process of reviewing such application and our applications for the permits or approvals required for the construction and operation of Xiaojia Station. As advised by our PRC legal advisers, Jingtian & Gongcheng, there is no material legal impediment for Shenhua Zhunge'er Resources to obtain the land use right of the land on which Xiaojia Station is located and subsequently grant the land use right to Xiaojia JV, provided that Shenhua Zhunge'er Resources goes through relevant procedures and performs relevant obligations in a manner required by applicable PRC laws and regulations, and there is no material legal impediment for us to obtain the necessary approvals for the construction and operation of Xiaojia Station. Our Directors are of the view that we will not have any practical difficulty in obtaining the necessary approvals for the construction and operation of Xiaojia Station.

Pursuant to a joint venture agreement dated 8 September 2011, Xiaojia JV was established on 21 September 2011 to engage in coal storage, delivery and handling businesses (including the construction and operation of Xiaojia Station) with Shenhua Zhunge'er Resources and Kinetic Coal holding 55% and 45% of the equity interest, respectively. According to the joint venture agreement, the term of the joint venture shall initially be 30 years, with Shenhua Zhunge'er Resources contributing RMB35.75 million and Kinetic Coal contributing RMB29.25 million (the "**Initial Capital Contribution**"). Additional capital in proportion to their respective equity interests may be injected to cover the difference between the Initial Capital Contribution and the estimated capital expenditure for constructing Xiaojia Station. Profits and losses shall be shared by the partners of the joint venture in proportion to their respective equity interests. The estimated capital expenditure for constructing Xiaojia Station is approximately RMB96 million and payment to contractors as at 31 December 2011 amounted to approximately RMB23.8 million.

BUSINESS

Qinhuangdao Trading Centre

We are setting up a trading centre at Qinhuangdao Port, which is the site of China's largest coal transshipment port. We plan to sell our coal transported from the Dafanpu Coal Mine and coal sourced from third party mine operators in Inner Mongolia at this trading centre once the construction of Xiaojia Station and associated rail spur lines is completed. We are also in the process of establishing a storage facility of 200,000 tonnes and a blending facility with a handling capacity of 5.0 million tonnes per year at Qinhuangdao Port. We intend to provide coal processing, loading, blending, storage and transportation services to third party mine operators at our trading centre. As of the Latest Practicable Date, Kinetic Qinhuangdao had been duly formed to set up and operate the trading centre and our application for coal sales and trading permit was being reviewed by the relevant government authority. We have also entered into a long-term lease with China Coal Qinhuangdao Tower, an Independent Third Party, for offices with a gross floor area of 547 m² to be used as the office space for our trading centre and a long-term lease with Qinhuangdao China Coal Storage and Transportation Co., Ltd., an Independent Third Party, for a parcel of land with a site area of approximately 20,000 m² to be used as the site for our storage and blending facilities.

Other facilities and employee quarters

As at 31 December 2011, we have constructed office, production, storage and ancillary facilities of 23,477 m² and employee quarters of 4,002 m².

Equipment

As at 31 December 2011, our equipment inventory primarily comprised the following:

Equipment	Quantity	Key Functions
Hydraulic prop (綜採工作面液壓支架)	177	Longwall roof support
Excavating machine (標準型掘進機)	5	Road header — mines development roads
Main inclined shaft belt conveyor (主斜井帶式輸送機)	1	Inclined shaft conveyor to transport coal
Auxiliary inclined winch (單繩纏繞式提升機)	1	Winch to haul man and materials up the inclined shaft
Main roadway belt conveyor (大巷帶式輸送機)	1	Main coal clearance conveyor
Armoured face conveyor (刮板輸送機)	1	Carries coal along and off longwall face
Transformer (變壓器)	1	Reduces electric power to be used for particular equipment types
FBCDZ mining explosion proof exhaust rotating axial flow ventilation fan (煤礦地面用防爆抽出式對旋軸流通風機)	2	Main surface ventilation fans to ventilate the mine
Electric haulage shearer (交流電牽引採煤機)	1	Longwall coal cutting machine
Oil-injected rotary screw compressor (單級, 風冷箱式低噪聲噴油螺杆空氣壓縮機)	3	Supplies compressed air for air-powered machinery

USE OF CONTRACTORS

Although we plan to self-operate the coal washing plant and the loading station together with the associated rail spur lines, we will need to engage contractors for various services associated with exploration, construction, mining, maintenance and other auxiliary services, which is typical for mining companies. We expect to engage third-party contractors for their ability to provide services more economically, through their specific technical expertise and experience or specific industrial equipment. We continue to monitor the implementation of all of our contracts with independent contractors, and have not experienced any material problems in dealing with any of our contractors during the Track Record Period.

During the Track Record Period, services that we contracted out include drilling, the design and construction of mine shafts, the coal washing plant, the loading station and associated rail spur lines, office facilities and employee quarters and other ancillary facilities, mining operations and maintenance of equipment.

Material contracts which we have awarded to third-party contractors include the following:

- contracts with China Coal No. 3 Construction (Group) Corporation Ltd.* (中煤第三建設(集團)有限責任公司) in connection with the construction of shafts, surface infrastructure and main roadway;
- a contract with Zheng Zhou Design and Research Institute of Coal Industry Co., Ltd.* (煤炭工業鄭州設計研究院有限公司), China Coal Building & Installation Engineering Company* (中煤建築安裝工程公司) and Beijing Zhongmei Sunshine Mining Technology Co., Ltd.* (北京中煤陽光礦業技術有限公司) for the design and construction of the coal washing plant and ancillary facilities;
- a construction contract with The Third Railway Survey and Design Institute Group Corporation* (鐵道部第三勘察設計院集團有限公司) for the construction of the loading station and associated rail spur lines;
- a framework construction contract with Zhunge'er Banner Dazheng Electric Co., Ltd.* (准格爾大正電業有限公司) for the construction of a 35-kV substation in the industrial yard; and
- a mining contract for the first working face of the No. 5 coal seam with Beijing Tiandi Huatai Mining & Engineering Co., Ltd.* (北京天地華泰採礦工程技術有限公司), pursuant to which the contractor will provide mining, maintenance and minor repair services, while we will supervise all aspects of the operations and carry out major repairs.

Engaging contractors allows us to lower our costs by reducing equipment investment and management time for personnel training. We typically select our contractors through a bidding process to ensure that all contracts are entered into on competitive terms.

BUSINESS

We maintain strict supervision over our contractors through regular reporting requirements, strict management of estimated costs and management oversight. We require that they maintain a high standard of quality, safety and environmental protection.

As we have commenced trial production at the Dafanpu Coal Mine, we expect to engage additional contractors to provide auxiliary services such as trucking services and exploration to upgrade existing Coal Resources to Coal Reserves within our Dafanpu Coal Mine.

CAPITAL EXPENDITURE

We estimate that the total capital expenditure in relation to the Dafanpu Coal Mine, including mine development, and the construction of the coal washing plant, loading facilities and associated rail spur lines, will be approximately RMB1,241 million. The capital expenditures incurred up to 31 December 2011 amounted to approximately RMB602 million. The mining construction capital investment, including the capital expenditure on the underground project, surface project, equipment and installation, other capital expenditure, preparation costs and contingency, is approximately RMB978 million. The coal washing plant was estimated to cost approximately RMB220 million. The loading station and rail spur lines were estimated to cost approximately RMB96 million, of which we are obligated to pay approximately RMB43 million in proportion to our equity stake in Xiaojia JV. The storage and blending facilities in Qinhuangdao were estimated to cost approximately RMB5 million. For further information, please refer to the Report.

MARKETING AND SALES

Our current sales strategy is to capture market share in southern China and eastern China, where there is high demand by power plants but low supply due to the lack of coal resources in close proximity, while maintaining flexibility to sell to local markets in Inner Mongolia in the future if sales there provide a higher profit margin after taking into account transportation and other associated costs.

Despite government efforts to increase rail capacity, China's national rail system has been unable to satisfy the need for coal transportation. Coal prices at major coal transshipment ports are much higher than coal prices at production centres due to inadequate transportation capacity. According to China Coal Resource* (中國煤炭資源網), the price of 5,500 kCal/kg fine coal sold in Erdos City, Inner Mongolia and Qinhuangdao Port in November 2011 was RMB450 per tonne and RMB840 per tonne, respectively. Coal producers can get a higher profit margin for sales on the spot market at China's major coal transshipment ports even after taking into account transportation and other associated costs.

After the construction of Xiaojia Station is completed by June 2012, we plan to sell our lump coal and fine coal to power plants in southern China and eastern China on the spot market in Qinhuangdao as we expect that coal prices in Qinhuangdao will offer us a higher profit margin, with slimes and rejects sold to local markets in Inner Mongolia. To facilitate this, Kinetic Qinhuangdao has been incorporated in the PRC for our wholesale and retail operations in coal products. We are in the process of obtaining the

BUSINESS

relevant sales permit allowing Kinetic Qinhuangdao to sell thermal coal produced from our Dafanpu Coal Mine and by third parties. We will also utilise our excess rail capacity to purchase coal at low prices from local third parties who are unable to access the Qinhuangdao market and sell such coal at higher prices in Qinhuangdao.

We intend to establish and maintain long-term business relationships with our major customers and develop new sales and distribution channels jointly with Shenhua Zhunge'er Resources and have our sales personnel conduct routine customer visits and customer satisfaction surveys. Our sales and marketing group works closely with our production group to coordinate demand for our products with our mining and production planning.

POTENTIAL CUSTOMERS

We plan to sell coal primarily to coal-fired power plants in southern China and eastern China. We intend to develop markets for our premium quality coals. Southern China and eastern China are our key target markets, and we believe that we are well positioned to exploit growth in consumption in the areas. We executed non-binding agreements of intent in June and July 2011 with Independent Third Parties, namely Shanghai Shenergy Fuel Co., Ltd.* (上海申能燃料有限公司), Shandong Jinglu Zhongmei Coal Co., Ltd.* (山東京魯中煤煤業有限公司) and Guangzhou Pearl River Electric Power Fuel Co., Ltd.* (廣州珠江電力燃料有限公司), for the sale of a total of approximately 2.9 million tonnes of coal. These agreements provide a preliminary framework for the delivery of coal in 2012. These potential purchasers do not have any obligations to purchase, and we do not have any obligations to sell, any coal products under these agreements. We intend to enter into legally binding agreements with these potential customers with regards coal amounts, prices and other commercial terms to be determined according to the then prevailing market practice.

COAL SUPPLY AGREEMENTS; PRICING AND PAYMENT TERMS

We plan to sell our coal on a per tonne basis directly to our customers, generally by purchase orders signed prior to the beginning of each year. These purchase orders will generally specify the quantities and timing of purchases planned over a period which is typically no longer than one year and will be based on market pricing. The balance of our sales is expected to come from purchase orders issued by existing customers that have additional requirements for coal during the year, or from smaller customers. Net coal sales represent the invoiced value of coal sold and are net of sales taxes, transportation costs and various miscellaneous fees relating to sales if the invoiced value includes transportation costs to the customers. Due to the high demand for and low supply of coal in southern China and eastern China, we expect that once our coal is extracted, it will be picked up immediately by, or loaded immediately for delivery to, customers.

BUSINESS

Generally, we expect to sell the majority of our coal at spot prices based on Qinhuangdao Port thermal coal FOB price. Our customers will bear the transportation costs from Qinhuangdao Port to further destinations. To ensure the stability of our sales during periods of weak spot market conditions and develop and maintain relationships with certain long-term customers to our benefit, we also seek to enter into long-term supply agreements where the contracted price may be slightly lower than the spot price and is determined between power plants and us in accordance with the pricing guidance published by the PRC Government. We expect our pricing to take into account: (i) prices in the relevant local coal markets (inclusive of transportation costs); (ii) quality of the coal, including energy value, sulphur content, ash content and moisture; and (iii) relationships with customers. As one of few private company members of CCTDA, a national industry association of coal enterprises, we may participate in annual summits and meetings on the Chinese coal market, which allows us to stay up-to-date with regard to pricing, market, transportation, demand, technology, safety and management trends. We are also able to obtain in advance information relating to general trends of market demand from our target customer base of power plants in southern China and eastern China. With access to this information, we are able to adjust our sales and pricing strategy in anticipation of rising or falling coal prices or demand.

Due to the significant impact of electricity costs on the national economy, the PRC Government maintains control over the price of thermal coal used for power generation, especially the contract price with PRC's major independent power producers for thermal coal. In December 2011, the PRC Government adopted temporary measures to limit increases in the contract price with PRC's major independent power producers for thermal coal and cap spot prices of thermal coal at China's major coal transshipment ports. The temporary measures will be abolished to release restrictions over coal prices after the price of thermal coal used for power generation is stabilised nationwide. For more details, please refer to the section headed "Regulations — China's Coal Industry — Temporary measures relating to the control of the price of thermal coal to be used for power generation" in this prospectus. Our Directors are of the view that the temporary measures will not have a material impact over our coal sales volume and selling price. As a private company, we have the flexibility not to sell our coal at the contract price with China's major independent power producers for thermal coal. The temporary measures provide that from 1 January 2012 onwards the benchmark FOB price for 5,500 kCal/kg thermal coal used for power generation at China's major coal transshipment ports cannot exceed RMB800 per tonne. The FOB price cap of thermal coal with different energy values should be calculated accordingly. However, the temporary measures do not clarify the formula for such calculations. Our coal washing plant at the Dafanpu Coal Mine and the blending facilities at Qinhuangdao Port will enable us to produce a range of coal products with varying energy values, which will offer us flexibility and help us optimise our revenue. The PRC Government's control over the price of thermal coal used for power generation may impact our pricing for sales contracts directly entered into with power producers.

For customers with whom we wish to establish long-term relationships, we expect to require a prepayment when receiving the purchase order and full payment after the coal is delivered. For other customers, we expect to sell on a "cash on delivery" basis.

BUSINESS

SUPPLIERS

Our suppliers include contractors and suppliers of equipment, electricity, water and ancillary materials. In 2009, 2010 and 2011, our five largest suppliers accounted for approximately 42%, 61% and 41%, respectively, of our total purchases, while the largest supplier accounted for 38%, 28% and 15%, respectively, of our total purchases for the same periods. During the Track Record Period, our five largest suppliers were No. 30 Engineering Office of China Coal No. 3 Construction (Group) Corporation Ltd.* (中煤第三建設(集團)有限責任公司第三十處), No. 33 Engineering Office of China Coal No. 3 Construction (Group) Corporation Ltd.* (中煤第三建設(集團)有限責任公司第三十三處), Zheng Zhou Design and Research Institute of Coal Industry Co., Ltd.* (煤炭工業鄭州設計研究院有限公司), Beijing Zhongmei Sunshine Mining Technology Co., Ltd.* (北京中煤陽光礦業技術有限公司) and Zhengzhou Coal Mining Machinery Group Co., Ltd.* (鄭州煤礦機械集團股份有限公司). The five largest suppliers, except for Zhengzhou Coal Mining Machinery Group Co., Ltd., were our major contractors. They provided us with services for the construction of shafts, surface infrastructure and main roadways, and the design and construction of the coal washing plant and ancillary facilities. Please refer to the section headed “Business — Use of Contractors” in this prospectus for further details. We purchase equipment primarily from reputable Chinese equipment suppliers. During the Track Record Period, our largest supplier of equipment was Zhengzhou Coal Mining Machinery Group Co., Ltd., from which we purchased hydraulic props. As of the Latest Practicable Date and during the Track Record Period, none of our Directors or their respective associates, or to the knowledge of our Directors, Shareholders, held any interest in any of our suppliers.

Equipment

We typically select our equipment suppliers through a bidding process among the largest Chinese mining equipment manufacturers, such as Zhengzhou Coal Mining Machinery Group Co., Ltd.* (鄭州煤礦機械集團股份有限公司), SANY Heavy Equipment International Holdings Company Limited* (三一重裝國際控股有限公司) and CITIC Heavy Industries Co., Ltd.* (中信重工機械股份有限公司).

Power supply

The region in which our mine is located has a well-developed power industry with multiple coal-fired plants and a hydroelectric power station. A 35 kV substation has been built in the industrial yard in Majiata. A five km power connection line to the Haizita 110 kV substation and another 18 km line to the Qinyuan 220 kV substation have been built. The voltage will be adjusted, as necessary, for supply to the mine.

Our electricity is mainly provided by the Xuejiawan Power Supply Bureau* (薛家灣供電局). In November 2008, we entered into a power supply agreement with the Xuejiawan Power Supply Bureau. This agreement was renewed in January 2011 for another one-year term from 1 January to 31 December 2011. Thereafter, the power supply agreement will continue to be valid unless amended or terminated by either party. Under this agreement, we are charged for electricity at the rate approved by the price control authorities, and we settle accrued charges monthly. Our Directors are of the view that the rate at which our Group pays for electricity under this agreement is in line with the market rate in Inner Mongolia.

BUSINESS

Water supply

There are several possible sources of water for our Dafanpu Coal Mine, including water from the mine's underground aquifers and the Chenjiagou and Tanggongta water resource. Water used in our Dafanpu Coal Mine, predominately for the coal washing plant, dust management and the fire fighting system, will be sourced from our mine's waste water treatment plant. Additional water suitable for domestic applications and consumption will be sourced from the Chenjiagou and Tanggongta water resource located approximately two km north of the industrial yard. Under a thirty-year water supply agreement, which commenced in March 2011, Inner Mongolia Keyuan River Water Affairs Co., Ltd.* (內蒙古科源水務有限公司) will supply us with a minimum of 150,000 m³ of water per year. Under this agreement, we are charged at a rate of RMB5.8 per m³ of water and we settle accrued charges monthly. Such rate may be adjusted by us and Inner Mongolia Keyuan River Water Affairs Co., Ltd. through negotiations. Our Directors are of the view that the rate at which our Group pays for water under this agreement is in line with the market rate in Inner Mongolia.

Ancillary materials

Ancillary materials used in the production process at the Dafanpu Coal Mine include fuel and explosives. These products are available to us from several suppliers at competitive market prices.

COMPETITION

We intend to sell all of our coal production to customers in China. While the PRC Government has pursued a policy of industrial consolidation within the coal industry in recent years, the PRC coal industry remains highly fragmented. According to DRCCCI* (中國煤炭工業發展研究中心), the average annual production capacity of a total of approximately 16,000 coal production companies in China was 200,000 tonnes in 2009. The top 39 large-scale coal production companies constituted 52.8% of, and the top four companies constituted 19.3% of, the national production in 2009. Competition in this industry is based on many factors, including price, coal quality, transportation capacity and operational safety. In the area where we operate the Dafanpu Coal Mine, we directly compete with mines located in proximity to our concession area. However, because demand for coal currently outpaces supply and is generally expected to remain so in the near future, we do not expect the sale of our coal to be substantially affected by competition in the near future. Please refer to the section headed "Risk Factors — Risks Relating to Our Industry — Competition in the PRC coal industry may increase and our business and prospects may be materially and adversely affected if we are not able to compete effectively" in this prospectus.

Since 2005, the PRC Government has adopted measures and policies to intensify mergers and consolidation in China's coal industry to eliminate outdated production capacity and improve efficiency. The PRC Government supports both state-owned and privately-owned coal companies to conduct mergers and acquisitions, and to improve safety conditions, technology and mechanisation level.

The provincial government of Inner Mongolia and the municipal government of Erdos City also implemented a series of policies to promote consolidation in the local coal industry and to eliminate outdated production capacity. The local government supports mergers and acquisitions of coal enterprises, and the mergers and acquisitions must be conducted at the discretion of participating coal enterprises and through market practice. According to a circular issued by the provincial government of

BUSINESS

Inner Mongolia in March 2011 (the “**March Circular**”), coal producers who (i) have at least one single underground coal mine with an annual production capacity of more than 1.2 million tonnes, (ii) have no material accident in the last three years, and (iii) have assets of good quality are entitled to have priority to acquire other coal producers. Coal processing and other ancillary projects must be constructed concurrently with new coal production projects. In addition, Inner Mongolia plans to form 20 large-scale coal producers through mergers or restructuring, and the surviving coal producers are required to have a minimum annual production capacity of 1.2 million tonnes by the end of 2013. The municipal government of Erdos City issued another circular, which further raised the required minimum annual production capacity of the surviving coal producers in Erdos City to 3.0 million tonnes.

Our Directors are of the view that we will benefit from the industry consolidation policies adopted by the PRC Government and local governments in the long run. Our Dafanpu Coal Mine is an underground mine with a licensed annual production capacity of 2.4 million tonnes. We use advanced mining techniques and equipment, have completed the construction of a coal washing plant and other ancillary facilities, and are constructing a loading station and associated rail spur lines. We plan to eventually ramp up our annual production capacity to 5.0 million tonnes. Our application to increase the annual production capacity of the Dafanpu Coal Mine to 5.0 million tonnes has been accepted by the Coal Industry Bureau of Zhunge'er Banner (准格爾旗煤炭工業管理局) and referred to the Coal Industry Bureau of Inner Mongolia (內蒙古自治區煤炭工業管理局) for review and approval. Based on the March Circular and the Erdos Circular and taking into account our development plans, we believe we will meet the criteria of an acquirer pursuant to the consolidation policies, which will facilitate our potential acquisition of small-scale coal mines and strengthen our competitiveness.

QUALITY CONTROL

To ensure the high quality of our coal products, we plan to establish and implement quality control systems in accordance with applicable PRC national and industry standards. We expect our quality control measures to include (i) regular inspections of coal quality at mining faces, (ii) monitoring of coal quality throughout the production, preparation and transportation process and (iii) promptly responding to customer feedback regarding our coal quality.

INTELLECTUAL PROPERTY

We believe that our Group's operation is not materially dependent on our ownership of any intellectual property rights. No intellectual property rights are currently registered in the name of our Company except for those stated in the sub-section headed “Further Information About our Business — Intellectual Property Rights of our Group” in Appendix VI to this prospectus.

PROPERTIES

As of 31 December 2011, we occupied and used a parcel of land with a site area of approximately 236,067 m² for industrial purposes, and had 19 buildings under construction with an aggregate floor area of approximately 27,479 m². These land and buildings are occupied by us in connection with our production and businesses.

BUSINESS

Land

Prior to our obtaining of the mining permit for our concession area, Shenhua Zhunge'er Resources, an Independent Third Party, was granted the right to operate a waste dump as part of the Heidaigou open cut mine and to construct the Nanping Rail Line on certain surface land in our concession area. Such surface land was expropriated by the government for industrial use and Shenhua Zhunge'er Resources subsequently paid relocation compensation to the original occupants. After we obtained the relevant mining permit, we and Shenhua Zhunge'er Resources entered into a series of agreements with a view to resolve any potential conflict between their right to use the surface land and our right to mine the underground coal in a mutually beneficial manner. Under these agreements, we agreed not to mine the 121 to 137 metres wide area along both sides of the Nanping Rail Line. In addition, we agreed to Shenhua Zhunge'er Resources' building of a 500kV power transmission and distribution line across our concession area and agreed not to mine underneath the power line to preserve the safety pillars.

Based on the area of the land subject to such mining restrictions, it was estimated according to the Chinese Standard that we would be restricted from mining approximately 13.9 million tonnes of coal of a category corresponding to Coal Resources under the JORC Code. The economic analysis of the Coal Reserves of the Dafanpu Coal Mine as of October 2011 under the JORC Code has excluded Coal Reserves that cannot be extracted in order to ensure the safety of the surface structures, including railway lines and roadways. In exchange for such mining restrictions, Shenhua Zhunge'er Resources agreed to transfer the land use rights for a parcel of land with a site area of approximately 236,067 m² to us, approximately 93,800 m² of which will be the site for our industrial yard and the remainder to be used as separation belt where no permanent structures may be built. Under the agreements, we are responsible for any relocation compensation to the original occupants of such land, while Shenhua Zhunge'er Resources will mediate any land ownership dispute. Such land transfer agreements were filed on record with the relevant government authority on 6 April 2011.

As of the Latest Practicable Date, Shenhua Zhunge'er Resources had not obtained the land use right certificate for the parcel of land committed to be transferred to us. According to Shenhua Zhunge'er Resources, the expropriation of the parcel of land by the government from the original occupants had been completed, and Shenhua Zhunge'er Resources' application for the corresponding land use right certificate was being reviewed by the MLR as of the Latest Practicable Date. As Shenhua Zhunge'er Resources has not informed us of the expected timeframe for them to obtain such land use right certificate, we are unable to predict when we would expect to obtain the relevant land use rights.

As advised by our PRC legal advisers, Jingtian & Gongcheng, Shenhua Zhunge'er Resources does not have the authority to grant us the right to use the land before it obtains the relevant land use right certificate. Accordingly, our right to use such land may not be valid and we may be ordered to return such land to the government, demolish all the constructions on such land and pay a fine. As at 31 December 2011, the carrying value of our property, plant and equipment located on such parcel of land, exclusive of underground construction of shafts and roadways with a carrying value of approximately RMB147.2 million and equipment and motor vehicles with a carrying value of approximately RMB127.0 million, amounted to approximately RMB386.4 million. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — We have not obtained formal title certificates to certain properties we occupy" in this prospectus. However, we have been advised by our PRC legal advisers, Jingtian & Gongcheng, that as long as the expropriation of the land by the government is completed and Shenhua

BUSINESS

Zhunge'er Resources has duly filed with the MLR its application for the relevant land use right certificate, there is no material legal impediment for Shenhua Zhunge'er Resources to obtain the land use rights and subsequently transfer such rights to us. Please refer to the section headed "Regulations — China's Coal Industry — Laws and regulations in relation to land" in this prospectus for laws and regulations governing the transfer of land use rights.

Pursuant to agreements between Shenhua Zhunge'er Resources and us, we have paid approximately RMB1.5 million to the original occupants on the 236,067 m² land as lump sum relocation compensation, which releases us from all claims such occupants may have against us with respect to the land. In addition, our construction plans for our industrial yard have been approved by various local government bodies. In particular, the Inner Mongolia Bureau for Coal Industry approved in 2009 our preliminary design for the Dafanpu Coal Mine, including the constructions in our industrial yard, and such approval was copied to the Inner Mongolia Administration for Land and Resources, among other provincial regulatory bodies. Accordingly, our shaft exits and coal washing plant are situated in this industrial yard. Please refer to the section headed "Business — Facilities and Equipment" in this prospectus for more details of our construction work in this industrial yard. We also paid approximately RMB757,000 land use tax with respect to a portion of such land in 2011. As of the Latest Practicable Date, no third party had challenged our use of the industrial yard. In light of the above, our PRC legal advisers, Jingtian & Gongcheng, have advised us that there is a relatively small risk that we will in fact be required to return the land and demolish the constructions thereon. Furthermore, Shenhua Zhunge'er Resources is contractually obligated to indemnify us against all economic losses if we fail to obtain the land use rights for the 236,067 m² land due to a failure by Shenhua Zhunge'er Resources to fulfil their obligations.

Leased properties

As of 31 December 2011, we leased 13 residential units, one retail unit and office space from Independent Third Parties for residential, canteen and office purposes. We also leased a parcel of land with a site area of approximately 20,000 m² to be used as the site for our storage and blending facilities in Qinhuangdao. The lessors of these properties have not provided us with the title certificates to such properties. In addition, these tenancy agreements have not been registered with the competent authorities. Our PRC legal advisers, Jingtian and Gongcheng, have advised us that these tenancy agreements are legal, valid, enforceable and binding on the parties to these agreements and the absence of registration will not affect the validity of the tenancy agreements. However, if there are any third parties claiming superior rights to these properties, our lease may be found invalid against such third parties and we may have to find other substitute premises. Our Directors are of the view that these leased properties are not crucial to our business operations and in the event that these leases are terminated or affected by any third parties' claim, we will be able to lease other substitute premises without incurring any material costs.

CORPORATE SOCIAL RESPONSIBILITY

We have implemented a number of internal policies to address responsibly the impact of our business activities on the environment, employees and local communities.

BUSINESS

Worker health and safety standards

We believe that one of our most important assets is our employees. Injuries to our employees and workers and damage to our physical assets would adversely affect our reputation and may impact on our financial success. We are therefore committed to a target of zero incidents in all of our activities by implementing industry best practices and demonstrating leadership in damage control.

As of the Latest Practicable Date, we have not experienced any fatal accidents or non-fatal injuries. The PRC Government mandates that the preliminary design for a new mine must include a special safety chapter, which must be independently reviewed by an expert group organised by the Inner Mongolia Mine Safety Inspection Bureau. The special safety chapter of the Dafanpu Coal Mine has been reviewed by the expert group and approved by the local government in April 2009. Our coal mining operations involve significant risks and hazards. These risks and hazards could result in damage to, or destruction of, properties or production facilities, personal injury, environmental damage, business interruption and possible legal liability, which will have a material effect on our financial condition and results of operations. Please refer to the sections headed “Risk Factors — Risks Relating to Our Business — Our coal operations may be materially and adversely affected by operational risks and natural disasters and our insurance coverage may not be sufficient to cover the risks related to our business” and “Risk Factors — Risks Relating to Our Industry — If accidents occur at our mines or other coal mines in the PRC, our coal operations could be materially and adversely affected” in this prospectus.

We are committed to controlling accident and fatality rates and maintaining high safety standards at our production facilities and expect to fulfil this commitment by:

- supplementing our mine design with a safety management system that clearly defines and sets achievable goals and targets against which performance is measured;
- adoption of detailed safety procedures based on the geological characteristics and production methods of the mine in compliance with national safety guidelines, including monthly safety inspections and annual training in safe work practices for our employees and workers;
- ensuring that various steps in our mining and production process are supervised by qualified individuals to help ensure compliance with safety standards and the quality of our products;
- effective management of gas risk, including preventing accumulation of excessive amounts of gas developing in the longwall face, establishing a methane degasification system, improving the ventilation system and strengthening the ventilation management of the developing and mining faces, installing a safety monitoring system, strict control of flammables, explosives and detonators, designing the underground chamber, locomotive maintenance charging chamber and other special chambers and preventing electrical sparks and friction caused by static electricity;
- a series of measures for controlling coal mine dust, including establishment of a ventilation system, injecting water into the coal seam, cleaning up spilled coal underground, cleaning and washing the roof and rib of roadways regularly, installation of coal dust explosion-proof

BUSINESS

facilities, installation of sprays for air-cleaning in the main roadway and at development and mining faces, regular inspection of coal dust concentration and taking personal protective measures, although it is likely that the low gas content of the seams decreases the likelihood of methane explosions, which in turn will decrease the likelihood of coal dust explosions;

- prevention of spontaneous combustion by extraction of the full seam in one mining pass, using preventative techniques to limit the likelihood of spontaneous combustion, such as preventative injection of mud and an inert gas (Nitrogen) into the goaf to prevent oxidisation, three-phase foam fire-fighting and injection of foam filling agents if spontaneous combustion is detected, improving mining recovery, enhancing ventilation management, reducing the amount of air leakage and making it easier to isolate sections of the ventilation network from each other and continuous monitoring; and
- providing various healthcare benefits to our employees in accordance with applicable laws and regulations.

For further details regarding the health and safety regulations with which we must comply in our operational jurisdictions, please refer to the section headed “Regulations” in this prospectus.

Environmental matters

We have not had any material breaches of any environmental laws or regulations applicable to us. We are committed to conducting our operations in a manner that complies with applicable environmental laws and regulations, and we endeavour to mitigate the adverse impact of our operations on the environment. Our mine construction and production are subject to environmental laws and regulations relating to air and water emissions, hazardous substances and waste management. All new mines must conduct an environmental impact assessment before beginning construction. We obtained the approval for the environmental impact assessment relating to the consolidation and construction of the Dafanpu Coal Mine in November 2007. Further, we obtained the approval for the environmental impact assessment relating to the construction of our coal washing plant with an annual feed capacity of 5.0 million tonnes in December 2011. If our production discharges any solid, liquid or gaseous wastes, we also need to apply for a pollutant discharge permit.

We will continue to utilise appropriate recognised management systems, including documentation of all relevant environmental matters and compliance auditing to support our continued environmental improvement.

We expect to fulfil our commitment to the environment by:

- establishing environmental protection systems and facilities such as a waste water treatment plant and environmental monitoring sensors, which comply with applicable PRC national and local environmental protection laws and regulations; and
- setting up an environmental department that coordinates environmental impact assessments, testing, ecology, and rehabilitation projects. The environmental department will discuss and formulate appropriate environmental policies and standards to improve our mining facilities and working environment.

BUSINESS

We plan to reuse and recycle the waste water and coal residual stones, which are the two principal waste products in our coal mining operations. Mine waste water will be reused for industrial purposes after water purification. Coal residual stones from our mines can be used to make bricks.

In 2009, 2010 and 2011, our cost of compliance with environmental protection laws or voluntary measures adopted by our Group was nil, RMB144,000 and RMB590,000, respectively. Going forward, we expect our annual expenditures for environmental compliance and voluntary environmental protection measures to be proportional to our annual production amount. We expect our expenditure for environmental compliance and voluntary environmental protection measures to be approximately RMB2.4 million for the year 2012, including expenses related to the purchase and maintenance of environmental protection equipment such as desulphurisation units, the arrangement for rehabilitation and paying air emission discharge fees. The PRC Government is moving towards more rigorous enforcement of applicable environmental laws and regulations and the adoption of more stringent environmental standards. The future imposition of stricter environmental legislation could have a material and adverse effect on our financial condition and results of operations. Please refer to the sections headed “Regulations — China’s Coal Industry — Laws and Regulations in relation to Environmental Protection” and “Risk Factors — Risks Relating to Our Industry — Our business operations may be materially and adversely affected by present or future environmental regulations” in this prospectus.

Community relations

We maintain an ongoing dialogue with the public, government agencies and regulators. We believe directly engaging in the welfare of communities in which we operate is important. We are committed to communities within the vicinity of our mining operations, our employees and their families. We are developing a community liaison process and have designated a representative who is known and accessible to the local community to be in charge of this process. Our goal is to enable the community to clearly voice their opinion and receive appropriate feedback. The local population is familiar with coal mining projects and several mines are operating in the area. The consultation conducted in the scope of the environmental impact assessment report indicates support from local communities for our coal production operations. As of the Latest Practicable Date, our Directors are not aware of any non-governmental organisation impact on the sustainability of our Group’s operations.

BUSINESS

EMPLOYEES

As of 31 December 2011, we had a total of 172 employees based in our headquarters in Zhunge'er Banner, Erdos City, Inner Mongolia. All of our employees are employed on a full-time basis. The following table sets forth the number of our employees based on their respective roles:

	Number of employees
Executive officers and senior management	10
Project and operations management.	11
Accounting and finance	6
Administration and human resources.	5
Engineers.	28
Workers	60
Procurement.	7
Sales and logistics	4
Corporate and social affairs	6
Health, safety and security	35
Total	172

Our employees are employed under employment contracts that set out fully, among other things, the employee's responsibilities, remuneration and grounds for termination of employment. We do not have labour unions. We consider our relations with our employees to be amicable. As of the Latest Practicable Date, we have not encountered any material difficulties in the recruitment and retention of our employees and we have not experienced any material interruption to our operations as a result of labour disputes. We will provide safety trainings to our employees. We also sponsor our employees to participate in training programmes organised by the local government.

After the Listing, our employees may be granted share options pursuant to our Company's share option scheme. Please refer to the section headed "Share Option Scheme" in Appendix VI to this prospectus for further details.

Our underground mining operations will be carried out primarily by a third party contractor. Please refer to the section headed "Business — Use of Contractors" in this prospectus.

INSURANCE

In accordance with what we believe is the customary practice for China coal mining operators, we do not currently maintain any fire, liability or other property insurance covering our property, equipment or inventories, other than with respect to vehicles. In addition, we do not maintain any business interruption insurance or any third party liability insurance to cover claims in respect of personal injury or property or environmental damage arising from accidents on our properties, other than third party liability insurance with respect to vehicles. We do not carry insurance for risks relating to our infrastructure and utility facilities that are under construction. In compliance with applicable regulations, we carry occupational injury, medical and unemployment insurance and other state-mandated insurance for our employees.

BUSINESS

We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice in line with our needs and with industry practice with respect to insurance in China. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — Our coal operations may be materially and adversely affected by operational risks and natural disasters and our insurance coverage may not be sufficient to cover the risks related to our business” in this prospectus.

LEGAL PROCEEDINGS

As of the Latest Practicable Date, none of the members of our Group was involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations, financial condition or our rights to explore or mine.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

As at the Latest Practicable Date, King Lok, which is wholly-owned by Mr. Zhang Liang, Johnson, one of our executive Directors, holds approximately 70.8% of the issued share capital of our Company. Immediately after completion of the Global Offering and assuming the Over-allotment Option is not exercised, King Lok will hold approximately 63.0% of the issued share capital of our Company.

COMPETITION

None of our Controlling Shareholders has any interest in a business which competes or is likely to compete, either directly or indirectly, with our Group's business.

Excluded business

Mr. Zhang Li, the chairman and an executive Director of our Company and the father of Mr. Zhang Liang, Johnson, a Controlling Shareholder, is the sole shareholder of Fuliang Coal Mining as of the Latest Practicable Date. It is expected that Mr. Zhang Li will continue to own and operate Fuliang Coal Mining after the Listing. Mr. Zhang Li and Fuliang Coal Mining have each confirmed that they are not engaged in and do not hold any interest in any business which is in competition, directly or indirectly, with the business of any member of our Group apart from the excluded business described below.

Guizhou project

Fuliang Coal Mining holds an 85% equity interest (the “**Equity Interest**”) in Guizhou Fuliang, which is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine, an anthracite coal mine in Bijie, Guizhou Province, China, with an expected annual production capacity of 600 thousand tonnes, through its wholly-owned subsidiary Guizhou Yangmei Longtai. The remaining 15% equity interest in Guizhou Fuliang is held by Guizhou Qiaobang, which is owned as to 40% by Mr. Zhang Hongyi and as to 60% by Mr. Tang Bangzhi, both being Independent Third Parties who oversaw the initial stages of the exploration of the Yangmei Longtai Coal Mine prior to Mr. Zhang Li's involvement. To the best of our knowledge, Mr. Tang Bangzhi is involved in the real estate development business and Mr. Zhang Hongyi is involved in the real estate development and mining businesses. Mr. Zhang Li was introduced by a mutual acquaintance to Mr. Zhang Hongyi and Mr. Tang Bangzhi as a potential business partner. Further negotiations, which were conducted at arm's length basis, resulted in the parties' cooperation over the Guizhou project and the establishment of Guizhou Fuliang in 2010. As advised by our PRC legal advisers, Jingtian & Gongcheng, there is no material legal impediment for Guizhou Fuliang to obtain the relevant mining permit, but the time that may be required to obtain the relevant mining permit cannot be ascertained at this stage due to the need to complete environmental assessments and other studies and resolve outstanding issues such as the amount of the fee to be paid for the grant of mining rights.

Yangmei Longtai Coal Mine is still in the early stages of development and construction has not yet commenced. Based on information made available to us and assuming no unforeseen changes, we expect (i) the relevant mining permit to be issued by the middle of 2012 and the commencement of the construction of the basic infrastructure required for trial production to follow thereafter, (ii) trial production to begin at the Yangmei Longtai Coal Mine in the fourth quarter of 2013, and (iii) commercial production to begin at the Yangmei Longtai Coal Mine during the first half-year of 2014. The total capital expenditure

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

for the construction of the basic infrastructure is expected to be approximately RMB300 million. Guizhou Fuliang has confirmed to us that no capital expenditure has been incurred as of the Latest Practicable Date. We currently have no plans to provide financial assistance or funding to Mr. Zhang Li and/or Guizhou Fuliang in relation to the development or construction of the Yangmei Longtai Coal Mine.

Guizhou Fuliang was incorporated on 21 December 2010 in the PRC pursuant to a coal mine cooperation and investment agreement dated 25 November 2010 with a registered capital of RMB70 million and two founding members, Fuliang Coal Mining and Guizhou Qiaobang, holding 85% and 15% of the equity interest, respectively. Fuliang Coal Mining and Guizhou Qiaobang injected capital contributions of RMB59.5 million and RMB10.5 million, respectively, into Guizhou Fuliang in December 2010 in proportion to their respective equity interests. There has been no change in the ownership of Guizhou Fuliang since its incorporation. The joint venture was formed in the ordinary course of business. Pursuant to the coal mine cooperation and investment agreement, each joint venture partner shall contribute to the payment of the cost for the grant of mining rights over the Yangmei Longtai Coal Mine in proportion to their respective holdings. Mr. Zeng Yongping (曾永平), the general manager of Guizhou Fuliang, has over five years of experience in the coal mining industry.

According to a report issued by GLSPI, a unit of the Department of Land and Resources of Guizhou Province, China, and confirmed by the Department of Land and Resource of Guizhou Province in 2009, based on GLSPI's review of another report prepared by the GSI, the organisation that conducted site inspections and explorations of the Yangmei Longtai Coal Mine (including obtaining geological samples), Yangmei Longtai Coal Mine had estimated coal resources of approximately 66.06 million tonnes based on a resource/reserve classification system established by the MLR. Please refer to the section headed "Forward-Looking Statements — Cautionary Note to Investors regarding Mining Reserves and Resources Data" in this prospectus.

As part of our business strategy to increase our coal reserves through a strategy of upgrading our Coal Resources to Coal Reserves within our concession area and acquiring coal resources in Inner Mongolia and throughout China, we have entered into a purchase option agreement with Mr. Zhang Li and Fuliang Coal Mining on 9 March 2012, pursuant to which we have the right to acquire the Equity Interest from Fuliang Coal Mining by exercising the purchase option at any time after the Listing during the option period so long as the purchase option agreement is not terminated and we have complied with all applicable requirements of the Listing Rules. The purchase option agreement will terminate if Mr. Zhang Li, Fuliang Coal Mining or its affiliates (including Guizhou Fuliang) ceases to be legally and/or beneficially interested, directly or indirectly, in the optioned asset or the underlying business after the Listing or if our Shares ceases to be listed on the Stock Exchange. Under the purchase option agreement, Fuliang Coal Mining is restricted from disposing of or creating any encumbrance over the Equity Interest and the underlying business assets, and is obliged to restrict Guizhou Fuliang from taking such actions. The purchase option can be exercised at a purchase price equal to the prevailing fair market value of Guizhou Fuliang as determined by one or more independent firms of international valuers in accordance with the purchase option agreement. The Board shall consider various factors, including the status of the development of the Yangmei Longtai Coal Mine, our operational and development needs and our financial position at such time, in determining whether and when to exercise the purchase option. Under our current plans, we will only consider whether or not to exercise the purchase option when the mining permit in respect of the mining rights over the Yangmei Longtai Coal

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Mine has been obtained. Our exercise of the purchase option, which will constitute a connected transaction, will be subject to the approval by our independent non-executive Directors and our compliance with the provisions of the Listing Rules (including Chapters 14, 14A and 18). We confirm that a competent person's report will be prepared in the event that we exercise the purchase option.

Fuliang Coal Mining shall procure Guizhou Fuliang to provide to our Company promptly (i) after the end of each quarter of the financial year of Guizhou Fuliang, and in any event within 30 days from the end of each quarter of the financial year of Guizhou Fuliang, the management accounts of Guizhou Fuliang for such quarter, (ii) after the end of each financial year of Guizhou Fuliang, and in any event within 60 days from the end of each of the financial year of Guizhou Fuliang, the audited full-year accounts of such year, and (iii) after the end of each quarter of the financial year of Guizhou Fuliang, and in any event within 30 days from the end of each quarter of the financial year of Guizhou Fuliang, a quarterly management report providing an update on the status of the development of the Yangmei Longtai Coal Mine for such quarter. Fuliang Coal Mining shall also procure Guizhou Fuliang to allow our Company reasonable access to all books, records, accounts and other information in relation to the business and operations of the Yangmei Longtai Coal Mine as may be deemed appropriate by our Company. We intend to keep Shareholders fully informed in a timely manner with regard to any updates on the Yangmei Longtai Coal Mine and details of any reviews conducted and decisions made by our independent non-executive Directors in our interim reports and annual reports after Listing. Whilst our Company has no obligation to exercise the purchase option, in the event that our Company decides to exercise the purchase option, our Company shall decide on the source of funding for the purchase based on our Company's financial position at such time and the then prevailing market conditions.

In the event that the purchase option is exercised, as advised by our PRC legal advisers, Jingtian & Gongcheng, the transfer of the Equity Interests will need to be registered with the relevant local bureau of industry and commerce and may also need to be approved by the relevant foreign investment bureau or be subject to a security review by MOFCOM. For further details on the relevant PRC laws and regulations, please refer to the section headed "Regulations — China's Coal Industry — Security Review by MOFCOM" in this prospectus.

Reason for exclusion

As of the Latest Practicable Date, since Guizhou Yangmei Longtai had not completed the procedures to obtain mining rights over the Yangmei Longtai Coal Mine and the Yangmei Longtai Coal Mine is not currently in production, the Equity Interest has been excluded from our Group.

Deed of Non-competition

Each of our Controlling Shareholders and Mr. Zhang Li, one of our executive Directors and the father of Mr. Zhang Liang, Johnson, a Controlling Shareholder, have entered into a deed of non-competition in favour of our Company and our subsidiaries, pursuant to which each of our Controlling Shareholders and Mr. Zhang Li has undertaken that they and companies or entities controlled by them (whether individually or taken together) would not, during the period that the deed remains effective, directly or indirectly, carry on, engage, invest, dispose of, participate or otherwise be interested in any business which is in competition, directly or indirectly, with the business of any member of our

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Group, other than, in the case of Mr. Zhang Li, the excluded business as detailed in this section, from time to time (the “**Restricted Business**”), unless such Restricted Business has first been offered or made available to our Group, and our Group, after review and approval by an independent board committee of our Company comprising only of independent non-executive Directors who do not have a material interest in such Restricted Business, has declined to pursue such opportunity.

The Deed of Non-competition shall not restrict the holding of our Shares listed on the Stock Exchange by our Controlling Shareholders or Mr. Zhang Li or companies or entities controlled by them.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that our Group is able to conduct our business independently of the other companies controlled by our Controlling Shareholders following Listing:

Independence of the Board and management

All major management decisions will be made by our Board of Directors as a whole. Our Board of Directors has seven members, consisting of three executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Zhang Liang, Johnson, a Controlling Shareholder, is one of our executive Directors. Mr. Zhang Liang, Johnson is the son of Mr. Zhang Li, another executive Director, and the nephew of Ms. Zhang Lin, our non-executive Director.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall, if his or her or any of his or her associates' interest in such contract or arrangement is material, declare the nature of his or her interest in accordance with the Articles of Association and shall not vote or be counted in the quorum or any resolution of the Board in respect of such contract or arrangement unless so authorised by the Articles of Association. Each of Mr. Zhang Li, Mr. Zhang Liang, Johnson and Ms. Zhang Lin has undertaken that if a conflict of interest situation arises in respect of any of them, they shall (i) not vote or be counted in the quorum or any resolution of the Board unless so authorised by the Articles of Association, (ii) refrain from being present during the relevant discussions at Board meetings and (iii) play no part in the decision-making process of the Board. None of our Directors or senior management holds any significant financial interests in any business which is in competition, directly or indirectly, with the business of any member of our Group, other than, in the case of Mr. Zhang Li, the excluded business as detailed in this section. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Mr. Zhang Li is also an executive director of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), a company listed on the Stock Exchange. Mr. Zhang Li is expected to spend the necessary time and attention required as chairman and executive Director of our Company to formulate our overall business strategy and oversee the corporate development of our Group. Further, our other executive Directors and all of our senior management are our full-time employees and do not have senior

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

executive positions in the daily management and operation of Guangzhou R&F Properties Co., Ltd. or its subsidiaries, and all major management decisions will be made by our Board of Directors as a whole, including our independent non-executive Directors. Our daily operations will be managed by our senior management team, all the members of which are independent from those of Guangzhou R&F Properties Co., Ltd. Therefore, notwithstanding the fact that Mr. Zhang Li will hold dual positions in our Company and in Guangzhou R&F Properties Co., Ltd., our Directors are of the view that we will be able to operate independently of Guangzhou R&F Properties Co., Ltd.

Save as disclosed in this section and the section headed “Directors, Senior Management and Staff” in this prospectus, our Directors and our senior management have no other material executive role in other companies.

Independence of business and operations

We have an organisational structure and a work force independent from the operational team of our Controlling Shareholders. Our Group has independent access to sources of suppliers or raw materials for mine construction, development and operations as well as customers. There is no competing business between our Controlling Shareholders and our Group and each of our Controlling Shareholders has entered into a deed of non-competition in favour of our Company. Please refer to the section headed “Relationship with Controlling Shareholders — Competition — Deed of Non-competition” in this prospectus for more details.

Independent financial viability

We have our own financial and accounting systems independent from our Controlling Shareholders and make financial decisions according to our own business needs. All loans and advances due to and from our Controlling Shareholders and their respective associates have been or will be fully settled before the completion of the Global Offering. Our Controlling Shareholder has undertaken in writing to provide financial support to our Group, if necessary, to enable our Group to meet its financial obligations as and when they fall due. This undertaking will terminate at the Listing.

Independent internal audit

We have an internal control system independent from our Controlling Shareholders.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

Our Board of Directors is responsible for, and has general powers for, the management and conduct of the business of our Company. Our Board of Directors consists of seven Directors including three executive Directors, one non-executive Director and three independent non-executive Directors. We confirm that the current composition of our Board of Directors and the internal systems of our Company comply with the requirements of the Listing Rules and the Code of Corporate Governance Practices appended to the Listing Rules including the recent updates which became effective on 1 January 2012 or will become effective on 1 April 2012. The table below sets out certain information in respect of the members of our Board of Directors:

Name	Age	Position
DIRECTORS		
Mr. Zhang Li	58	Chairman, executive Director
Mr. Wang Changchun	67	Chief executive officer, executive Director
Mr. Zhang Liang, Johnson	30	Executive Director
Ms. Zhang Lin	63	Non-executive Director
Mr. Shi Xiaoyu	63	Independent non-executive Director
Ms. Liu Peilian	58	Independent non-executive Director
Mr. Dai Feng	69	Independent non-executive Director
SENIOR MANAGEMENT		
Mr. Gu Jianhua	58	General manager
Mr. Wang Bingkui	55	President of marketing, sales and coal trading
Mr. Huang Xiaoming	40	General manager of marketing, sales and coal trading
Mr. Xiao Runzhang	53	Chief engineer
Ms. Wang Ying	39	Chief financial officer
Mr. Ai Weishun	44	Mine manager
Mr. Zhu Mingbao	44	Chief mine engineer
Mr. Wang Zengrong	60	Manager of the supplies department
Mr. Li Guoming	57	Deputy mine manager responsible for production safety
Mr. Liu Xiuting	65	Head of civil engineering division
Mr. Li Pinghui	71	Factory manager of the coal washing plant of our Dafanpu Coal Mine
Mr. Tao Chi Keung	41	Company secretary

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Executive Directors

Mr. Zhang Li (張力), aged 58, was appointed Director on 27 July 2010 and was re-designated as an executive Director on 6 March 2012. He was further appointed as the chairman of our Company on 6 March 2012. He is the sole director of Kinetic (Asia). He graduated from Guangzhou Open University (廣州市廣播電視大學) in 1986 and is responsible for our Group's overall business strategy and corporate development and the identification of potential acquisition targets for our Group which he founded in 2006. Mr. Zhang is the father of Mr. Zhang Liang, Johnson and the brother of Ms. Zhang Lin.

Mr. Zhang was the secretary of the Youth League Committee of Guangzhou Second Light Industry Bureau* (廣州市二輕局) from 1975 and 1981 and the head of production department of Guangzhou Baiyun District Rural Enterprise Administration* (廣州市白雲區鄉鎮企業管理局) from 1981 to 1985 and the general manager of Guangzhou Meihuacun Hotel* (廣州市梅花村酒店) and Guangzhou Tianli Property Development Corp.* (廣州天力房地產開發公司), the predecessor of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), a company listed on the Stock Exchange, from 1985 to 1994 and from 1994 to 2000, respectively. As one of the co-founders and controlling shareholders of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), he is currently its chief executive officer and one of the co-chairmans and executive directors. Mr. Zhang is a member of the 11th National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會), the vice chairman of China Real Estate Chamber of Commerce (全國工商聯房地產商會) and a director and a part-time professor of Jinan University (暨南大學) in China.

Mr. Wang Changchun (王長春), aged 67, was appointed executive Director and chief executive officer of our Company on 6 March 2012. He works with the senior management and supervises the overall mining operations of our Group. Mr. Wang graduated from Eastern China Mining Institute* (華東礦業學院) (now known as Shandong University of Science and Technology (山東科技大學)) in the PRC in 1968, majoring in mining industry economy and organisation. He is a qualified engineer and a certified public accountant in China.

Mr. Wang has over 40 years of experience in the coal mining industry. Prior to joining our Group in November 2006, Mr. Wang commenced his career in Fengcheng Mining Bureau* (豐城礦務局) in Jiangxi Province, China in 1968 and was the head of the bureau from 1984 to 1994. He served as head of the General Office of the Ministry of Coal Industry* (煤炭工業部), China from 1994 to 1997, chairman and president of China National Coal Industry Import and Export Group Company* (中國煤炭工業進出口集團公司) from 1997 to 2000 and deputy director of the logistics service bureau of the SAWS and SACMS from 2000 to 2005. At SAWS and SACMS, Mr. Wang was primarily responsible for the construction of various infrastructure and facilities. While he was the head of Fengcheng Mining Bureau, he oversaw eight operating coal mines, namely, Pinghu Coal Mine* (坪湖煤礦), Jianxin Coal Mine* (建新煤礦), Bayi Coal Mine* (八一煤礦), Shangzhuang No. 1 Coal Mine* (尚庄一礦), Shangzhuang No. 2 Coal Mine* (尚庄二礦), Shangzhuang No. 3 Coal Mine* (尚庄三礦), Yunzhuang Coal Mine* (雲庄煤礦) and Shangtang Coal Mine* (上塘煤礦), and two other coal mines under construction. Under Mr. Wang's leadership, the eight operating coal mines achieved a total annual production capacity of 4.2 million tonnes of coal. While he was president of China National Coal Industry Import and Export Group Company, he oversaw China's largest open-pit coal mine, Pingshuo Open-pit Coal Mine* (平朔露天煤礦), which had an annual production capacity of 50 million tonnes of coal.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Wang was a part-time professor at China University of Mining and Technology (中國礦業大學). He has been a member of the China Coal Council* (中國煤炭全國理事會) since January 2011. He was awarded the National Labour Medal* (全國五一勞動獎章) by All China Federation of Trade Unions (中華全國總工會) in 1992 and a certificate for special contributions to the state (國家特殊貢獻獎) in recognition of his outstanding contributions to the coal industry of China by the State Council in 1998.

Mr. Zhang Liang, Johnson (張量), aged 30, was appointed executive Director on 6 March 2012. He joined our Group and was appointed the sole director of Blue Gems in January 2010. He assists Mr. Zhang Li in devising the overall business strategy and corporate development plan of our Group. Mr. Zhang is the son of Mr. Zhang Li and the nephew of Ms. Zhang Lin.

Mr. Zhang has been a president of Guangzhou Heng Liang Mechanical & Electrical Engineering Co., Ltd. (廣州恒量機電工程有限公司), a construction company, and a director of Hengleung Construction Holdings Limited (恒量建設集團有限公司), an investment holding company, since 2010 and 2008, respectively, and participated in the overall business strategic planning of these companies.

Non-executive Director

Ms. Zhang Lin (張琳), aged 63, was appointed as a non-executive Director on 6 March 2012. She graduated from the South China University of Technology (華南理工大學) with a bachelor degree in electrical engineering theory and electronic technology in 1982 and served as a teaching assistant and a lecturer at the same university from 1982 to 1993 and was an associate professor from 1993 to 2003, teaching electrical engineering and electronic technology. She has been a non-executive director of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), a company listed on the Stock Exchange, since 2004. Ms. Zhang is the sister of Mr. Zhang Li and the aunt of Mr. Zhang Liang, Johnson.

Independent non-executive Directors

Mr. Shi Xiaoyu (史小予), aged 63, was appointed as an independent non-executive Director on 6 March 2012. He graduated from Tongji University (同濟大學) with a bachelor's degree in urban planning in 1982. He worked in the Urban Planning Bureau of the Guangzhou Municipality (廣州市城市規劃局) and the Guangzhou Urban Planning & Design Survey Research Institute (廣州市城市規劃勘測設計研究院) from 1982 to 2004 and held various senior positions such as chief engineer, deputy director and director of the Urban Planning and Design Survey Administration* (廣州市城市規劃局規劃勘測設管理處) and dean of the Guangzhou Urban Planning & Design Survey Research Institute. He is a qualified urban planning engineer and is currently the executive vice president of Guangzhou Urban Planning Association (廣州市城市規劃協會), a member of the Development Strategy Committee* (發展策略委員會) and the Architectural and Environmental Art Committee* (建築與環境藝術委員會) of the Urban Planning Committee of the Guangzhou Municipality* (廣州市城市規劃委員會) and a counsellor of the People's Government of Guangzhou Municipality in China.

Ms. Liu Peilian (劉佩蓮), aged 58, was appointed as an independent non-executive Director on 6 March 2012. She completed her undergraduate education in finance and accounting from Guangzhou Open University (廣州市廣播電視大學) in 1990 and obtained her master's degree in business administration from Murdoch University in Australia in 2002. Ms. Liu is a certified public accountant and a certified tax agent in the PRC and has approximately 40 years of experience in finance and accounting.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

She worked in the Guangzhou Financial Bureau (廣州市財政局) from 1971 to 1985 and held various senior positions with Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. (立信羊城會計師事務所有限公司) and its predecessor firms including director, deputy chief accountant and consultant between 1999 to 2009. She was an independent director of Winowner Group Co., Ltd. (萬鴻集團股份有限公司), a printing and packaging company listed on the Shanghai Stock Exchange, from 2004 to 2009. She has been a consultant of Qinghai Huading Industrial Co., Ltd. (青海華鼎實業股份有限公司), a manufacturer of mechanical products listed on the Shanghai Stock Exchange, since 2010 and an independent director of Keda Industrial Co., Ltd. (廣東科達機電股份有限公司), another manufacturer of mechanical products listed on the Shanghai Stock Exchange, and GRG Banking Equipment Co., Ltd. (廣州廣電運通金融電子股份有限公司), an automatic teller machine supplier listed on the Shenzhen Stock Exchange, since 2009 and 2011, respectively.

Mr. Dai Feng (戴逢), aged 69, was appointed as an independent non-executive Director on 6 March 2012. He graduated from Wuhan Urban Construction Institute* (武漢城市建設學院) (now known as Huazhong University of Science and Technology (華中科技大學)) in China majoring in urban and rural construction engineering in 1964. He is currently an expert committee member of the MHURD. He was an honorary member of the Urban Planning Society of China (中國城市規劃學會) and a part-time professor at Wuhan University of Technology (武漢理工大學), Wuhan Technical University of Surveying and Mapping* (武漢測繪科技大學) and Wuhan Urban Construction Institute* (武漢城市建設學院) in China. He is also a fellow of the International Eurasian Academy of Sciences (國際歐亞科學院). He has been an independent non-executive director of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司) and KWG Property Holding Limited (合景泰富地產控股有限公司), both of which are companies listed on the Stock Exchange, since 2005 and 2007, respectively, and an independent director of Poly Real Estate Group Co., Ltd (保利房地產(集團)股份有限公司) and Guangzhou Donghua Enterprise Co. Ltd. (廣州東華實業股份有限公司), both of which are companies listed on the Shanghai Stock Exchange, between 2006 to 2010 and since 2006, respectively. He is a qualified engineer and a qualified urban planner in China.

Please refer to the appendix headed “Statutory and General Information” to this prospectus for further information about our Directors, including the particulars of their service contracts and remuneration, and details of the interests of our Directors in our Shares (within the meaning of Part XV of the SFO).

Except as disclosed in this prospectus, each of our Directors has confirmed that there are no other matters relating to his/her appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his/her appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Gu Jianhua (顧建華), aged 58, is the general manager of our Group and works with Mr. Wang Changchun in the overall management of the operations of our Group. He studied mining management and engineering at Huainan Mining Institute* (淮南礦業學院) (now known as Anhui University of Science & Technology (安徽理工大學)) from 1990 to 1993 and economics and management at the Central Party School* (中央黨校) in the PRC from 1994 to 1996, and is a qualified engineer in China.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Gu has nearly 40 years of experience in the coal mining industry of China. Prior to joining our Group in September 2009, Mr. Gu worked in Fengcheng Mining Bureau* (豐城礦務局) in Jiangxi Province, China from 1971 to 1995 where he accumulated extensive experience in coal production and safety management while serving in various senior positions including as deputy mine manager of Jianxin No. 2 Coal Mine* (建新二礦) and as deputy chief engineer of the bureau. He served as general manager of a company under the Ministry of Coal Industry* (煤炭工業部) in Qingdao, China from 1995 to 1997, assistant to the general manager of the China Coal Comprehensive Utilisation Group Company (中國煤炭綜合利用集團公司), China and head of its general office from 1997 to 1999, deputy head of the Coal Industry Comprehensive Utilisation of Technology Consultation Centre* (煤炭綜合利用多種經營技術諮詢中心) under the Ministry of Coal Industry* (煤炭工業部) of China from 1999 to 2002, chairman and party secretary of China Coal Electric Company Limited* (中煤電氣有限公司) from 2002 to 2004 with key responsibilities for overseeing the production of high- and low-voltage electrical cabinets, as well as deputy secretary and general manager for the development of mineral resources of China Coal Comprehensive Utilisation Group Company (中國煤炭綜合利用集團公司) from 2004 to 2009 with key responsibilities in mineral resources development and technology consultation.

Mr. Gu is a committee member of the National Technical Committee of Standardisation of Low-voltage Switchgear and Control Equipment Administration of the PRC* (中華人民共和國全國低壓成套開關設備和控制設備標準化技術委員會).

Mr. Gu directed and wrote numerous dissertations, including the “Measures for the Administration of Safety Production* (安全生產管理辦法)” for Fengcheng Mining Bureau* (豐城礦務局) of Jiangxi Province, China in 1994 and the “Provisional Measures for the Administration of Safety Production* (安全生產管理試行辦法)” of Beijing Zhongmei Electric Co., Ltd.* (北京中煤電氣有限公司) in November 2002, which was then consolidated into the document “Zhongmei Electric Installation No. 001* (中煤電氣安裝001號文)”, and won various prizes for scientific and technological achievements, including awards in relation to the redevelopment of certain mine shaft ventilation systems and the construction of a new mine for Fengcheng Mining Bureau* (豐城礦務局) between 1973 to 1974 and 1982 to 1986, respectively. Mr. Gu was awarded a certificate of long-term service in the coal industry by China National Coal Association* (中國煤炭工業協會) in 2005 in recognition of his contributions to the coal industry of China throughout the years.

Mr. Wang Bingkui (王炳奎), aged 55, is the president of marketing, sales and coal trading of our Group. He leads the general manager of marketing, sales and coal trading of our Group and his team on our marketing, sales and coal trading operations. He completed his secondary education in 1975 and is a qualified engineer and a qualified economist in China.

Mr. Wang has over 30 years of experience in the coal mining industry of China. Prior to joining our Group in September 2010, Mr. Wang worked in Fengcheng Mining Bureau* (豐城礦務局) in Jiangxi Province, China from 1973 to 1995, during which he held various senior positions, including head of power supply bureau, and gained experience in the management of power supply to coal mines. From 1995 to 1998, he worked at the Ministry of Coal Industry* (煤炭工業部) of China and was involved in various infrastructure reconstruction projects. From 1998 to 2010, Mr. Wang was the deputy general manager and the general manager of the coal storage and transportation centre of China Coal Industrial Qinhuangdao Import and Export Limited* (中國煤炭工業秦皇島進出口有限公司) and accumulated extensive experience in marketing, sales and coal trading operations.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Huang Xiaoming (黃曉明), aged 40, is the general manager of marketing, sales and coal trading of our Group. He works with the president of marketing, sales and coal trading of our Group on our marketing, sales and coal trading operations. He graduated from China University of Mining and Technology (中國礦業大學) with a bachelor's degree in mineral process engineering in 1995 and is a qualified engineer in China. He is studying for a master's degree in mining engineering at Taiyuan University of Technology (太原理工大學) in China.

Mr. Huang has over 15 years of experience in the aluminium production industry of China. Prior to joining our Group in June 2010, Mr. Huang worked for Aluminum Corporation of China Limited, a company listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange, at its branch in Shandong Province, China from 2001 to 2010, during which he gained experience in production, marketing, sales and trading operations. More specifically, he took part in the construction of an insulation material production line and the development and marketing of a red mud product project. From 1995 to 2001, he worked primarily on production technology application and research and project development at Shandong Aluminum Company* (山東鋁業公司), which became the wholly-owned subsidiary of Aluminum Corporation of China Limited in 2001. Mr. Huang was a member of the team which pioneered and developed a new method for mineral processing which was later patented with the State Intellectual Property Office of the PRC. He also received two technical awards from China Non-ferrous Metals Industry Association* (中國有色金屬工業協會) and The Non-ferrous Metals Society of China (中國有色金屬學會) in 2002 and 2003 for his technological researches on bauxite ore beneficiation and a new red mud microporous insulation product, respectively.

Mr. Xiao Runzhang (肖潤章), aged 53, is the chief engineer of our Group and is responsible for all engineering and technology-related matters for our Group's operations. He graduated from Hebei Institute of Coal Architectural Engineering* (河北煤炭建築工程學院) (now known as Hebei University of Engineering (河北工程大學)) in the PRC in infrastructure management and engineering in 1987. He is a qualified civil engineer and a qualified mining engineer in China.

Mr. Xiao has over 30 years of experience in coal mine engineering. Prior to joining our Group in July 2007, Mr. Xiao worked in Xuangang Mining Bureau* (軒崗礦務局) of Shanxi Province, China from 1980 to 1994 for over 13 years, during which he held various senior positions including deputy director and accumulated extensive experience in mine construction management through his involvement in various projects including the construction of Xuangang Thermal Power Plant (軒崗電廠) and relevant coal washing and processing facilities in Shanxi Province, China. He also served as deputy general manager of Shanxi Coal Mechanisation Construction Company* (山西煤炭機械化施工公司) from 1994 to 2007 for over 13 years, during which he oversaw mine construction projects involving Jincheng Mining Bureau* (晉城礦務局) and Lu'an Mining Bureau* (潞安礦務局), Shaqu Mine (沙曲礦) which is ultimately owned by China Coal Energy Company Limited (中國中煤能源股份有限公司), a company listed on the Stock Exchange and the Shanghai Stock Exchange, and Shanxi Coking Coal Group Co., Ltd. (山西焦煤有限責任公司), a Shanxi-based coking coal company, Pingshuo Anjialing Coal Mine (平朔安家嶺煤礦) which is also owned ultimately by China Coal Energy Company Limited and various other mines.

Ms. Wang Ying (王穎), aged 39, is the chief financial officer of our Group. Ms. Wang is also a supervisor of Kinetic Qinhuangdao and Xiaojia JV. She completed specialist studies in commercial English at Haidian Day University (海澱走讀大學) (now known as Beijing City University (北京城市學院)) in Beijing, China in 1993 and obtained her bachelor's degree in accounting from Renmin University of China (中國人民大學) in China in 2002.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. Wang has over 15 years of experience in financial management and accounting and is a qualified accountant in China. Ms. Wang joined R&F Beijing Properties Co., Ltd. (北京富力城房地產開發有限公司), an indirectly wholly-owned subsidiary of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), in August 2005. Prior to joining our Group in July 2009, Ms. Wang was a financial manager at R&F Beijing Properties Co., Ltd. (北京富力城房地產開發有限公司) from November 2007 to June 2009 and oversaw financial matters in relation to its property management business in Beijing. Prior to August 2005, she held an accounting position in another real estate development company.

Mr. Ai Weishun (艾維順), aged 44, is the mine manager of our Group and is responsible for the overall operations at our Dafanpu Coal Mine. He graduated from Shanxi Mining Institute* (山西礦業學院) (now known as Taiyuan University of Technology (太原理工大學)) in the PRC with a bachelor's degree in mining mechanical engineering in 1990 and from Yanshan University (燕山大學) in the PRC with a master's degree in mechanical engineering in 2006 and is a qualified engineer in China.

Mr. Ai has over 20 years of experience in the coal mining industry of China. Prior to joining our Group in March 2010, Mr. Ai worked in the Lujiatuo Mine* (呂家坨礦) ultimately owned by Kailuan Energy Chemical Co., Ltd. (開灤能源化工股份有限公司), an energy company listed on the Shanghai Stock Exchange (one of China's largest coal producers with an annual production capacity of over 25 million tonnes), in Hebei Province, China from 1990 to 2010 for nearly 20 years, where he held various senior positions including head of mechanical and electrical engineering division, deputy chief engineer of the production technology department and deputy head of training centre. While at Lujiatuo Mine, Mr. Ai led the formulation and the implementation of measures which increased the transportation system capacity of the mine from 1.8 to 2.45 million tonnes of coal per year and lowered operational incident occurrence levels by over 85%. He also played a key role in introducing the use of certain new coal mining machinery, revamping the system for the supply of heat to boilers and constructing, managing the operations of and maintaining waste water treatment facilities with a waste water treatment capacity of 15,000 tonnes per day.

Mr. Zhu Mingbao (朱明寶), aged 44, is the chief mine engineer of our Group and is responsible for designing and updating the mine production plan at the Dafanpu Coal Mine for long-term development. He completed studies in mine shaft construction at Datong Coal Industry Institute* (大同煤炭工業學校) (now known as Shanxi Datong University (山西大同大學)) in Shanxi Province, China in 1989 and in sales and marketing at Yancheng Industrial College* (鹽城工業專科學校) (now known as Yancheng Institute of Technology (鹽城工學院)) in 1995. He is studying coal mine production technology at Inner Mongolia University of Technology (內蒙古工業大學) in China. He is a qualified engineer in coal mine safety and production in China.

Mr. Zhu has over 21 years of experience in coal mine engineering. Prior to joining our Group in May 2010, Mr. Zhu was the technical manager of the Guqiao Coal Mine* (顧橋煤礦) owned by Huainan Mining (Group) Co., Ltd.* (淮南礦業(集團)有限責任公司), a state-owned coal mining company, in Anhui Province, China from 2006 to 2010 and was responsible for coal mine engineering and management. At Guqiao Coal Mine, he took part in the building of y-type ventilation systems which enhanced work safety in a high gas environment. He held various positions including deputy chief mine engineer in coal mines in Xuzhou in Jiangsu Province, China for over 16 years from 1989 to 2006, during which he co-designed the waterproof coal pillars utilised for a coal mine situated under a lake, which not only enhanced production safety but also enabled the extraction of more coal from the mine, and reconstructed its adit

DIRECTORS, SENIOR MANAGEMENT AND STAFF

so that it bypassed the variegated mudstone layer where the underground pathway was often damaged as a result of the passing of heavy machinery. At a steep-slope mine in Xuzhou, he utilised anchor cables for support in tunnel constructions which enabled the extraction of more coal from the floor of the tunnel and the space left behind were used to store rock spoils which reduced the need to expropriate land for above-ground rock spoil heaps.

Mr. Wang Zengrong (王增榮), aged 60, is the manager of the supplies department of our Group and is responsible for managing the procurement of equipment and supplies for mine construction and operations. He studied mechanical manufacturing processes and equipment at Xian Jiaotong University* (西安交通大學) in the PRC from 1974 to 1977 and is a qualified engineer in China.

Mr. Wang has over 35 years of experience in procurement and supply chain management, maintenance and manufacturing. Prior to joining our Group in September 2007, Mr. Wang worked in the Yinchuan Light Industry Machine Factory* (銀川輕工業機械廠) in Ningxia Hui Autonomous Region in China, where he held various senior positions including engineering section head and was responsible for equipment maintenance and inspection, for nearly 25 years from 1969 to 1974 and from 1977 to 1997 and in an entity under Ningxia Environmental Protection Bureau* (寧夏環保局) for over six years from 1998 to 2004, where he held the position of general manager and was responsible for supplies procurement and technology management. He was the manager responsible for environmental impact management of a company in the environmental impact management industry, for three years from 2004 to 2007.

Mr. Li Guoming (李國明), aged 57, is the deputy mine manager responsible for production safety of our Group. He graduated from Kailuan Coal Technical Training Institute* (開灤煤礦技工學校), now known as Hebei Energy College of Vocation and Technology (河北能源職業技術學院), in 1976.

Mr. Li has over 35 years of experience in the coal mining industry of China, in particular, in mine shaft ventilation management and mine safety inspections. Prior to joining our Group in November 2010, Mr. Li worked from 1974 to 2009 in Kailuan Energy Chemical Co., Ltd. (開灤能源化工股份有限公司), an energy company listed on the Shanghai Stock Exchange, where he held various senior positions at the Lujiatuo Mine* (呂家坨礦), including as head of a production team and regional head of ventilation. While at Lujiatuo Mine, he implemented the installation of gas drainage pumps to increase work safety in the mine and re-designed the hydraulic support used for mining on steep slopes to better ensure slope security. Mr. Li also devised an internal plan to increase productivity which was eventually adopted group-wide in ten coal mines. From July 2009 to October 2010, he worked at the Kaida Coal Mine* (凱達煤礦) owned by Inner Mongolia Yitai Coal Company Limited (內蒙古伊泰煤炭股份有限公司), a company listed on the Shanghai Stock Exchange. While at Kaida Coal Mine, he introduced a pressure-balancing ventilation system which effectively reduced carbon monoxide levels in the mine.

Mr. Liu Xiuting (劉秀廷), aged 65, is the head of the civil engineering division of our Group and is responsible for all civil engineering matters. He studied mine shaft construction in Shanxi Mining Institute* (山西礦業學院) (now known as Taiyuan University of Technology (太原理工大學)) in the PRC from 1990 to 1992 and labour and economic management at Shanxi University* (山西大學) in the PRC from 1987 to 1990, and is a qualified civil engineer in China.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Liu has over 30 years of experience in the coal mining industry. Prior to joining our Group in June 2007, Mr. Liu held various senior positions at the Xuangang Mining Bureau* (軒崗礦務局) in Shanxi Province, China including head of the mine infrastructure engineering division for nearly 29 years, during which he took part in mine constructions and geological surveys. While at the bureau, he was involved in the construction of various coal mining infrastructure at Huangjiabao Coal Mine* (黃家堡煤礦) in Shanxi Province, China.

Mr. Li Pinghui (李平輝), aged 71, is the factory manager of our Group responsible for managing the coal washing plant of the Dafanpu Coal Mine. He graduated from the mechanical and electrical engineering faculty of Jiangxi Coal Mine Institute* (江西煤礦學院) (now known as Jiangxi Polytechnic College (江西工業工程職業技術學院) in the PRC in mining machinery and electrical equipment in 1960. He is a qualified engineer of mechanical and electrical equipment.

Mr. Li has over 48 years of experience in the coal mining industry of China. Mr. Li has extensive management and practical experience in coal mine machinery, management, repair and use of electrical equipment. Prior to joining our Group in August 2008, he served as chief engineer and production factory manager of a coal power plant under the Fengcheng Mining Bureau* (豐城礦務局). From 1960 to 2006, he worked at Fengcheng Mining Bureau* (豐城礦務局) and held various senior positions during the period including director and chief engineer of the mechanical and electrical department and factory manager of a machinery repair plant under the bureau.

Mr. Li was a member of the coal mine production capacity appraisal team under the economic commission of the Jiangxi Province (江西省經委組織) in China in 2006, during which he conducted an audit on the power supply capability, water drainage capability and transportation capability of 95 coal mines. He was also a member of the coal mine equipment specialist appraisal team of the Jiangxi Province in China.

Mr. Li was the editor of the mechanical and electrical technology section of the Technological Records of the Fengcheng Mining Bureau* (豐城礦務局) and a textbook on coal mine safety.

Mr. Tao Chi Keung (陶志強), aged 41, is our company secretary. Mr. Tao joined our Group in October 2011. Mr. Tao has more than 12 years of experience in accounting and auditing in various positions at three international accounting firms. Mr. Tao obtained a Bachelor of Business Administration degree majoring in accounting from Hong Kong Baptist University in 1993. He is currently a Fellow of Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants. Prior to joining our Group, Mr. Tao was the chief financial officer in Heng Xin China Holdings Limited, Chiaus International Group Company Limited and Birdland (Hong Kong) Limited, respectively, where he was responsible for financial management, internal control and risk management.

Except as disclosed above, each member of our senior management has confirmed that he has not held any directorships or major appointments in other listed public companies in the three years preceding the Latest Practicable Date.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

COMPANY SECRETARY

Mr. Tao Chi Keung is the company secretary of our Company. For details of his biography, please refer to the above sub-section headed “Senior Management” in this section above.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries and discretionary bonuses related to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. Our remuneration committee regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

After the Listing, our Directors and senior management may receive share options pursuant to our Company's share option scheme. Please refer to the section headed “Share Option Scheme” in Appendix VI to this prospectus for further details.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION DURING THE TRACK RECORD PERIOD

During the period from 11 December 2009 to 31 December 2009, and each of the years ended 31 December 2010 and 2011, the aggregate amount of remuneration, including fees, salaries, discretionary bonuses, defined contribution plans (including pension), housing and other allowances, and other benefits in kind, paid to our Directors by any member of our Group were nil, approximately RMB500,000 and approximately RMB1,099,000, respectively.

Under the arrangements currently in force, we estimate the aggregate remuneration and benefits in kind, excluding discretionary bonuses, payable by any member of our Group to our Directors for the current financial year ending 31 December 2012 will be approximately RMB7,660,000.

During the period from 11 December 2009 to 31 December 2009, and each of the years ended 31 December 2010 and 2011, the aggregate amount of remuneration, including fees, salaries, discretionary bonus, defined contribution plans (including pension), housing and other allowances, and other benefits in kind, paid by our Company to the five highest paid individuals, excluding one Director who constitutes one of the five highest paid individuals of our Company, were nil, approximately RMB1,170,000 and approximately RMB3,277,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office in respect of the period from 11 December 2009 to 31 December 2009, and each of the years ended 31 December 2010 and 2011. Further, none of our Directors has waived any remuneration during the same period.

Except as disclosed above, no other payments have been made or are payable, in respect of the three years ended 31 December 2011, by us to our Directors.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD COMMITTEES

Audit Committee

We will establish an audit committee with effect from the Listing pursuant to a resolution passed at a meeting of our Directors held on 6 March 2012 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee will be ensuring that our Company will have an effective financial reporting and internal control system in compliance with the Listing Rules, overseeing the integrity of the financial statements of our Company, selecting, and assessing the independence and qualifications of our Company's external auditor and ensuring effective communication between our Directors, internal auditors and external auditors. The audit committee will initially consist of three members, namely, Ms. Liu Peilian (chairman of the audit committee), Mr. Dai Feng and Ms. Zhang Lin.

Remuneration Committee

We will establish a remuneration committee with effect from the Listing pursuant to a resolution passed at a meeting of our Directors held on 6 March 2012. The primary duties of the remuneration committee will be assisting the Board in determining the policy and structure for the remuneration of Directors and senior management, reviewing incentive schemes and directors' service contracts and fixing the remuneration packages for executive Directors and senior management. The remuneration committee will initially consist of three members, namely, Mr. Shi Xiaoyu (chairman of the remuneration committee), Ms. Liu Peilian and Ms. Zhang Lin.

Nomination Committee

We will establish a nomination committee with effect from the Listing pursuant to a resolution passed at a meeting of our Directors held on 6 March 2012. The primary duties of the nomination committee will be identifying and recommending to the Board appropriate candidates to serve as Directors, evaluating the structure and composition of the Board and developing, recommending to the Board and monitoring nomination guidelines for our Company. The nomination committee will initially consist of three members, namely, Mr. Zhang Li (chairman of the nomination committee), Mr. Dai Feng and Mr. Shi Xiaoyu.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, as our compliance adviser, Guotai Junan Capital Limited will advise us on, amongst others, the following matters:

- (i) the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- (iii) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or financial results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an enquiry of us regarding unusual movements in the price and trading volume of our Shares.

The term of appointment of Guotai Junan Capital Limited shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

PENSION SCHEMES

In Hong Kong, we operate a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time, for all our employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to our profit and loss account as they become payable. We contribute the lower of HK\$1,000 or 5% of the relevant monthly salary to such scheme and our employees contribute the lower of HK\$1,000 or 5% of their monthly salary to such scheme as employee mandatory contributions.

In the PRC, we participate in the relevant social insurance contribution plans organised by the relevant local government bodies. In accordance with relevant PRC laws, members of our Group operating in the PRC are required to pay a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, occupational injury insurance and maternity (where applicable) for their relevant employees. Contributions are calculated based on the average monthly salary of the employee for the previous year subject to minimum requirements as prescribed by PRC law and are charged to our profit and loss account as they become payable. We are also required by the relevant PRC regulations to register with a competent housing provident fund management centre and make contributions to the respective housing provident funds for our employees. Contributions to housing provident funds are calculated based on the average monthly salary of the employee for the previous year subject to minimum requirements as prescribed by PRC law and are charged to our profit and loss account as they become payable.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or options that may be granted under the share option scheme of our Company), the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of shareholding
King Lok	Beneficial interest	5,307,450,000	63.0%
Zhang Liang, Johnson	Interest in controlled corporation	5,307,450,000	63.0%

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilising Manager or any person acting for it may choose to borrow up to 139,500,000 Shares from King Lok, equivalent to the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option. Further details are set out in the section headed “Structure of the Global Offering” in this prospectus.

SHARE CAPITAL

SHARE CAPITAL:

Authorised share capital:

500,000,000,000 Shares US\$500,000,000

Issued and to be issued, full paid or credited as fully paid, upon completion of the Global Offering:

Assuming the Over-allotment Option is not exercised at all, and without taking into account any Shares to be issued upon the exercise of any options that may be granted under the share option scheme of our Company, our issued share capital immediately following the Global Offering will be as follows:

		US\$	Approximate percentage of issued share capital
<i>(Shares)</i>			(%)
7,500,000,000	Shares in issue as of the date of this prospectus	7,500,000	89.0
<u>930,000,000</u>	Shares to be issued under the Global Offering	<u>930,000</u>	<u>11.0</u>
<u>8,430,000,000</u>	Total	<u>8,430,000</u>	<u>100.0</u>

Assuming the Over-allotment Option is exercised in full, and without taking into account any Shares to be issued upon the exercise of any options that may be granted under the share option scheme of our Company, our issued share capital immediately following the Global Offering will be as follows:

		US\$	Approximate percentage of issued share capital
<i>(Shares)</i>			(%)
7,500,000,000	Shares in issue as of the date of this prospectus	7,500,000	87.5
930,000,000	Shares to be issued under the Global Offering	930,000	10.9
	Shares to be issued upon exercise of the		
<u>139,500,000</u>	Over-allotment Option in full	<u>139,500</u>	<u>1.6</u>
<u>8,569,500,000</u>	Total	<u>8,569,500</u>	<u>100.0</u>

SHARE CAPITAL

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus.

SHARE OPTION SCHEME

We have conditionally approved and adopted a share option scheme on 6 March 2012, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix VI to this prospectus.

Pursuant to the share option scheme of our Company, eligible participants of the scheme may be granted options which entitle them to subscribe for Shares representing (when aggregated with options granted under any other scheme) a maximum of 10% of the issued share capital of our Company immediately following the commencement of dealings in the Shares on the Stock Exchange. No options have been granted under this share option scheme as of the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the Over-allotment Option); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold our next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our shareholders in a general meeting.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the appendix headed “Statutory and General Information — Further Information About Our Group — Repurchase of our Shares” to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold our next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this repurchase mandate, please refer to the appendix headed “Statutory and General Information — Further Information About Our Group — Repurchase of our Shares” to this prospectus.

CORNERSTONE INVESTOR

THE CORNERSTONE PLACING

We and the Sole Global Coordinator have entered into a corporate investment agreement with the Cornerstone Investor, pursuant to which the Cornerstone Investor has agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased for an aggregate amount of US\$30 million (approximately HK\$233 million) (the “**Cornerstone Placing**”). Assuming an Offer Price of HK\$1.39 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investor would be approximately 167,542,000, representing approximately 1.99% of the Shares in issue and outstanding upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Cornerstone Investor will acquire the Offer Shares through the Sole Global Coordinator or its respective affiliates in its capacities as International Underwriters of the relevant portion of the International Offering. The Cornerstone Investor will not acquire any Offer Shares under the International Offering, other than pursuant to the corporate investment agreement.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be acquired by the Cornerstone Investor will rank *pari passu* with the fully paid Shares then in issue and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any representation on the Board nor will the Cornerstone Investor become our substantial shareholder. No special rights have been granted to the Cornerstone Investor as part of the Cornerstone Placing. The Cornerstone Investor is an independent third party and is not a connected person of our Company.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement to be issued by our Company on or before 22 March 2012.

CORNERSTONE INVESTOR

The following information about our Cornerstone Investor has been provided by the Cornerstone Investor in connection with the Cornerstone Placing.

Sany Hongkong Group Limited

Sany Heavy Equipment International Holdings Limited (“**Sany**”) has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased for an aggregate amount of US\$30 million (approximately HK\$233 million) at the Offer Price. Assuming an Offer Price of HK\$1.39 being the mid-point of the Offer Price range set forth in this prospectus, Sany will subscribe for approximately 167,542,000 Shares, representing approximately 1.99% of the Shares in issue and outstanding upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

CORNERSTONE INVESTOR

Sany is a limited liability company incorporated in the Cayman Islands. It is a leading coal mining equipment manufacturer based in the PRC and listed on the Stock Exchange with the stock code 631.

The information about the Cornerstone Investor has been provided by the Cornerstone Investor in connection with the Cornerstone Placing.

CONDITIONS PRECEDENT

The obligation of the Cornerstone Investor to acquire the Offer Shares under the corporate investment agreement is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into by the relevant parties thereto and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by the Sole Global Coordinator) and not having been terminated;
- (b) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked;
- (c) no laws having been enacted or promulgated which prohibit the consummation of the closing of the corporate investment agreement and there being no order or injunction of a court of competent jurisdiction in effect precluding or prohibiting the consummation of the closing of the corporate investment agreement; and
- (d) the respective representations, warranties, acknowledgements and confirmations of the relevant parties to the corporate investment agreement being true, accurate and not misleading, and there being no material breach of such agreement.

RESTRICTIONS ON DISPOSAL BY THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed that, without the prior written consent of our Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of its Shares or any interest in any company or entity holding any of its Shares, other than transfers to any wholly-owned subsidiary of the Cornerstone Investor provided that, amongst other things, such wholly-owned subsidiary undertakes in writing to, and the Cornerstone Investor undertakes to procure that such wholly-owned subsidiary will, be bound by the same obligations and restrictions.

The Cornerstone Investor has also agreed that, save with the prior written consent of our Company, the aggregate holding and/or interest (direct and indirect) of the Cornerstone Investor and its subsidiaries and associates in the total issued share capital of our Company shall be less than 10% of our Company’s entire issued share capital at any time during the Lock-up Period.

FINANCIAL INFORMATION

You should read this section in conjunction with the consolidated financial information of our Company for the period from 11 December 2009 to 31 December 2009 and each of the years ended 31 December 2010 and 2011, the financial information of Kinetic Coal for the year ended 31 December 2009 and the six months ended 30 June 2010, and the accompanying notes, all included in the Accountants' Reports set out in Appendices IA and IB to this prospectus. The consolidated financial information of our Company and the financial information of Kinetic Coal have been prepared in accordance with the HKFRSs, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions, including the United States. Information included in this section that has not been extracted or derived from the Accountants' Reports has been extracted or derived from unaudited management accounts or other records. You should read the entire Accountants' Reports and not merely rely on the information contained in this section.

The following discussion and analysis contain certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. You should review the sections headed "Forward-Looking Statements" and "Risk Factors" in this prospectus for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.

OVERVIEW

We are focused on constructing and developing the Dafanpu Coal Mine, and seek to operate highly efficient and safe coal mines. Our vision is to become a leading private-sector, integrated coal provider in China with mining, processing, transportation and storage capabilities. The Dafanpu Coal Mine is an underground mine, occupying a concession area of approximately 9.6 km² located in Zhunge'er Banner, Erdos City, Inner Mongolia. We started the development of the Dafanpu Coal Mine in 2006 through our acquisition and consolidation of the Original Dafanpu Mine, the Original Yintai Mine and an adjacent mining block. We completed the construction of mining and coal washing facilities in December 2011 and commenced trial production at the Dafanpu Coal Mine in January 2012. As a result, our historical operating results do not reflect that of a company in full production. Other than the sale of coal produced from the excavation of shafts and tunnels during the construction of our mining facilities and interest income, we have not generated any other income. We have yet to generate income from the sale of coal or from other sources as part of regular operations.

We have been granted a 30-year permit to mine for coal in the Dafanpu Coal Mine, which we may renew upon its expiration. We expect to achieve on a pro-rata basis (exclusive of the trial production period) a production capacity of 2.4 million ROM tonnes of coal per year towards the end of the first year of production, and expect to gradually ramp up to full production capacity to the second stage target of 5.0 million ROM tonnes of coal per year by 2013.

According to the Report, our Dafanpu Coal Mine had JORC-compliant Coal Resources of approximately 449.9 million tonnes as of November 2010 and JORC-compliant Coal Reserves of approximately 201.2 million tonnes as of October 2011, and the raw coal from our Dafanpu Coal Mine

FINANCIAL INFORMATION

has mostly long flame and a small amount of non-caking properties and is most suited for use as steaming coal and for thermal purposes. We plan to sell coal primarily to coal-fired power plants in southern China and eastern China.

We estimate that the total capital expenditure in relation to the Dafanpu Coal Mine, including mine development, and the construction of the coal washing plant, loading facilities and associated rail spur lines, will be approximately RMB1,241 million. The capital expenditures incurred up to 31 December 2011 amounted to approximately RMB602 million. The storage and blending facilities in Qinhuangdao were estimated to cost approximately RMB5 million. Our principal sources of funds have been from capital contributions from our shareholders, shareholders' loans and bank loans. We plan primarily to use bank loans and proceeds from the Global Offering to finance our future capital expenditure. We do not anticipate any additional funding requirements to proceed from trial production to commercial production.

BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL INFORMATION

This prospectus contains two accountants' reports, which are set forth in Appendix IA and Appendix IB, respectively:

- the Accountants' Report of our Company, which includes the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of our Company for the period from 11 December 2009 to 31 December 2009, each of the years ended 31 December 2010 and 2011 and the consolidated balance sheets of our Company as at 31 December 2009, 2010 and 2011, together with the notes thereto; and
- the Accountants' Report of Kinetic Coal, which includes the statements of comprehensive income, the statements of changes in equity and the cash flow statements of Kinetic Coal, for the year ended 31 December 2009 and the six months ended 30 June 2010, and the balance sheets of Kinetic Coal as at 31 December 2009 and 30 June 2010, together with the notes thereto.

Our Company was incorporated in the Cayman Islands on 27 July 2010 as an exempted company with limited liability under Cayman Companies Law and became the holding company of the companies now comprising our Group pursuant to the Reorganisation.

Prior to the Reorganisation, Blue Gems was the holding company of our Group. Upon completion of the Reorganisation, our Company became our Group's new holding company and Blue Gems became an intermediate holding company. The companies that took part in the Reorganisation were controlled by the Controlling Shareholder before and after the Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of our Group. The Reorganisation only involved inserting our Company with no substantive operations as the new holding company of Blue Gems and its subsidiaries. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in HKFRS 3, Business combinations, under which Blue Gems is treated as the acquirer for accounting purposes. The Financial Information has been prepared and presented as a continuation of the financial statements of Blue Gems with the assets and liabilities of Blue Gems recognised and measured at their historical carrying amounts prior to the Reorganisation.

FINANCIAL INFORMATION

Our Company has not carried on any business since the date of incorporation, save for the aforementioned Reorganisation. On 11 June 2010, a subsidiary of our Company, Kinetic (Asia), completed the acquisition of the entire equity interests in Kinetic Coal from Fuliang Coal Mining. At the time of the acquisition, Kinetic Coal held the mining rights to the Dafanpu Coal Mine. Only a small portion of the mining structure construction of the Dafanpu Coal Mine had commenced and most of the mining equipment had not yet been purchased nor had the underground mining workforce been contracted. At this stage, the underlying assets acquired and liabilities assumed from this acquisition were not integrated to form a business which could generate external revenues to our Group as a whole. As such, the acquisition of Kinetic Coal was considered as a purchase of assets and assumption of liabilities which did not constitute a business combination for accounting purposes. Accordingly, the results of Kinetic Coal were not consolidated into our Company's financial statements for the period between 11 December and 31 December 2009 and for the six months ended 30 June 2010, and the results of Kinetic Coal were only consolidated into our Company's financial statements from 1 July 2010 onwards. As Kinetic Coal was not a subsidiary of our Company until it was acquired by Kinetic (Asia) in June 2010, we did not have the right to control Kinetic Coal during the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, and thus we are not permitted under the HKFRSs to combine or consolidate the results of Kinetic Coal into our Company's consolidated financial statements in respect of those periods. We have included in this prospectus separate accountants' reports and summary financial data for both our Company and Kinetic Coal, a discussion of our Company's results of operations for the period between 11 December and 31 December 2009, for the years ended 31 December 2010 and 2011 as derived from "Appendix IA — Accountants' Report of our Company" and a discussion of the results of operations of Kinetic Coal for the year ended 31 December 2009 and the six months ended 30 June 2010 prior to our acquisition of Kinetic Coal as derived from "Appendix IB — Accountants' Report of Kinetic Coal".

Unless otherwise indicated, when we refer to "our turnover", "our other revenue", "our finance costs" and other financial and operating data, we refer to (i) in respect of the period after 1 July 2010, the consolidated turnover, other revenue and financial costs and other financial and operating data of our Company and Kinetic Coal; and (ii) in respect of the year ended 31 December 2009 and the six months ended 30 June 2010, the turnover, other revenue and financial costs and other financial and operating data of Kinetic Coal. Our Company did not have any results of operations before 11 December 2009, which is the date of incorporation of Blue Gems, or for the period between 11 December and 31 December 2009 and started to consolidate the results of Kinetic Coal since 1 July 2010. Hence, the discussion below regarding the year ended 31 December 2009 and the six months ended 30 June 2010 represents solely the operating and financial results of Kinetic Coal. The financial statements of our Company alone do not fully reflect the results of operation and financial position of our Group before 30 June 2010, and you have to read also the financial information of Kinetic Coal for a complete understanding of our historical results of operation and financial position. You are cautioned against doing a simple arithmetical addition of the financial results of Kinetic Coal and that of our Company for the periods prior to the acquisition, and treating the aggregated numbers as the consolidated financial results of Kinetic Coal and our Company.

We were in a pre-operation stage during the Track Record Period and have only recently commenced trial production at the Dafanpu Coal Mine. Our consolidated financial results for all the years and periods presented in this prospectus therefore do not completely reflect our core business of extraction and sale of coal. Our financial results should be reviewed with the understanding that we have

FINANCIAL INFORMATION

not begun selling coal from trial production at the Dafanpu Coal Mine. For further details of our historical consolidated financial position, results of operations and cash flow, please refer to the Accountants' Reports attached as Appendix IA and Appendix IB to this prospectus.

Summary Consolidated Statements of Comprehensive Income Data of Our Company

The following table sets forth the summary consolidated statements of comprehensive income data of our Company for the period between 11 December 2009 and 31 December 2009 and for each of the years ended 31 December 2010 and 2011. We have derived the summary consolidated statements of comprehensive income data of our Company from the Accountants' Report of our Company in Appendix IA to this prospectus, which has been prepared in accordance with the HKFRSs:

	Our Company		
	Period from 11 December to 31 December 2009	Year ended 31 December	
		2010 ⁽¹⁾	2011
	(RMB in thousands, except per share data)		
Turnover	—	—	—
Cost of sales	—	—	—
Gross profit	—	—	—
Other revenue	—	6,165	14,438
Administrative expenses	—	(10,040)	(49,861)
Loss from operations	—	(3,875)	(35,423)
Finance costs	—	(9,107)	(20,401)
Loss before taxation	—	(12,982)	(55,824)
Income tax	—	2,603	7,939
Loss attributable to equity shareholders of our Company for the period/year	—	<u>(10,379)</u>	<u>(47,885)</u>
Other comprehensive income for the period/year			
Exchange differences on translation of financial statements of operations outside the PRC.	—	4,917	(5,091)
Total comprehensive loss attributable to equity shareholders of our Company for the period/year	—	<u>(5,462)</u>	<u>(42,794)</u>
Basic and diluted loss per share ⁽²⁾ (RMB yuan)	—	<u>(0.001)</u>	<u>(0.006)</u>

Notes:

(1) The results of Kinetic Coal have been consolidated into our Company's financial statements since 1 July 2010.

FINANCIAL INFORMATION

- (2) The calculation of basic loss per share was based on the loss attributable to equity shareholders of our Company and a total number of 7,500,000,000 ordinary shares of our Company, which are expected to be in issue immediately prior to the Global Offering as if the shares were outstanding throughout the entire Track Record Period.

There were no dilutive potential ordinary shares during the Track Record Period, and therefore, diluted loss per share was the same as the basic loss per share.

Summary Statements of Comprehensive Income Data of Kinetic Coal

The following tables set forth the summary statements of comprehensive income data of Kinetic Coal for the year ended 31 December 2009 and for the six months ended 30 June 2010. We have derived the summary statements of comprehensive income data of Kinetic Coal from the Accountants' Report of Kinetic Coal in Appendix IB to this prospectus, which has also been prepared in accordance with the HKFRSs:

	Kinetic Coal	
	Year ended 31 December 2009	Six months ended 30 June 2010
	(RMB in thousands)	
Turnover	—	—
Cost of sales	—	—
Gross profit	—	—
Other revenue	89	1,263
Administrative expenses	(9,005)	(5,550)
Loss from operations	(8,916)	(4,287)
Finance costs	(13,760)	(8,791)
Loss before taxation	(22,676)	(13,078)
Income tax	—	10,565
Loss for the year/period and total comprehensive loss	<u>(22,676)</u>	<u>(2,513)</u>

FINANCIAL INFORMATION

Summary Consolidated Balance Sheets of Our Company

	Our Company		
	As at 31 December		
	2009 ⁽¹⁾	2010	2011
	(RMB in thousands)		
Non-current assets	—	1,035,621	1,498,367
Current assets	—	52,924	51,177
Current liabilities	—	(607,297)	(907,525)
Net current liabilities	—	(554,373)	(856,348)
Total assets less current liabilities	—	481,248	642,019
Non-current liabilities	—	(486,710)	(500,000)
Net (liabilities)/assets	—	(5,462)	142,019
Capital and reserves			
Share capital	—	—	48,444
Reserves	—	(5,462)	93,575
Total equity	—	(5,462)	142,019

Note:

(1) The balance sheet data of Kinetic Coal was not consolidated into our Company's balance sheet as at 31 December 2009.

Summary Balance Sheets of Kinetic Coal

	Kinetic Coal	
	As at	As at
	31 December 2009	30 June 2010
	(RMB in thousands)	
Non-current assets	687,370	764,676
Current assets	65,840	16,274
Current liabilities	(320,443)	(346,696)
Net current liabilities	(254,603)	(330,422)
Total assets less current liabilities	432,767	434,254
Non-current liabilities	(380,000)	(384,000)
Net assets	52,767	50,254
Capital and reserves		
Paid-in capital	190,000	190,000
Accumulated losses	(137,233)	(139,746)
Total equity	52,767	50,254

FINANCIAL INFORMATION

KEY FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL INFORMATION

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those set forth below.

Stage of Development

Our results of operations have varied, and are expected to continue to vary, depending on the stage of development. To date our activities have largely consisted of obtaining mining rights and construction and development of our mining and coal washing facilities. As a result, our historical operating results are not indicative of the operating results we expect to experience when our Dafanpu Coal Mine becomes fully operational.

Our financial position and operating results have primarily been affected by costs associated with the acquisition of mining rights, feasibility studies, site preparation, infrastructure development, associated staff costs and other costs associated with development and construction. To the extent that we continue to engage in development and construction activities, our results of operations will be affected by these and other costs associated with the pre-production stage of development. After we progress our mining activities into the production and sale of coal, our financial position and results of operations will be affected by a variety of additional factors, including production levels, coal prices, sales volume of coal and cost of sales of coal, among others, as well as levels of capital expenditures required for later stages of our Company's development, particularly in relation to expansion of capacity for our facilities and other infrastructure development.

Coal Prices

Our revenue will be influenced by fluctuations in PRC coal prices. In China, coal prices at Qinhuangdao Port generally determine the benchmark price for China's coal market, in particular, coal transported via waterway shipping in China. As we expect to have access to rail capacity to transport our annual coal output to Qinhuangdao Port, coal prices at Qinhuangdao Port will particularly affect our results of operation. According to China Coal Resource* (中國煤炭資源網), the price of 5,500 kCal/kg thermal coal sold at Qinhuangdao Port in China decreased from approximately RMB930 per tonne in September 2008 to approximately RMB520 per tonne at the end of 2008 due to the global financial crisis. Such price increased to approximately RMB770 per tonne, RMB795 per tonne and RMB840 per tonne at the end of 2009, 2010 and in November 2011, respectively, as the global economy began to recover. The main factors affecting the selling prices of coal at Qinhuangdao Port and other parts of China include:

- the supply and demand for steaming and thermal coal in the China market;
- the availability of coal transportation capacity to Qinhuangdao Port and the PRC Government's allocation of transportation capacity on the national rail system;
- the adoption of temporary measures to limit increases in coal prices;
- coal characteristics and quality; and
- the PRC Government's policy regarding coal-consuming industries.

FINANCIAL INFORMATION

The domestic market price for thermal coal in China is largely subject to market forces, in particular, the stronger demand for thermal coal in the coastal provinces of China than demand in other regions in China. Also, thermal coal can be sold for a higher price at Qinhuangdao Port than in Inner Mongolia.

Due to strong demand for energy to support economic growth, China continues to be short of domestic coal supply. As a result of growing demand for coal to fuel China's industrialisation and urbanisation and steady production cost increases due to higher royalties and environmental and social related costs, the price of coal is expected to continue to increase.

During the Track Record Period, our revenue was not influenced by fluctuations in PRC coal prices as we did not generate any revenue from the sale of coal. We commenced trial production at the Dafanpu Coal Mine in January 2012.

Sales Volume of Coal

We expect that our future sales of coal will be affected by the following main factors:

- our coal production capacity;
- market demand for our coal; and
- coal transportation capacity.

We plan to sell coal primarily to coal-fired power plants in southern China and eastern China. Our coal sales volume will largely depend upon the demand for our coal in these markets and our ability to meet such demand. Rapid growth in the PRC economy has created substantial energy demand in China.

We expect to use the national railway system to transport coal to Qinhuangdao, Hebei Province, the site of China's largest coal transshipment port. Any increases in our coal sales volume in the future may be restrained by the availability of sufficient transport capacity on the railway system available to us.

Cost of Sales for Coal

We expect that our future cost of sales for coal will include (i) transportation costs, including railway fees and port fees; (ii) materials costs, including fuel and utilities and accessories, used mainly in mining operations; (iii) staff costs; (iv) depreciation and amortisation expenses; and (v) costs of acquiring raw coal from third parties. The following factors will impact the cost of sales of our coal operations:

- the effectiveness of our operations;
- the effect of economies of scale as we improve the capacity utilisation of our own mining operations;
- the application of advanced mining technologies;
- changes in railway fees and port fees; and

FINANCIAL INFORMATION

- contractual terms of delivery of our coal products.

Mining rights and mining structures of our Group are amortised and depreciated using the units of production method based on proven and probable mineral reserves. Such amortisation and depreciation will affect our production cost going forward in light of the proposed increase in our production volume.

Finance Costs

We finance a significant portion of our business operations and capital expenditure with short-term and long-term borrowings. As of 31 January 2012, our outstanding short-term and long-term borrowings amounted to RMB749.1 million. Please refer to the section headed “Financial Information — Liquidity and Capital Resources — Indebtedness” in this prospectus. Our borrowings incur interest. Interest rate fluctuations and the balance of our total borrowings will have an impact on our finance costs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with the HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

We have identified below the accounting policies that we believe are the most critical to our financial statements and that involve the most significant estimates and judgements.

Mining Rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. The mining rights are amortised using the units of production method based on proven and probable mineral reserves. Our mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all Coal Reserves to be mined in accordance with current production schedules.

Exploration and Evaluation Assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include exploration and development costs. Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of mineral resources

FINANCIAL INFORMATION

before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining rights and amortised to profit or loss using the units of production method based on proven and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

Useful Lives of Property, Plant and Equipment

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

Impairment of Assets

In considering the impairment losses that may be required for certain of our assets which include property, plant and equipment, other non-current assets and intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs. In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Notwithstanding that we have used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

Deferred Taxation

We recognise deferred tax assets for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The deferred tax assets balance is analysed regularly by management. We estimate whether future taxable profits will be available based on all available information including but not limited to our projections of future taxable profit, which take into

FINANCIAL INFORMATION

account the market environment for each of the tax-paying entities within the period during which temporary differences reverse or before our tax loss carry-forwards expire, and any available tax planning strategies. Projections of future taxable profit incorporate several assumptions of future business and operations that may differ from actual experience.

Obligations for Land Reclamation

Our obligations for land reclamation consist of spending estimate at underground mines in accordance with the PRC rules and regulations. We estimate our liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are 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. We record a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units of production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

DESCRIPTION OF SELECTED STATEMENT OF COMPREHENSIVE INCOME LINE ITEMS

Turnover

Our turnover will represent the net invoiced value of coal sold, net of trade discounts and returns. We did not have any turnover during the Track Record Period because we were in a development stage and had not begun production during the Track Record Period.

Cost of Sales

We did not have any cost of sales during the Track Record Period because we were in a development stage and had not begun production during the Track Record Period.

FINANCIAL INFORMATION

Other Revenue

Our other revenue includes revenue from sales of scrapings and interest income. Sales of scrapings consist of sales of coal produced from the excavation of shafts and tunnels during the construction of our mining facilities. Interest income consists of interest generated from short-term interest-bearing bank deposits.

	Kinetic Coal		Our Company	
	Year ended 31 December 2009	Six months ended 30 June 2010	Year ended 31 December	
			2010 ⁽¹⁾	2011
	(RMB in thousands)			
Sales of scrapings	—	1,200	6,144	14,330
Interest income	89	63	21	108
Total	<u>89</u>	<u>1,263</u>	<u>6,165</u>	<u>14,438</u>

Note:

(1) The results of Kinetic Coal have been consolidated into our Company's financial statements since 1 July 2010.

Administrative Expenses

Our administrative expenses primarily consist of (i) staff costs and (ii) other expenses such as depreciation and amortisation costs, operating lease charges, public utility charges, entertainment and traveling expenses and other miscellaneous expenses. The largest component of our administrative expenses is staff costs, primarily consisting of wages paid to our employees not directly involved in production operations in our coal mines and production facilities. Staff costs represented 46.8% and 48.5%, respectively, of total administrative expenses of Kinetic Coal for the year ended 31 December 2009 and the six months ended 30 June 2010. Staff costs represented 38.1% and 24.6% of our total administrative expenses for the years ended 31 December 2010 and 2011, respectively.

FINANCIAL INFORMATION

	Kinetic Coal		Our Company	
	Year ended 31 December	Six months ended 30 June	Year ended 31 December	
	2009	2010	2010 ⁽¹⁾	2011
	(RMB in thousands)			
Staff costs	4,210	2,693	3,821	12,250
Other expenses	4,795	2,857	6,219	37,611
Total administrative expenses	<u>9,005</u>	<u>5,550</u>	<u>10,040</u>	<u>49,861</u>

Note:

(1) The results of Kinetic Coal have been consolidated into our Company's financial statements since 1 July 2010.

Finance Costs

Our finance costs consist of (i) interest expenses on bank loans and (ii) other interest expense, comprising interest charged by the government for deferred payments of the mining rights purchase price for our Dafanpu Coal Mine at the rate of 5.40% per annum for the deferred payments in the amount of RMB208 million in the first five months of 2009. We paid the mining rights purchase price in full in 2009. The following table sets out our finance costs in 2010 and 2011, and the finance costs of Kinetic Coal in 2009 and the six months ended 30 June 2010. The borrowing costs have been capitalised in accordance with the HKFRSs at a rate of 6.336% per year in 2009 for Kinetic Coal and at a rate of 6.336% to 6.556% and 6.556% to 7.590% per year in 2010 and 2011 for our Company, respectively.

	Kinetic Coal		Our Company	
	Year ended 31 December	Six months ended 30 June	Year ended 31 December	
	2009	2010	2010 ⁽¹⁾	2011
	(RMB in thousands)			
Interest expenses on bank loans	10,260	13,596	15,198	50,160
Other interest expenses	4,680	—	—	—
Total interest expenses	14,940	13,596	15,198	50,160
Less: interest expenses capitalised into construction in progress	<u>(1,180)</u>	<u>(4,805)</u>	<u>(6,091)</u>	<u>(29,759)</u>
	<u>13,760</u>	<u>8,791</u>	<u>9,107</u>	<u>20,401</u>

Note:

(1) The results of Kinetic Coal have been consolidated into our Company's financial statements since 1 July 2010.

FINANCIAL INFORMATION

Income Tax

Kinetic (Asia), a subsidiary of our Company, was incorporated in Hong Kong on 21 January 2010 and was subject to Hong Kong Profits Tax at a rate of 16.5% for the years ended 31 December 2010 and 2011. No provision for Hong Kong Profits Tax has been made as we did not have assessable profits subject to Hong Kong Profits Tax during the Track Record Period.

Pursuant to the income tax rules and regulations of the PRC, Kinetic Coal's taxable profits are subject to PRC Enterprise Income Tax at a rate of 25% for the years ended 31 December 2010 and 2011. No provision has been made for PRC enterprise income tax as Kinetic Coal did not have taxable profits subject to PRC Enterprise Income Tax during the Track Record Period.

Our Company recognised income tax credits of RMB2.6 million and RMB7.9 million for the year ended 31 December 2010 and 2011, respectively. Kinetic Coal recognised income tax credits of RMB10.6 million for the six months ended 30 June 2010. These income tax credits were recognised due to the recognition of deferred tax assets in respect of tax losses carried forward.

RESULTS OF OPERATIONS

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

As our Company did not consolidate the results of Kinetic Coal until 1 July 2010, our Company's results of operations are not directly comparable to each other in 2010 and 2011.

Turnover

Our Company did not have any turnover during 2010 or 2011 because we had not started to sell coal from trial or commercial production.

Kinetic Coal did not have any turnover during the six months ended 30 June 2010 because we had not started to sell coal from trial or commercial production.

Cost of sales

Our Company did not have any cost of sales during 2010 or 2011 because of a lack of turnover.

Kinetic Coal did not have any cost of sales during the six months ended 30 June 2010 because of a lack of turnover.

Other revenue

Our Company's other revenue was RMB6.2 million and RMB14.4 million in 2010 and 2011, respectively, primarily from sales, net of taxes, of coal produced from the excavation of shafts and tunnels during the construction of our production facilities.

FINANCIAL INFORMATION

Kinetic Coal's other revenue was RMB1.3 million for the six months ended 30 June 2010, primarily due to sales, net of taxes, of coal produced from the excavation of shafts and tunnels during the construction of the production facilities.

Administrative expenses

Our Company's administrative expenses in 2011 were RMB49.9 million, comprising staff costs of RMB12.3 million and other expenses of RMB37.6 million.

Our Company's administrative expenses in 2010 were RMB10.0 million, comprising staff costs of RMB3.8 million and other expenses of RMB6.2 million.

Kinetic Coal's administrative expenses were RMB5.6 million for the six months ended 30 June 2010, comprising staff costs of RMB2.7 million and other expenses of RMB2.9 million.

Finance costs

Our Company's finance costs were RMB9.1 million and RMB20.4 million in 2010 and 2011, respectively, primarily due to interest borne on bank loans for construction of our production facilities and working capital purposes.

Kinetic Coal's finance costs were RMB8.8 million for the six months ended 30 June 2010.

Income tax

Our Company did not have any income tax expenses during 2010 or 2011 because we did not have any taxable profits subject to income tax during these periods.

Kinetic Coal did not have any income tax expenses during the six months ended 30 June 2010 because we did not have any taxable profits subject to income tax during this period.

Our Company recorded an income tax credit of RMB2.6 million and RMB7.9 million in 2010 and 2011, respectively, and Kinetic Coal recorded an income tax credit of RMB10.6 million for the six months ended 30 June 2010, primarily due to the recognition of deferred tax assets from tax losses.

Loss for the year/period

As a result of the foregoing, our Company had loss for the year of RMB47.9 million in 2011, compared to RMB10.4 million in 2010. Kinetic Coal had loss for the period of RMB2.5 million in the six months ended 30 June 2010.

FINANCIAL INFORMATION

Exchange differences on translation of financial statements of operations outside the PRC

Our Company had exchange differences on translation of financial statements of operations outside the PRC of RMB5.1 million in 2011, compared to RMB4.9 million in 2010, primarily due to the translation of non-current assets from Hong Kong dollars into Renminbi when Kinetic (Asia)'s financial statements, which were denominated in Hong Kong dollars, were consolidated into our operating and financial results.

Kinetic Coal did not have such exchange differences in the six months ended 30 June 2010.

Total comprehensive loss

As a result of the foregoing, our Company's total comprehensive loss was RMB5.5 million and RMB42.8 million in 2010 and 2011, respectively.

Kinetic Coal's total comprehensive loss was RMB2.5 million for the six months ended 30 June 2010.

Year Ended 31 December 2010 Compared to Year Ended 31 December 2009

As the period from 11 December to 31 December 2009 is different from the periods covered by the year ended 31 December 2010, our Company's results of operations are not directly comparable for the period from 11 December to 31 December 2009 and the year ended 31 December 2010. Furthermore, our Company's results of operations for the year ended 31 December 2010 are not directly comparable to Kinetic Coal's results of operations for the year ended 31 December 2009 because our Company did not consolidate the results of Kinetic Coal until 1 July 2010.

Turnover

Neither our Company nor Kinetic Coal had any turnover during 2009 or 2010 because we had not started to sell coal from trial or commercial production.

Cost of sales

Neither our Company nor Kinetic Coal had any cost of sales during 2009 or 2010 because of a lack of turnover.

Other revenue

Our Company's other revenue was RMB6.2 million in 2010, primarily from sales, net of taxes, of coal produced from the excavation of shafts and tunnels during the construction of our production facilities.

FINANCIAL INFORMATION

Kinetic Coal's other revenue was RMB1.3 million for the six months ended 30 June 2010, primarily due to sales, net of taxes, of coal produced during the excavation of shafts and tunnels.

Kinetic Coal's other revenue was RMB89,000 in 2009, due to interest income from short-term interest-bearing bank deposits.

Administrative expenses

Our Company's administrative expenses in 2010 were RMB10.0 million, comprising staff costs of RMB3.8 million and other expenses of RMB6.2 million.

Kinetic Coal's administrative expenses were RMB5.6 million for the six months ended 30 June 2010, comprising staff costs of RMB2.7 million and other expenses of RMB2.9 million.

Kinetic Coal's administrative expenses were RMB9.0 million in 2009, comprising staff costs of RMB4.2 million and other expenses of RMB4.8 million.

Finance costs

Our Company's finance costs were RMB9.1 million in 2010, primarily due to interest borne on bank loans for construction of our production facilities and working capital purposes.

Similarly, Kinetic Coal's finance costs were RMB8.8 million and RMB13.8 million for the six months ended 30 June 2010 and the year ended 31 December 2009, respectively.

Income tax

Neither our Company nor Kinetic Coal had any income tax expenses during 2009 or 2010 because we did not have any taxable profits subject to income tax during these two fiscal years.

Our Company recorded an income tax credit of RMB2.6 million in 2010 from the recognition of deferred tax assets in respect of tax losses carried forward.

Loss for the year/period

As a result of the foregoing, our Company had loss for the year of RMB10.4 million in 2010. Kinetic Coal had loss for the period of RMB2.5 million in the six months ended 30 June 2010 and loss for the year of RMB22.7 million in the year ended 31 December 2009.

Exchange differences on translation of financial statements of operations outside the PRC

Our Company had exchange differences on translation of financial statements of operations outside the PRC of RMB4.9 million in 2010, due to the translation of non-current assets from Hong Kong

FINANCIAL INFORMATION

dollars into Renminbi when Kinetic (Asia)'s financial statements, which were denominated in Hong Kong dollars, were consolidated into our operating and financial results. Our Company did not have such exchange differences for the period between 11 December and 31 December 2009.

Kinetic Coal did not have such exchange differences in 2009 and 2010.

Total comprehensive loss

As a result of the foregoing, our Company's total comprehensive loss was RMB5.5 million in 2010. Kinetic Coal's total comprehensive loss was RMB22.7 million and RMB2.5 million for the year ended 31 December 2009 and for the six months ended 30 June 2010, respectively.

LIQUIDITY AND CAPITAL RESOURCES

To date, we have financed our cash requirements through a combination of shareholders' equity, bank loans and advances from related parties. After the Listing, we expect to fund our working capital needs through a combination of cash generated from operating activities, the proceeds from the Global Offering and other debt and equity financing.

Cash flow

The following tables set out selected cash flow data from the consolidated statements of cash flows of our Company for each of the years ended 31 December 2010 and 2011, and the statements of cash flows of Kinetic Coal for the year ended 31 December 2009 and for the six months ended 30 June 2010. As our Company did not consolidate the results of Kinetic Coal until 1 July 2010, our Company did not have any cash flow generated during the period between 11 December and 31 December 2009. The discussion below regarding the year ended 31 December 2009 represents solely the cash flow condition of Kinetic Coal:

	Our Company	
	Year ended 31 December	
	2010 ⁽¹⁾	2011
	(RMB in thousands)	
Cash at bank and in hand at the beginning of the year	—	46,797
Net cash used in operating activities	(5,400)	(45,081)
Net cash used in investing activities	(298,960)	(394,823)
Net cash generated from financing activities	346,240	403,753
Effect of foreign exchange rate changes	4,917	5,091
Cash at bank and in hand at the end of the year.	<u>46,797</u>	<u>15,737</u>

Note:

(1) The cash flow of Kinetic Coal has been consolidated into our Company's financial statements since 1 July 2010.

FINANCIAL INFORMATION

	Kinetic Coal	
	Year ended 31 December 2009	Six months ended 30 June 2010
	(RMB in thousands)	
Cash at bank and in hand at the beginning of the year/period .	1,617	62,484
Net cash used in operating activities	(10,453)	(2,625)
Net cash used in investing activities	(281,363)	(61,665)
Net cash generated from financing activities	352,683	14,459
Effect of foreign exchange rate changes	—	—
Cash at bank and in hand at the end of the year/period	<u>62,484</u>	<u>12,653</u>

Cash flow used in operating activities

Our Company's net cash used in operating activities was RMB45.1 million in 2011, primarily due to a loss before taxation of RMB55.8 million, adjusted for interest expenses on bank loans of RMB20.4 million, and an increase in other receivables of RMB24.3 million, partially offset by an increase in other payables of RMB18.9 million due to performance bonds received from two construction companies, which we will return to the two construction companies after they fully perform their obligations in accordance with the contracts with us.

Our Company's net cash used in operating activities was RMB5.4 million in 2010, primarily due to a loss before taxation of RMB13.0 million, adjusted for interest expenses on bank loans of RMB9.1 million, and an increase in other receivables of RMB2.5 million, partially offset by an increase in other payables of RMB0.8 million.

Kinetic Coal's net cash used in operating activities was RMB2.6 million for the six months ended 30 June 2010, primarily due to a loss before taxation of RMB13.1 million, adjusted for finance costs of RMB8.8 million and partially offset by an increase in other payables of RMB1.9 million.

Kinetic Coal's net cash used in operating activities was RMB10.5 million in 2009, primarily due to a loss before taxation of RMB22.7 million, adjusted for finance costs of RMB13.8 million, and an increase in other receivables of RMB2.3 million, partially offset by an adjustment for finance costs of RMB13.8 million.

Cash flow used in investing activities

Our Company's net cash used in investing activities was RMB394.8 million in 2011, primarily due to the payment for the purchase of property, plant and equipment of RMB351.3 million.

Our Company's net cash used in investing activities was RMB299.0 million in 2010, primarily due to the payment for the purchase of property, plant and equipment of RMB100.7 million and RMB187.3 million for the purchase of equity interest in Kinetic Coal.

FINANCIAL INFORMATION

Kinetic Coal's net cash used in investing activities was RMB61.7 million for the six months ended 30 June 2010, primarily due to the payment for the purchase of property, plant and equipment of RMB60.7 million, and RMB1.0 million for the purchase of mining rights to the Dafanpu Coal Mine.

Kinetic Coal's net cash used in investing activities was RMB281.4 million in 2009, which was primarily due to the payment for the purchase of property, plant and equipment of RMB59.5 million, and RMB221.9 million for the purchase of the mining rights to the Dafanpu Coal Mine and the associated exploration and evaluation costs.

Cash flow generated from financing activities

Our Company's net cash generated from financing activities was RMB403.8 million in 2011, primarily due to proceeds from bank loans of RMB271.5 million and advances from related parties of RMB170.4 million, partially offset by repayment of bank loans of RMB17.8 million and interest payments of RMB20.4 million.

Our Company's net cash generated from financing activities was RMB346.2 million in 2010, primarily due to proceeds from bank loans of RMB111.2 million and advances from related parties of RMB250.9 million, partially offset by repayment of advances from related parties of RMB6.8 million and interest payments of RMB9.1 million.

Kinetic Coal's net cash generated from financing activities was RMB14.5 million for the six months ended 30 June 2010, primarily due to proceeds from bank loans of RMB4.0 million and advances from related parties of RMB40.1 million, partially offset by repayment of advances from related parties of RMB20.8 million and interest payments of RMB8.8 million.

Kinetic Coal's net cash generated from financing activities was RMB352.7 million in 2009, primarily due to proceeds from bank loans of RMB380.0 million and advances from related parties of RMB75.3 million, partially offset by repayment of advances from related parties of RMB73.8 million and interest payments of RMB28.8 million.

Purchase of Assets

On 11 June 2010, a subsidiary of our Company, Kinetic (Asia), completed the acquisition of the entire equity interests in Kinetic Coal from Fuliang Coal Mining. Prior to the acquisition, Kinetic Coal held the mining rights to the Dafanpu Coal Mine and had no established infrastructure or significant mining equipment at the date of acquisition. The underlying assets acquired and liabilities assumed from this acquisition were not integrated to form a business which could generate external revenues to our Group as a whole. As such, the acquisition of Kinetic Coal is considered as a purchase of assets and assumption of liabilities.

Prior to the acquisition, the total carrying value of assets and liabilities of Kinetic Coal's were RMB780.9 million and RMB730.7 million, respectively, and the carrying value of Kinetic Coal's net identifiable assets was RMB50.3 million. The aggregate acquisition consideration was RMB200.0 million, including a fair value adjustment on the carrying value of the mining rights to the Dafanpu Coal Mine of RMB149.7 million, which was recognised as an increase in intangible assets. Prior to the

FINANCIAL INFORMATION

acquisition, the total carrying value of Kinetic Coal's property, plant and equipment was RMB151.0 million, including construction in progress of RMB149.1 million, machinery and equipment of RMB0.4 million, motor vehicles of RMB1.3 million and office equipment of RMB0.1 million. The construction in progress mainly included earthwork projects of RMB48.9 million, shafts of RMB42.9 million and power projects of RMB20.3 million. The aggregate amount of Kinetic Coal's assets and liabilities our Company recognised on the acquisition date were RMB930.7 million and RMB730.7 million, respectively. Our Directors believe that the total purchase consideration paid represented the fair value of net assets acquired.

Indebtedness

Bank borrowings

The following table sets out the maturity profile of our bank borrowings as of the dates indicated:

	Kinetic Coal		Our Company		
	As at 31 December 2009	As at 30 June 2010	As at 31 December		As at 31 January 2012
			2010	2011	2012
					(Unaudited)
			(RMB in thousands)		
Bank loans					
Within 1 year	—	—	8,509	248,964	249,066
After 1 year but within 2 years . . .	—	230,000	230,000	—	—
After 2 years but within 5 years. . .	380,000	154,000	256,710	500,000	500,000
	<u>380,000</u>	<u>384,000</u>	<u>495,219</u>	<u>748,964</u>	<u>749,066</u>

The effective interest rates of our bank loans at each balance sheet date were as follows:

	Kinetic Coal		Our Company		
	As at 31 December 2009	As at 30 June 2010	As at 31 December		As at 31 January 2012
			2010	2011	2012
					(Unaudited)
Bank loans.	<u>6.336%-7.560%</u>	<u>6.336%-7.560%</u>	<u>1.685%-7.840%⁽¹⁾</u>	<u>1.765%-9.310%⁽²⁾</u>	<u>1.855%-9.310%⁽³⁾</u>

Notes:

- (1) As at 31 December 2010, the interest rate of Kinetic (Asia)'s HK\$10 million bank loan was 1.685% per annum. The effective interest rates of our other banks loans were 6.556% to 7.840% as at 31 December 2010.
- (2) As at 31 December 2011, the interest rate of Kinetic (Asia)'s HK\$25 million bank loan was 1.785% per annum. The effective interest rates of our other banks loans were 7.590% to 9.310% as at 31 December 2011.

FINANCIAL INFORMATION

- (3) As at 31 January 2012, the interest rate of Kinetic (Asia)'s HK\$25 million bank loan was 1.855% per annum. The effective interest rates of our other bank loans were 7.590% to 9.310% as at 31 January 2012.

Our interest-bearing and secured bank loans as of the dates indicated are set out in the table below:

Kinetic Coal		Our Company		
As at 31 December 2009	As at 30 June 2010	As at 31 December		As at 31 January 2012
		2010	2011	
				(Unaudited)
(RMB in thousands)				

Secured by mining rights to Dafanpu Coal Mine . .	380,000	384,000	486,710	729,000	729,000

The bank loans in the amount as set forth in the above table as at the respective dates were secured by mining rights to our Dafanpu Coal Mine and guaranteed by Mr. Zhang Li and Huizhou Jin'e SPA Co., Ltd.* (惠州市金鵝溫泉實業有限公司), a company in which Mr. Zhang Li holds a 50% equity interest. The guarantees from Mr. Zhang Li and Huizhou Jin'e SPA Co., Ltd. will be released prior to the Listing.

No banking facilities were granted to our Company as at 31 December 2009. As at 31 December 2010, our Company had banking facilities totalling RMB738.5 million, of which RMB730.0 million and HK\$10.0 million (RMB8.5 million) were through our acquisition of Kinetic Coal and Kinetic (Asia), respectively. These facilities were utilised to the extent of approximately RMB495.2 million as at 31 December 2010. As at 31 December 2011, our Company had banking facilities totalling RMB755.2 million, of which approximately RMB749.0 million were utilised. In January 2012, we obtained a written commitment from China Minsheng Banking Corp., Ltd. for a short-term banking facility in the amount of RMB600 million, which will be provided to us before the Listing and be used to repay loans from related parties. The banking facility will have a six-month term starting from the first drawdown.

As at 31 December 2009 and 30 June 2010, banking facilities of Kinetic Coal totalling RMB730.0 million were utilised to the extent of RMB380 million and RMB384 million, respectively. These facilities include a three-year term loan of RMB230 million obtained in June 2009 and a five-year term loan of RMB500 million obtained in October 2009.

Save for the new written commitment from China Minsheng Banking Corp., Ltd. for a short-term banking facility in the amount of RMB600 million as disclosed in this sub-section, our Directors confirm that there has been no material change in our Group's indebtedness from the end of the Track Record Period up to the Latest Practicable Date.

FINANCIAL INFORMATION

Amounts due to related parties

The following table sets forth the details of the amounts due to related parties by our Company as at the dates indicated:

	Kinetic Coal		Our Company		
	As at 31 December 2009	As at 30 June 2010	As at 31 December		As at 31 January 2012
			2010	2011	2012
					(Unaudited)
			(RMB in thousands)		
Fuliang Coal Mining	—	15,000	70,000	240,409	297,065
Zhang Li	310,250	310,500	308,000	308,000	308,000
Beijing Fushengli Real Estate Agency Co., Ltd.* (北京富盛利房地產經紀有 限公司)	—	4,000	—	—	—
Zhang Liang, Johnson	—	—	195,603	—	—
Total.	<u>310,250</u>	<u>329,500</u>	<u>573,603</u>	<u>548,409</u>	<u>605,065</u>

Amounts due to related parties are unsecured, interest-free and expected to be repaid on demand. We will fully repay our amounts due to related parties prior to the Listing, including those due to Mr. Zhang Li, using primarily short-term bank borrowings for which we have obtained a written commitment of a banking facility in the amount of RMB600 million from China Minsheng Banking Corp., Ltd.

Contingent liabilities

As at the Latest Practicable Date, we had no material contingent liabilities.

FINANCIAL INFORMATION

Net current liabilities

The following table sets out our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 31 January 2012
	2009	2010	2011	(Unaudited)
	(RMB in thousands)			
Current assets				
Other receivables	—	6,127	30,421	36,228
Cash at bank and in hand	—	46,797	15,737	20,988
Pledged deposits	—	—	5,019	5,019
	—	52,924	51,177	62,235
	-----	-----	-----	-----
Current liabilities				
Other payables	—	598,788	658,561	719,364
Bank loans	—	8,509	248,964	249,066
	—	607,297	907,525	968,430
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Net current liabilities	—	554,373	856,348	906,195
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We had net current liabilities of RMB856.3 million as at 31 December 2011, consisting of RMB51.2 million of current assets and RMB907.5 million of current liabilities. Our net current liability position was primarily attributable to our construction of mining structures and purchase of mining facilities.

We are obtaining additional bank borrowings for working capital purpose. We will repay our short-term loans primarily with proceeds from the Global Offering. We intend to improve our working capital and net current liabilities position by using proceeds from the Global Offering and cash flow generated from operations after the commencement of our mining operations.

Working capital

We completed the construction of mining and coal washing facilities in December 2011 and commenced trial production at the Dafanpu Coal Mine in January 2012. As a result, we did not have material inventories, trade receivables and payables or other working capital items in relation to operations during Track Record Period.

Taking into account the financial resources available to us, including expected proceeds from the Global Offering and future revenue to be generated from our operations and bank facilities, and in the absence of unforeseen circumstances, our Directors are of the view that we have sufficient working capital for 125% of our present requirements for the operation of our Dafanpu Coal Mine for at least 12 months from the date of this prospectus.

FINANCIAL INFORMATION

Commitments

Capital commitments outstanding as at the dates indicated but not provided for in the financial statements are as follows:

Kinetic Coal		Our Company			Capital commitments expected payment schedule		
As at 31 December 2009	As at 30 June 2010	As at 31 December 2010	As at 31 December 2011	As at 31 January 2012	By the end of 2012	2013 and beyond	Source of funding
(Unaudited)							
(RMB in thousands)							
Contracted for mining infrastructure construction	<u>226,262</u>	<u>215,352</u>	<u>280,064</u>	<u>156,397</u>	<u>155,962</u>	<u>108,523</u>	<u>47,438</u>
							Bank borrowings, proceeds from the Global Offering and operating cash flow

Our capital commitments in 2010 and 2011 were primarily for contracts for construction of the mining infrastructure.

Capital expenditure

We mainly incurred capital expenditures for obtaining mining rights and for constructing mining and coal washing facilities for our Dafanpu Coal Mine during the Track Record Period. These capital expenditures amounted to approximately RMB331.5 million for the year ended 31 December 2011, approximately RMB142.3 million for the year ended 31 December 2010 and approximately RMB56.3 million for the year ended 31 December 2009.

We estimate that the total capital expenditure in relation to the Dafanpu Coal Mine, including mine development, and the construction of the coal washing plant, loading facilities and associated rail spur lines, will be approximately RMB1,241 million, of which approximately RMB156.0 million was contracted capital commitment as at 31 January 2012. The capital expenditures incurred up to 31 December 2011

FINANCIAL INFORMATION

amounted to approximately RMB602 million. The storage and blending facilities in Qinhuangdao were estimated to cost approximately RMB5 million. Particulars of the estimated capital expenditure are as follows:

Facilities	Estimated Capital Expenditure (RMB in millions)
Dafanpu Coal Mine	
Mine construction ⁽¹⁾	978
Coal washing plant	220
Loading station and associated rail spur lines	43 ⁽²⁾
Subtotal	<u>1,241⁽³⁾</u>
Qinhuangdao Storage and Blending Facilities	
Storage and blending facilities.	5
Subtotal	<u>5</u>
Total	<u><u>1,246</u></u>

Notes:

- (1) Includes the capital expenditure on the underground project, surface project, equipment and installation, other capital expenditure, preparation costs and contingency.
- (2) The loading station and associated rail spur lines are estimated to cost approximately RMB96 million, of which we are obligated to pay approximately RMB43 million in proportion to our equity stake in Xiaojia JV.
- (3) Taking into account that Shenhua Zhunge'er Resources is obligated to pay approximately RMB53 million for the loading station and associated rail spur lines in proportion to its equity stake in Xiaojia JV, the total estimated capital expenditure in relation to the Dafanpu Coal Mine will be approximately RMB1,295 million.

For further information, please refer to the section headed "10.3 Capital Costs" in the Report. We plan primarily to use bank loans and proceeds from the Global Offering to finance our future capital expenditure.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks in the ordinary course of business, including credit risk, foreign currency exchange risk, interest rate risk, liquidity risk and inflation risk.

Our management has adopted certain policies on financial risk management with the objective of: (i) ensuring that appropriate funding strategies are adopted to meet our short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of our Company; and (ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

FINANCIAL INFORMATION

Credit risk

We have no significant credit risk during the Track Record Period as we are still in a development stage.

Foreign currency exchange risk

Our Company and our subsidiaries are not exposed to significant foreign currency exchange risks as our transactions and balances were substantially denominated in their respective functional currencies.

Interest rate risk

Our interest rate risk arises primarily from bank loans. Bank loans issued at variable rates and fixed rates expose us to cash flow interest rate risk and fair value interest rate risk, respectively. We do not account for any fixed rate financial liabilities at fair value through profit or loss and we do not use derivative financial instruments to hedge our debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

If the interest rate on borrowings had been generally higher or lower by 100 basis points, with all other variables held constant, the loss after taxation of Kinetic Coal for the year ended 31 December 2009 and the six months ended 30 June 2010 would have increased or decreased by RMB0.47 million and RMB0.09 million, respectively, and the loss after taxation of our Company for the years ended 31 December 2010 and 2011 would have increased or decreased by RMB2.1 million and RMB1.9 million, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date. The 100 basis points increase or decrease represents our management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. We do not believe we face interest rate risk material to our business and operations.

Liquidity risk

Our liquidity is primarily dependent on our ability to maintain sufficient cash inflows from our operations to meet any debt obligations as they become due and our ability to obtain external financing to meet our committed future capital expenditures. We believe we are taking all necessary measures to maintain sufficient liquidity reserves to support the sustainability and growth of our business in the current circumstances and to repay any outstanding borrowings when they fall due.

FINANCIAL INFORMATION

The following table sets forth the contractual maturities of our financial liabilities as at 31 December 2011:

	Payment Due by Period			Total
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	
	(RMB in thousands)			
Bank loans	248,964	—	500,000	748,964
Other payables	658,561	—	—	658,561
	<u>907,525</u>	<u>—</u>	<u>500,000</u>	<u>1,407,525</u>

Inflation

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was negative 0.7%, 3.3% and 5.4% in 2009, 2010 and 2011, respectively. Although inflation has not materially affected our operations, higher rates of inflation in China may affect our business in the future. For example, certain operating costs and expenses, such as the cost of transportation, travel expenses and labour expenses may increase as a result of higher inflation.

Off-balance sheet arrangements

As of 31 December 2011, we had not entered into any off-balance sheet arrangements.

Taxation

Cayman Islands income tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under Cayman Companies Law of the Cayman Islands and the Cayman Islands currently levy no taxes on corporations based upon profits, income, gains or appreciations.

Hong Kong profits tax

Enterprises incorporated in Hong Kong are subject to profit tax at a rate of 16.5% in 2009, 2010 and 2011. We did not make any provision for Hong Kong profits tax as we did not have any assessable profit in Hong Kong in 2009, 2010 and 2011.

PRC enterprise income tax

Pursuant to the income tax rules and regulations of the PRC, our PRC subsidiary is liable to PRC enterprise income tax at a rate of 25% in 2010 and 2011. No provision has been made for PRC enterprise income tax as the PRC subsidiary did not have taxable profits subject to PRC enterprise income tax in 2010 and 2011.

FINANCIAL INFORMATION

PRC withholding tax

Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. Pursuant to a double tax arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% (or more) interest in the PRC enterprise for a period of greater than 12 months, such withholding tax rate may be lowered to 5%. Whether the favourable rate will be applicable to dividends received by Kinetic (Asia) from Kinetic Coal and Kinetic Qinhuangdao, its PRC subsidiaries, is subject to the approval of the PRC tax authorities because it is unclear whether Kinetic (Asia) will be considered as the beneficial owner of the dividends in substance. The PRC tax authorities have discretion to assess whether a recipient of PRC-sourced income is only an agent or a conduit, or lacks the requisite amount of business substance, in which case the application of the tax arrangement may be denied. Gains on disposal of an investment in the PRC by overseas holding companies may be subject to withholding tax of 10%.

We are therefore liable to withhold taxes on dividends distributed by Kinetic Coal and Kinetic Qinhuangdao, our subsidiaries established in China, in respect of their earnings if Kinetic (Asia) is considered as a non-PRC resident enterprise under the EIT Law.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had our Shares been listed on the Stock Exchange on that date.

DIVIDEND POLICY

Subject to Cayman Companies Law, we may declare, through a general meeting, final dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profits, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorised for this purpose in accordance with Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide: (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

FINANCIAL INFORMATION

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- our general business conditions;
- our financial results;
- our capital requirements;
- payment by our subsidiaries of cash dividends to our Company;
- interests of our shareholders; and
- any other factors which the Board may deem relevant.

Future dividend payments will also depend upon the availability of dividends received from our subsidiary companies in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC generally accepted accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including the HKFRSs. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiary companies may also be restricted if they incur debts or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiary companies may enter into in the future. Dividends payable by us to our foreign investors may be subject to PRC withholding tax. The EIT Law may also affect tax exemptions on dividends that may be received by us and by our Shareholders. For further details, please refer to the sections headed “Risk Factors — Risks Relating to the PRC — Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to taxes under PRC tax laws” and “Risk Factors — Risks Relating to the PRC — The EIT Law may affect tax exemptions on dividends received by us and by our Shareholders and may increase our enterprise income tax rate” in this prospectus.

Our Directors will declare dividends, if any, in Hong Kong dollars with respect to Shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to our shareholders’ approval.

No dividend has been paid or declared by our Company since our incorporation.

DISTRIBUTABLE RESERVES

As of 31 December 2011, our Company had not carried on any business and, accordingly, we did not have any available distributable reserves as of that date.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS/(LIABILITIES)

The following unaudited pro forma statement of adjusted net tangible assets/(liabilities) prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to illustrate the effect of the Global Offering on consolidated net tangible assets/(liabilities) attributable to Shareholders as of 31 December 2011 as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets/(liabilities) of our Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets/(liabilities) following the completion of the Global Offering.

	Consolidated net tangible assets/ (liabilities) attributable to Shareholders as of 31 December 2011 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets/ (liabilities) attributable to Shareholders	Unaudited pro forma adjusted net tangible assets/ (liabilities) per Share ⁽³⁾	Unaudited pro forma adjusted net tangible assets/ (liabilities) per Share ⁽⁴⁾
	(RMB in thousands)			(RMB)	(HK\$)
Based on the Offer Price of HK\$1.26 per Offer Share . . .	(577,932)	916,764	338,832	0.04	0.05
Based on the Offer Price of HK\$1.51 per Offer Share . . .	(577,932)	1,101,265	523,333	0.06	0.08

Notes:

- (1) The consolidated net tangible assets/(liabilities) attributable to Shareholders as of 31 December 2011 is compiled based on the consolidated financial information included in the accountants' report of our Group, the text of which is set out in Appendix IA to this prospectus, which is based on the consolidated net assets of our Group as of 31 December 2011 of RMB142 million less intangible assets of RMB720 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.26 or HK\$1.51 per Offer Share, being the low or high end of the stated offer price range, after deduction of the underwriting fees and other related expenses payable by our Group and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the share option scheme. The estimated net proceeds from the Global Offering are converted to RMB at an exchange rate of HK\$1.2286 to RMB1.00.
- (3) The unaudited pro forma adjusted net tangible assets/(liabilities) per Share is arrived at on the basis that 8,430,000,000 Shares (including the Shares in issue as of 31 December 2011, and Shares that may be issued under the Global Offering) are in issue without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the share option scheme.
- (4) The unaudited pro forma adjusted net tangible assets/(liabilities) per Share in RMB is converted to Hong Kong dollars at an exchange rate of HK\$1.2286 to RMB1.00.

FINANCIAL INFORMATION

ORDER BOOK

In June and July 2011 we executed non-binding agreements of intent with Independent Third Parties, namely Shanghai Shenergy Fuel Co., Ltd.* (上海申能燃料有限公司), Shandong Jinglu Zhongmei Coal Co., Ltd.* (山東京魯中煤煤業有限公司) and Guangzhou Pearl River Electric Power Fuel Co., Ltd.* (廣州珠江電力燃料有限公司), for the sale of a total of approximately 2.9 million tonnes of coal. These agreements provide a preliminary framework for the delivery of coal in 2012. These potential purchasers do not have any obligations to purchase, and we do not have any obligations to sell, any coal products under these agreements. We intend to enter into legally binding agreements with these customers with regards coal amounts, prices and other commercial terms to be determined according to the then prevailing market practice.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our Group's financial or trading position or prospects since 31 December 2011, the date to which our latest consolidated financial statements were made up.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Our Strategies” in this prospectus for a detailed description of our business strategies and future plans.

USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering (after deducting underwriting commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised), assuming an Offer Price of HK\$1.39, being the mid-point of the indicative Offer Price range, will be approximately HK\$1,220.4 million. We intend to apply such net proceeds in the following manner:

- approximately HK\$427.1 million or approximately 35.0% of the aggregate net proceeds to develop the Dafanpu Coal Mine and related facilities, including the settlement of the remaining balance due to contractors for the construction of the mine (with an annual production capacity of 2.4 million ROM tonnes), the coal washing plant, Xiaojia Station and associated rail spur lines at the Dafanpu Coal Mine;
- approximately HK\$366.1 million or approximately 30.0% of the aggregate net proceeds to repay a part of a short-term bank loan in the amount of approximately HK\$740.1 million to be provided by China Minsheng Banking Corp., Ltd. after the date of this prospectus but before the Listing for the settlement of loans from related parties;
- approximately HK\$305.1 million or approximately 25.0% of the aggregate net proceeds to find new acquisition targets and acquire coal reserves. Please refer to the section headed “Business — Our Strategies — Acquire and consolidate coal mines” in this prospectus for more details. As of the Latest Practicable Date, our Group has not identified any such potential acquisition targets; and
- the balance of the net proceeds to support our working capital requirements.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$1.51, the net proceeds of the Global Offering (assuming the Over-allotment Option is not exercised), will increase by approximately HK\$108.8 million. We intend to apply the additional net proceeds for the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$1.26, the net proceeds of the Global Offering (assuming the Over-allotment Option is not exercised), will decrease by approximately HK\$117.9 million. In such case, we intend to reduce the allocation of such net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will be approximately HK\$1,409.4 million, assuming the Offer Price is set at the mid-point of the indicative Offer Price range. If the Offer Price is set at the high-end of the indicative Offer Price range, the net proceeds from the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will be approximately HK\$1,534.6 million. If the Offer Price is set at the low-end of the indicative Offer Price range, the net proceeds from the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will be approximately HK\$1,273.9 million. We intend to apply any additional net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately required for or applied to the above purposes, we may hold such funds in short-term deposits with licenced banks and authorised financial institutions in Hong Kong.

As advised by our PRC legal advisers, Jingtian & Gongcheng, subject to the relevant PRC governmental approvals, registrations and/or filings, the net proceeds from the Global Offering can be applied in the PRC according to the above intended use of the net proceeds under the relevant existing laws and regulations in the PRC by: (i) increasing the registered capital of our Company's PRC subsidiaries; (ii) establishing a new PRC subsidiary; (iii) acquiring equity interests in the other companies in the PRC; and/or (iv) providing shareholder loans to our Company's PRC subsidiaries in an amount not exceeding the difference between the investment amount and the registered capital of such subsidiaries. As advised by our PRC legal advisers, Jingtian & Gongcheng, there are no material legal obstacles to obtaining the relevant PRC governmental approvals to apply the net proceeds from the Global Offering in the PRC, if all requirements of the relevant PRC government authorities are satisfied.

We will make an appropriate announcement and comply with the requirements of the Listing Rules if there is any change to the above proposed use of proceeds.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters

The Hongkong and Shanghai Banking Corporation Limited

UBS AG, Hong Kong Branch

BOCOM International Securities Limited

VMS Securities Limited

Guotai Junan Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 93,000,000 Hong Kong Public Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Public Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

The respective obligations of the Hong Kong Underwriters to subscribe, or procure subscribers for, the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled by notice to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (A) there shall develop, occur, exist or come into effect:
 - (i) any event, series of events or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international

UNDERWRITING

emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, Japan, the United States, the United Kingdom, the European Union (or any member of the European Union), the Cayman Islands, the BVI or any other jurisdiction relevant to any member of our Group (each, a “Relevant Jurisdiction”); or

- (ii) any change or development involving a prospective change, or any event, series of events or circumstance likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any Relevant Jurisdiction, including any event which involves one or more members of the European Union announcing, voluntarily or compulsorily, its or their intention to leave the Economic and Monetary Union of the European Union; or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NYSE Amex Equities, the NASDAQ Global Market, the London Stock Exchange or the Tokyo Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of the Relevant Jurisdictions; or
- (v) any new Law (as defined in the Hong Kong Underwriting Agreement), or any change or development involving a prospective change in (or in the interpretation or application by any court or other competent Authority (as defined in the Hong Kong Underwriting Agreement) of) existing Laws, in each case, in or affecting any Relevant Jurisdiction; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States, the European Union (or any member of the European Union) or any other country or organisation on the PRC or any of the Relevant Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting Taxation (as defined in the Hong Kong Underwriting Agreement) or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States, or a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control (except for the PRC) in any of the Relevant Jurisdictions; or
- (viii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

UNDERWRITING

- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the chairman or chief executive officer of our Company vacating his or her office; or
- (xi) an Authority (as defined in the Hong Kong Underwriting Agreement) or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of our Group or Director; or
- (xii) a contravention by any member of our Group of the Listing Rules or applicable Laws; or
- (xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including, without limitation, the Option Shares (as defined in the Hong Kong Underwriting Agreement) pursuant to the terms of the Global Offering; or
- (xiv) any non-compliance of this prospectus (or any other documents used in connection with the contemplated offer, subscription and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xv) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator (1) has or will or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole or any member of our Group; or (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

UNDERWRITING

- (B) there has come to the notice of the Sole Global Coordinator, the Joint Bookrunners or any of the Hong Kong Underwriters:
- (i) any circumstances the occurrence of which would require the issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer, subscription and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
 - (ii) that any statement contained in any of this prospectus and the Application Forms, the formal notice in connection with the Hong Kong Public Offering (the “Formal Notice”) and/or in any notices, announcements or advertisements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in any of this prospectus and the Application Forms and/or any notices, announcements or advertisements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and not based on reasonable assumptions; or
 - (iii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus and the Application Forms, and/or in any announcements or advertisements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (iv) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (v) any event, act or omission which gives or is likely to give rise to any liability of a material nature of any of the Indemnifying Parties (as defined in the Hong Kong Underwriting Agreement) pursuant to the clause headed “Indemnity” in the Hong Kong Underwriting Agreement; or
 - (vi) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
 - (vii) any breach of, or any event or circumstance rendering untrue, incorrect or misleading in any respect, any of the representations, warranties, agreements and undertakings of the Company and the Controlling Shareholders under the Hong Kong Underwriting Agreement; or in the case of any of such representations, warranties, agreements and undertakings not already qualified as to materiality, any breach of, or any event or circumstance rendering untrue, incorrect or misleading in any material respect, any of such representations, warranties, agreements and undertakings; or

UNDERWRITING

- (viii) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Undertakings

Undertaking by our Company to the Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances which includes the issue of Shares pursuant to our share option scheme and/or the Over-allotment Option.

Undertaking by the Controlling Shareholders to the Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders (namely, King Lok and Mr. Zhang Liang, Johnson) has undertaken to each of the Stock Exchange and our Company that, save as permitted under the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, it/he shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, it/he shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note (3) of Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has further irrevocably and unconditionally undertaken to each of the Stock Exchange and our Company that within the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he shall:

- (a) when it/he pledge/charge any Shares beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) pursuant to Note (2) to Rule 10.07 of the Listing Rules, immediately inform our Company of such pledge/charge together with the number of Shares so pledged/charged; and

UNDERWRITING

- (b) when it/he receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform our Company of such indications.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Sole Global Coordinator, the Joint Bookrunners, the Hong Kong Underwriters and the Sole Sponsor that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or any Shares to be issued under our share option scheme, during the period commencing from the date of the Hong Kong Underwriting Agreement and ending on, and including the date that is six months from the Listing Date (the “**First Six-Month Period**”), not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares or capital of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares or capital of such other member of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction set out in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction set out in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions set out in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or shares, capital or other securities of such

UNDERWRITING

other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period). In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions set out in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Each of the Controlling Shareholders has undertaken to each of the Sole Global Coordinator, the Joint Bookrunners, the Hong Kong Underwriters and the Sole Sponsor to procure our Company to comply with the above undertakings.

Similar undertakings are expected to be given by us to the International Underwriters under the International Underwriting Agreement.

Each of Mr. Zhang Liang, Johnson and King Lok undertakes to each of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Hong Kong Underwriters and the Sole Sponsor not to, and to procure its subsidiaries and associates (as defined in the Listing Rules) not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), and unless in compliance with the requirements of the Listing Rules, or pursuant to the Stock Borrowing Agreement:

- (i) at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein or voting right or any other right attaching thereto (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, our Shares), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction set out in paragraphs (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction set out in paragraphs (i), (ii) or (iii) above, in each case, whether any of the transactions set out in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period); and

UNDERWRITING

- (ii) during the Second Six-Month Period, enter into any of the transactions set out in paragraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance (as defined in the Hong Kong Underwriting Agreement) pursuant to such transaction, it/he will cease, whether individually or collectively with the other Controlling Shareholders, to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company.

In the event that, at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and up to the date of expiry of the Second Six-Month Period, any of Mr. Zhang Liang, Johnson and King Lok enters into any of the transactions set out in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, Mr. Zhang Liang, Johnson and King Lok (as applicable) will take all reasonable steps to ensure that it /he will not create a disorderly or false market in the securities of our Company.

International Offering

International Underwriting Agreement

In connection with the International Offering, our Company expects to enter into the International Underwriting Agreement with, among others, the Sole Global Coordinator, the Joint Bookrunners and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. The International Underwriting Agreement is expected to provide that it may be terminated on grounds similar to those provided in the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement, as described in the sub-section headed “Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings” in this section.

Under the International Underwriting Agreement, our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilising Manager (or its agent), for the account of the Sole Global Coordinator, on behalf of the International Underwriters at any time from the Listing Date, up to (and including) the date which is the thirtieth day after the last date for the lodging of Application Forms under the Hong Kong Public Offering, to require our Company to allot up to an aggregate of 139,500,000 Shares, representing in aggregate approximately 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price.

UNDERWRITING

It is expected that each of Mr. Zhang Liang, Johnson and King Lok will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by them in our Company for a period similar to such undertakings given by it pursuant to the Hong Kong Underwriting Agreement as described in the sub-section headed “Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings” in this section.

Underwriting Commission and Expenses

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Offer Shares (including any Shares to be issued pursuant to the Over-allotment Option) out of which they will pay any sub-underwriting commission.

The aggregate commissions and fees, together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$72.3 million (assuming an Offer Price of HK\$1.39 per Share (being the mid-point of the indicative Offer Price range stated in this prospectus) and on the assumption that the Over-allotment Option is not exercised, will be payable by our Company.

Underwriters’ interests in Our Company

The Sole Global Coordinator and the other Underwriters will receive an underwriting commission. Particulars of the said underwriting commission and expenses relating to the Global Offering are set forth in the sub-section headed “Underwriting Agreements and Expenses — Underwriting Commission and Expenses” in this section. Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their obligations under the Underwriting Agreement and, if applicable, the Stock Borrowing Agreement.

Save as disclosed above, and except for the Underwriters’ obligations under the Underwriting Agreements and, if applicable, the Stock Borrowing Agreement, none of the Sole Sponsor and the other Underwriters is interested legally or beneficially in Shares or share of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group nor any interest in the Global Offering.

Minimum Public Float

Our Directors and the Sole Global Coordinator will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules immediately after completion of the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. HSBC is the Sole Global Coordinator. HSBC and UBS are the Joint Bookrunners. HSBC, UBS, BOCOM International Securities Limited and VMS Securities Limited are the Joint Lead Managers, and Guotai Junan Securities (Hong Kong) Limited is the Co-lead Manager of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (i) the Hong Kong Public Offering of 93,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described in the sub-section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this section below; and
- (ii) the International Offering of 837,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) in the United States with Qualified Institutional Buyers in reliance on Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act, and outside the United States in reliance on Regulation S.

Investors may apply for the Hong Kong Public Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to Qualified Institutional Buyers in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Public Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the sub-section headed “Structure of the Global Offering — Pricing and Allocation” in this section below.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around 16 March 2012 and, in any event, not later than 21 March 2012. The Offer Price will be not more than HK\$1.51 and is currently expected to be not less than HK\$1.26. If, for any reason, the Offer Price is not agreed by 21 March 2012 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

STRUCTURE OF THE GLOBAL OFFERING

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters), with the consent of our Company, consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of 16 March 2012, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at www.hkexnews.hk and on our Company's website at www.kineticme.com, notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set out in the section headed "Summary and Highlights" in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for the Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering is so reduced. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

The Hong Kong Public Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Sole Global Coordinator.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the listing of our Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Although the allocation of the Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Public Offer Shares are expected to be announced on 22 March 2012 through a variety of channels as described in the section headed “How to Apply for Hong Kong Public Offer Shares — Results of Allocations” in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Public Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, *inter alia*:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of any Options granted under the share option scheme) (subject only to allotment and despatch of Share certificates in respect thereof and such other normal conditions acceptable to our Company and the Sole Global Coordinator, on behalf of the Underwriters) not later than 22 March 2012 (or such later date as our Company and the Sole Global Coordinator on behalf of the Hong Kong Underwriters may agree) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- our Company having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How

STRUCTURE OF THE GLOBAL OFFERING

to Apply for Hong Kong Public Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be despatched on 22 March 2012 but will become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on 23 March 2012, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

THE HONG KONG PUBLIC OFFERING

Our Company is initially offering 93,000,000 Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the 930,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent approximately 1.1% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for the Hong Kong Public Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Public Offer Shares.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around 16 March 2012 and, in any event, not later than 21 March 2012. The Offer Price will be not more than HK\$1.51 and is currently expected to be not less than HK\$1.26. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$1.51 per Share plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than the maximum Offer Price, we will refund the respective difference (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

For allocation purposes only, the 93,000,000 Shares initially being offered for subscription under the Hong Kong Public Offering will be divided equally into two pools: Pool A comprising 46,500,000 Hong Kong Public Offer Shares and Pool B comprising 46,500,000 Hong Kong Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Public Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 93,000,000 Shares initially comprised in the Hong Kong Public Offering (that is 46,500,000 Hong Kong Public Offer Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering, the total number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering will be increased to 279,000,000, 372,000,000 and 465,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as "Mandatory Reallocation". In such cases, the number of Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Hong Kong Public Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator may, at its discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered. References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

The number of International Offer Shares to be initially offered for subscription or sale under the International Offering will be 837,000,000 Shares, representing 90% of the Offer Shares under the Global Offering. The Offer Shares initially offered under the International Offering include 837,000,000 Shares. As of the date of this prospectus, King Lok holds Shares representing approximately 70.8% of our issued share capital. Immediately following completion of the Global Offering, King Lok will hold approximately 63.0% of the issued share capital of our Company assuming no exercise of the Over-allotment Option.

Pursuant to the International Offering, the International Underwriters will conditionally place our Shares with Qualified Institutional Buyers in the United States in reliance on Rule 144A or another available exemption from the registration requirements under the U.S. Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Our Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator at its sole and absolute discretion on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require our Company to allot up to 139,500,000 additional Shares representing approximately 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilising Manager or any person acting for it may choose to borrow Shares from King Lok, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with King Lok will only be effected by the Stabilising Manager for settlement of over-allocations in the International Offering and covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from King Lok under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option in full;
- the same number of Shares so borrowed must be returned to King Lok or its nominees on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the day on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between the Stabilising Manager and King Lok;

STRUCTURE OF THE GLOBAL OFFERING

- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, Listing Rules and regulatory requirements; and
- no payment or other benefits will be made to King Lok by the Stabilising Manager in relation to such stock borrowing arrangement.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by Underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, HSBC, as Stabilising Manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or its affiliates or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager or its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 139,500,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilising action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation and stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, Chapter 571W of the Laws of Hong Kong, under the SFO includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager, or its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares;

STRUCTURE OF THE GLOBAL OFFERING

- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or its affiliates or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilising Manager or its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on 15 April 2012, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules, Chapter 571W of the Laws of Hong Kong, will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 139,500,000 Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Offering, the Stabilising Manager may borrow up to 139,500,000 Shares from King Lok, equivalent to the maximum number of Shares to be issued on exercise of the Over-allotment Option in full, under the stock borrowing arrangement. The stock borrowing arrangements will be effected in compliance with all laws, Listing Rules and regulatory requirements. No payments or other benefits will be made to King Lok by the Stabilising Manager in relation to the stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 23 March 2012, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on 23 March 2012.

STRUCTURE OF THE GLOBAL OFFERING

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that our Company will, on or about 16 March 2012, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

1. WHO CAN APPLY FOR HONG KONG PUBLIC OFFER SHARES

You can apply for the Hong Kong Public Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are located outside the United States (as defined in Regulation S) when completing or submitting the Application Form; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for the Hong Kong Public Offer Shares by means of **White Form eIPO**, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be stamped with the company chop (bearing the company name) signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Sole Global Coordinator (or its respective agents or nominees) may accept it at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator (or the designated **White Form eIPO** Service Provider (where applicable)) or our respective agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

2. CHANNELS TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

You may apply for the Hong Kong Public Offer Shares by using one of the following channels:

- use a **WHITE** or **YELLOW** Application Form;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- apply online through the designated website of the **White Form eIPO** Service Provider, referred to in this prospectus as the “**White Form eIPO**” service by submitting applications online through the designated website of www.eipo.com.hk; or
- give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

3. WHICH APPLICATION CHANNEL YOU SHOULD USE

Use a **WHITE** Application Form if you want the Hong Kong Public Offer Shares to be issued in your own name.

Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Public Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website of www.eipo.com.hk. Use **White Form eIPO** if you want the Hong Kong Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf via CCASS. Any Hong Kong Public Offer Shares allocated to you will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

4. WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 13 March 2012 until 12:00 noon on Friday, 16 March 2012 from any of the following addresses of the Hong Kong Underwriters:

The Hongkong and Shanghai Banking Corporation Limited	Level 15, HSBC Main Building, 1 Queen's Road Central, Hong Kong
UBS AG, Hong Kong Branch	52/F, Two International Finance Centre, 8 Finance Street, Hong Kong
BOCOM International Securities Limited	9th Floor Man Yee Building, 68 Des Voeux Road Central Hong Kong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

VMS Securities Limited

Suites 4112-19, 41/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

or any of the following branches of **The Hongkong and Shanghai Banking Corporation Limited**:

District	Branch Name	Address
Hong Kong Island . . .	Hong Kong Office	Level 3 & BL1, 1 Queen's Road Central, Hong Kong
	Chai Wan Branch	Shop No. 1-11, Block B, G/F, Walton Estate, Chai Wan, Hong Kong
	128 Queen's Road Central Branch	V Heun Building, 128-140 Queen's Road Central, Central, Hong Kong
	Causeway Bay Branch	Shop G08, G/F & 1/F, Causeway Bay Plaza 2, 463-483 Lockhart Road, Hong Kong
Kowloon	Kwun Tong Branch	2/F, No. 1 Yue Man Square, Kwun Tong, Kowloon
	Mong Kok Branch	Basement, U/F & 1/F, 673 Nathan Road, Mong Kok, Kowloon
	Tsim Sha Tsui Branch	Basement, U/G, 1/F & 2/F, 82-84 Nathan Road, Tsim Sha Tsui, Kowloon
New Territories	Citywalk Branch	Shops G21-22 and UG69 & 71, Citywalk, 1 Yeung Uk Road, Tsuen Wan, New Territories
	Shatin Plaza Branch	Shop 49 Level 1, Shatin Plaza, 21-27 Sha Tin Centre Street, Sha Tin, New Territories
	East Point City Branch	Shop No. 198, East Point City, 8 Chung Wa Road, Tseung Kwan O, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 13 March 2012 to 12:00 noon on Friday, 16 March 2012 from:

- the depository counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

5. WHEN TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(a) WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Friday, 16 March 2012, or, if the application lists are not open on that day, by the time and date stated in the sub-section headed “When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” in this section below.

Your completed **WHITE** or **YELLOW** Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the bank listed in the sub-section headed “Where to collect the Application Forms” in this section above, at the following times on the following dates:

Tuesday, 13 March 2012 — 9:00 a.m. to 4:30 p.m.
Wednesday, 14 March 2012 — 9:00 a.m. to 4:30 p.m.
Thursday, 15 March 2012 — 9:00 a.m. to 4:30 p.m.
Friday, 16 March 2012 — 9:00 a.m. to 12:00 noon

(b) Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can give **electronic application instructions** via CCASS at the following times on the following dates:

Tuesday, 13 March 2012 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 14 March 2012 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 15 March 2012 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 16 March 2012 — 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 13 March 2012 until 12:00 noon on Friday, 16 March 2012 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Friday, 16 March 2012 or if the Application Lists are not open on that day, by the time and date stated in the sub-section headed “When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” in this section below.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(c) White Form eIPO

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Tuesday, 13 March 2012 until 11:30 a.m. on Friday, 16 March 2012 or such later time as described in the sub-section headed “When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” in this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 16 March 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the sub-section headed “When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” in this section below.

You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(d) Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Friday, 16 March 2012, except as provided in the sub-section headed “When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” in this section below.

No proceedings will be taken on applications for the Hong Kong Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) Effect of bad weather conditions on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 16 March 2012. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

6. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

(a) General

You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

Decide how many Hong Kong Public Offer Shares you want to subscribe. Calculate the amount you must pay on the basis of the maximum Offer Price as stated in the Application Forms, plus brokerage of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. The Application Forms have tables showing the exact amount payable for certain numbers of shares up to 46,500,000 Shares (as indicated on the **WHITE** and **YELLOW** Application Forms). Your application must be for a minimum of 2,000 Shares. Application for more than 2,000 Shares must be in one of the number of Shares set out in the table in the respective Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, our Company and the Sole Global Coordinator (or their respective agents or nominees), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

Each Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order. You should read the detailed instructions set out in the relevant Application Form carefully, as an application is liable to be rejected if the cheque or bank's cashier order does not meet the requirements set out in the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to **"HSBC Nominees (Hong Kong) Limited — Kinetic Mines Public Offer"**; and
- be crossed "Account Payee Only".

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Your application is liable to be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to **"HSBC Nominees (Hong Kong) Limited — Kinetic Mines Public Offer"**; and
- be crossed "Account Payee Only".

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements or is dishonoured on its first presentation.

Lodge your Application Form in one of the collection boxes by the time and at any of the branches of **The Hongkong and Shanghai Banking Corporation Limited**, set out in the sub-section headed "Where to collect the Application Forms" in this section above.

Multiple or suspected multiple applications are liable to be rejected. Please refer to sub-section headed "How many applications you can make" in this section below.

You should note that by completing and submitting the Application Form, among other things:

- you **agree** with our Company, and each Shareholder of our Company, and our Company agrees with each of our Shareholders, to observe and comply with the Companies Ordinance, the Memorandum and the Articles of Association;
- you **agree** with our Company and each Shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;
- you **confirm** that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- you **agree** that our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Manager and the Underwriters and any

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

of their respective directors, officers, employees, agents or advisors and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto (and only then to the extent such liability is held to exist by a court with competent jurisdiction);

- you **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally or provisionally) any International Offer Shares nor otherwise participated in the International Offering;
- you **agree** to disclose to our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, the Hong Kong Share Registrar, the receiving banker and/or their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- you **instruct** and **authorise** our Company and/or the Sole Global Coordinator (or their respective agents or nominees), as agents of our Company, to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allotted to you in your name(s) (for applicants on a **WHITE** Application Form) or in the name of HKSCC Nominees (for applicants on a **YELLOW** Application Form), as required by the Memorandum and the Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;
- you **undertake** to sign all documents and to do all things necessary to enable you (for applicants on a **WHITE** Application Form) or the name of HKSCC Nominees (for applicants on a **YELLOW** Application Form) to be registered as the holder of the Hong Kong Public Offer Shares to be allotted to you, and as required by the Memorandum and the Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;
- you **warrant** the truth and accuracy of the information contained in your Application Form;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will infringe any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;
- you **agree** without prejudice to any other rights which you may have that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- you **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- you **represent, warrant and undertake** that you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act and you and any person for whose account or benefit you are acquiring the Hong Kong Public Offer Shares are located outside the United States (as defined in Regulation S under the U.S. Securities Act) or a person described in paragraph h(3) of Rule 902 of Regulation S under the U.S. Securities Act when completing the Application Form;
- you **represent, warrant and undertake** that you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S);
- you **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them; and
- you **undertake and agree** to accept the Hong Kong Public Offer Shares applied for, or any lesser number allotted to you under the application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (a) The designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box in the Application Form.
- **If you are applying as an individual CCASS Investor Participant:**
 - (a) You must fill in your full name and your Hong Kong identity card number; and
 - (b) You must insert your CCASS Participant I.D. in the appropriate box in the Application Form.
- **If you are applying as a joint individual CCASS Investor Participant:**
 - (a) You must insert all joint CCASS Investor Participants' full names and the Hong Kong identity card numbers of all the joint CCASS Investor Participants; and

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(b) You must insert your CCASS Participant I.D. in the appropriate box in the Application Form.

- **If you are applying as a corporate CCASS Investor Participant:**

(a) You must insert your company name and your company's Hong Kong business registration number; and

(b) You must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company name) in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, we, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Co-lead Manager and/or their respective agents and nominees, may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. We, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Co-lead Manager and/or their respective agents and nominees in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner, or, in the case of joint beneficial owners, for each joint beneficial owner.

(b) Personal data

The section of the Application Form headed "Personal data" applies to any personal data held by the Sole Global Coordinator, our Company, the Hong Kong Share Registrar, receiving banker, advisers, and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. HOW TO APPLY THROUGH WHITE FORM eIPO

(a) General

If you are an individual and meet the criteria set out in the sub-section headed "Who Can Apply for Hong Kong Public Offer Shares" in this section above, you may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO**, the Hong Kong Public Offer Shares will be issued in your own name.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.

You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.

You should give **electronic application instructions** through **White Form eIPO** at the times set out in the sub-section headed “When to apply for the Hong Kong Public Offer Shares — **White Form eIPO**” in this section above.

You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, 16 March 2012, or such later time as described in the sub-section headed “When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” in this section above, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**

Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for the Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

Warning: The application for Hong Kong Public Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. **Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Manager and the Hong Kong Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Public Offer Shares.**

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form**

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please refer to the sub-section headed “How many applications you can make” in this section below.

(b) Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced electronic application process. The **White Form eIPO** Service Provider will contribute HK\$2 for each **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang—Hong Kong Woodland” project initiated by Friends of the Earth (HK).

(c) Additional Information

For the purposes of allocating the Hong Kong Public Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons will be made in accordance with the arrangements set out below in the subsection headed “Refund of Application Monies” in this section below.

8. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Share Registrar.

(b) Minimum subscription amount and permitted numbers

You may give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

(c) Application for Hong Kong Public Offer Shares by HKSCC Nominees on Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does all the things on behalf of each of such persons who:
 - **agrees** that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - **undertakes** and **agrees** to accept the Hong Kong Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up any International Offer Shares nor otherwise participated in the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by our Company, our Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of the Hong Kong Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- **authorises** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- **agrees** that our Company, the Sole Global Coordinator, the Underwriters and any of their respective Directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to our Company, our Hong Kong Share Registrar, receiving banker, advisers, agents and the Sole Global Coordinator and/or their respective agents, and any information which they require about that person or the person(s) for whose benefit the application is made;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable on or before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Public Offer Shares;
- **agrees** with our Company, for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum and the Articles of Association; and
- **agrees** that such person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

(d) Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

(e) Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

(f) Allocation of Hong Kong Public Offer Shares

For the purpose of allocating the Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

(g) Deposit of Share certificates into CCASS and refund of application monies

No temporary documents of title will be issued. No receipt will be issued for application monies received.

If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Thursday, 22 March 2012 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) in the manner as described in the sub-section headed "Results of Allocations" below on Thursday, 22 March 2012. The basis of allotment of the Hong Kong Public Offering will be published on the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, 22 March 2012. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 22 March 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 22 March 2012. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 22 March 2012. No interest will be paid thereon.

(h) Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

(i) Warning

Application for the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Sole Global Coordinator, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit **electronic application instructions**, they should either:

- submit the **WHITE** or **YELLOW** Application Form (as appropriate); or
- go to HKSCC's Customer Service Centre to complete an application instruction input request form for **electronic application instructions** before 12:00 noon on Friday, 16 March 2012 or such later time as described in the sub-section headed "When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the Application Lists" in this section above.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

9. HOW MANY APPLICATIONS YOU CAN MAKE

You may make more than one application for the Hong Kong Public Offer Shares only if you are a **nominee**, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- another identification number,

for each beneficial owner (or in case of joint beneficial owners, for each such beneficial owner). If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form (and if you are joint applicants each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or to the **White Form eIPO** Service Provider through the **White Form eIPO** service;
- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** service, and that you are duly authorised to sign the Application Form as that other person's agent.

All of your applications under the Hong Kong Public Offering are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service;
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service to apply for more than 46,500,000 Hong Kong Public Offer Shares (being 50% of the Hong Kong Public Offer Shares initially being offered for subscription by the public); or
- apply for or take up any Offer Shares under the International Offering or otherwise participate in the International Offering or indicate an interest for any International Offer Shares.

All of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

10. RESULTS OF ALLOCATIONS

The results of allocations of the Hong Kong Public Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC or the designated **White Form eIPO** Service Provider which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Public Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations will be available from the Stock Exchange's website at www.hkexnews.hk;
- Results of allocations will also be available from our website at www.kineticme.com and our results of allocations website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. from Thursday, 22 March 2012 to 12:00 midnight on Wednesday, 28 March 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 22 March 2012 to Sunday, 25 March 2012; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, 22

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

March 2012 to Saturday, 24 March 2012 at all the receiving bank branches and sub-branches at the addresses set out in the sub-section headed “How to Apply for the Hong Kong Public Offer Shares — Where to Collect the Application Forms” in this section above.

11. PRICE OF THE OFFER SHARES

The maximum Offer Price is set out in the Application Forms. You must also pay a brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. The Application Forms have tables showing the exact amount payable for certain numbers of Shares up to 46,500,000 Shares. Your application must be for a minimum of 2,000 Shares. Applications must be in one of the numbers set out in the table. No application for any other number of Shares will be considered and any such application is liable to be rejected.

You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% in full when you apply for our Shares. You must pay the amount payable upon application for Shares by a cheque or a banker’s cashier order in accordance with the terms set out in the Application Form if you apply for the Hong Kong Public Offer Shares using Application Forms.

If your application is successful, brokerage is paid to the participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, such levy is collected on behalf of the SFC).

If the Offer Price, as finally determined, is lower than the maximum Offer Price, our Company will refund the specific difference, including the brokerage, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. Our Company will not pay interest on any refunded amounts. Further details for refund are set out in the sub-section headed “Despatch/Collection of Share Certificates and Refund Monies” in this section below.

12. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

(a) General

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

- for applicants on **WHITE** and **YELLOW** Application Forms or by **White Form eIPO** service, (i) Share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below); and/or

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- for applicants on **WHITE** and **YELLOW** Application Forms, refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest; and/or
- for applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, e-Refund payment instructions (if any) will be despatched to the application payment account; and/or
- for applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, refund cheques will be sent to the address as specified on the **White Form eIPO** application by ordinary post and at the applicant’s own risk.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and Share certificates for successful applicants under the **WHITE** Application Form or to the **White Form eIPO** Service Provider via the **White Form eIPO** service are expected to be posted on or before Thursday, 22 March 2012. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of cheque(s).

(b) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 22 March 2012. If you are an individual and you have opted for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant and you have opted for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your company chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and Share certificate(s) within the time period specified for collection, they will be despatched promptly thereafter to you to the address as specified in your Application Form, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or, if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and your Share certificates (where applicable) in person, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) will be despatched to the address as specified on your Application Form on or before Thursday, 22 March 2012, by ordinary post and at your own risk.

(c) If you apply using a YELLOW Application Form:

If you apply for the Hong Kong Public Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, 22 March 2012, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for the Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner as described in the sub-section headed "Results of Allocations" in this section above on Thursday, 22 March 2012. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 22 March 2012 or such other date as will be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque(s) (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or more and have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) in person, or if you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) (where applicable) will be sent to the address as specified on your Application Form on the date of despatch, which is expected to be on or before Thursday, 22 March 2012, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(d) If you apply through White Form eIPO service:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 22 March 2012, or such other date as notified by our Company in the newspapers as the date of despatch collection of e-Refund payment instructions/refund cheque(s)/Share certificate(s). If you do not collect your Share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address as specified on your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or, if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your application that you will collect your Share certificates in person, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on or before Thursday, 22 March 2012, by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be despatched to the application payment bank account on or before Thursday, 22 March 2012.

If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address as specified in your application instructions to the designated **White Form eIPO** Service Provider on or before Thursday, 22 March 2012, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in this section headed "How To Apply Through **White Form eIPO** — Additional Information" in this section above.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

13. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Public Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or through **White Form eIPO** or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note the following situations in which the Hong Kong Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form, submitting your application to the designated **White Form eIPO** Service Provider or giving an **electronic application instruction**, you agree that your application or the application made by HKSCC on your behalf is irrevocable until after the fifth day after the time of the opening of the Application Lists (excluding for this purpose, any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or through **White Form eIPO** or give your **electronic application instruction** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before the fifth day after the time of the opening of the Application Lists (excluding for this purpose, any day which is a Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or a public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominee on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(b) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of the Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Hong Kong Public Offering as well as the International Offering:

You or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Shares in the International Offering. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service electronically, you agree not to apply for International Offer Shares under the International Offering. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Offering from investors who have received the Hong Kong Public Offer Shares in the Hong Kong Public Offering.

(d) If our Company, the Sole Global Coordinator or their respective agents exercise their discretion:

Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Manager, the Hong Kong Underwriters and the **White Form eIPO** Service Provider (where applicable) and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) Your application will be rejected or not be accepted if:

- your application is a multiple or a suspected multiple applications;
- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person(s) for whose benefit you are applying have applied for and/or received or will receive Offer Shares under the International Offering;
- we believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located;
- if you apply for more than 100% of our Shares available for allocation in either Pool A or Pool B of the Hong Kong Public Offer Shares; or
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with their respective terms thereof.

14. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any of, but not limited to, the above reasons, our Company will refund your application monies, including brokerage, SFC transaction levy and Stock Exchange trading fee. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Share (excluding brokerage of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of refund monies will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications made on Application Forms for certain small denominations of the Hong Kong Public Offer Shares (apart from successful applications) may not be cleared.

If you are a CCASS Participant subscribing for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS, all refunds will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 22 March 2012.

Refund of your application monies (if any) is expected to be made on Thursday, 22 March 2012 in accordance with the various arrangements as described above.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

15. COMMENCEMENT OF DEALINGS IN OUR SHARES

Dealings in our Shares on the Stock Exchange are expected to commence on Friday, 23 March 2012.

Our Shares will be traded in board lots of 2,000 each. The stock code of our Shares is 1277.

16. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in our Shares and our Company comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

13 March 2012

The Directors
Kinetic Mines and Energy Limited

The Hongkong and Shanghai Banking Corporation Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Kinetic Mines and Energy Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for the period from 11 December 2009 to 31 December 2009 and each of the years ended 31 December 2010 and 2011 (the “**Relevant Period**”), and the consolidated balance sheets of the Group as at 31 December 2009, 2010 and 2011, together with the notes thereto (the “**Financial Information**”), for inclusion in the prospectus of the Company dated 13 March 2012 (the “**Prospectus**”).

The Company was incorporated in the Cayman Islands on 27 July 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 20 July 2011 (the “**Reorganisation**”) as detailed in the section headed “History and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation, save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and Blue Gems Worldwide Limited (“**Blue Gems**”), as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 26 of Section C.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the **"Underlying Financial Statements"**).

The Underlying Financial Statements for the period from 11 December 2009 to 31 December 2009 and each of the years ended 31 December 2010 and 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the **"HKICPA"**).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **"Listing Rules"**).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards (**"HKFRSs"**) issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group's consolidated results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2009, 2010 and 2011.

A BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 27 July 2010 as part of the Reorganisation of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Prior to the Reorganisation, Blue Gems was the holding company of the Group. Upon completion of the Reorganisation, the Company became the Group's new holding company and Blue Gems became an intermediate holding company. The ultimate controlling shareholder of the Group is Mr. Zhang Liang, Johnson (hereinafter referred to as the "**Controlling Shareholder**").

The companies that took part in the Reorganisation were controlled by the Controlling Shareholder before and after the Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of the Group. The Reorganisation only involved inserting the Company with no substantive operations as new holding company of Blue Gems and its subsidiaries. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in Hong Kong Financial Reporting Standard 3, Business combinations, with Blue Gems treated as the acquirer for accounting purposes. The Financial Information has been prepared and presented as a continuation of the financial statements of Blue Gems with the assets and liabilities of Blue Gems recognised and measured at their historical carrying amounts prior to the Reorganisation.

On 11 June 2010, the Group acquired the entire equity interests of Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal") (section C note 11).

Intra-group balances and intra-group transactions are eliminated in full in preparing the Financial Information.

As of the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Authorised and fully paid up capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Blue Gems	The British Virgin Islands (the "BVI") 11 December 2009	United States dollars ("US\$") 50,000/US\$1	100%	—	Investment holding
Kinetic (Asia) Limited ("Kinetic (Asia)")	Hong Kong 21 January 2010	Hong Kong dollars ("HK\$") 229,330,000/ HK\$229,330,000	—	100%	Investment holding
Kinetic Coal * (內蒙古准格爾旗力量煤業有限公司)	The People's Republic of China (the "PRC") 22 December 2006	RMB190,000,000/ RMB190,000,000	—	100%	Coal mining and sales of mineral products
Kinetic (Qinhuangdao) Energy Co., Ltd.* (力量(秦皇島)能源有限公司)	The PRC 4 August 2011	HK\$10,000,000/ HK\$10,000,000	—	100%	Sales of mineral products

* The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

B CONSOLIDATED FINANCIAL INFORMATION**1 Consolidated statements of comprehensive income**

	Section C Note	Period from 11 December to 31 December 2009	Year ended 31 December	
		RMB'000	2010 RMB'000	2011 RMB'000
Turnover	2	—	—	—
Cost of sales		—	—	—
Gross profit		—	—	—
Other revenue	3	—	6,165	14,438
Administrative expenses		—	(10,040)	(49,861)
Loss from operations		—	(3,875)	(35,423)
Finance costs	4(a)	—	(9,107)	(20,401)
Loss before taxation	4	—	(12,982)	(55,824)
Income tax	5	—	2,603	7,939
Loss attributable to equity shareholders of the Company for the period / year		—	(10,379)	(47,885)
Other comprehensive income for the period / year:				
Exchange differences on translation of financial information of operations outside the PRC		—	4,917	5,091
Total comprehensive loss attributable to equity shareholders of the Company for the period / year		—	(5,462)	(42,794)
Basic and diluted loss per share (RMB)	6	—	(0.001)	(0.006)

The accompanying notes form part of the Financial Information.

2 Consolidated balance sheets

	Section C Note	As at 31 December		
		2009	2010	2011
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment.	9	—	239,196	660,583
Intangible assets	10	—	719,951	719,951
Interest in an associate.	12	—	—	29,250
Deferred tax assets	19	—	13,168	21,107
Prepayments for machinery	13	—	52,356	42,165
Other non-current assets	14	—	10,950	25,311
		—	1,035,621	1,498,367
Current assets				
Other receivables	15	—	6,127	30,421
Pledged deposits		—	—	5,019
Cash at bank and in hand	16(a)	—	46,797	15,737
		—	52,924	51,177
Current liabilities				
Other payables.	17	—	598,788	658,561
Bank loans.	18	—	8,509	248,964
		—	607,297	907,525
Net current liabilities		—	554,373	856,348
Total assets less current liabilities		—	481,248	642,019
Non-current liabilities				
Bank loans.	18	—	486,710	500,000
Net (liabilities)/assets		—	(5,462)	142,019
Capital and reserves				
Share capital	20	—	—	48,444
Reserves	21	—	(5,462)	93,575
Total equity		—	(5,462)	142,019

The accompanying notes form part of the Financial Information.

3 Consolidated statements of changes in equity

	Attributable to equity shareholders of the Company				
	Share capital	Other reserves	Exchange reserve	Accumulated losses	Total equity
	RMB'000 Note 20(b)	RMB'000 Note 21(a)	RMB'000 Note 21(b)	RMB'000	RMB'000
At 11 December 2009, 31 December 2009 and 1 January 2010	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Changes in equity for 2010:					
Loss for the year	—	—	—	(10,379)	(10,379)
Other comprehensive income . . .	—	—	4,917	—	4,917
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>4,917</u>	<u>(10,379)</u>	<u>(5,462)</u>
At 31 December 2010 and 1 January 2011	<u>—</u>	<u>—</u>	<u>4,917</u>	<u>(10,379)</u>	<u>(5,462)</u>
Changes in equity for 2011:					
Loss for the year	—	—	—	(47,885)	(47,885)
Other comprehensive income . . .	—	—	5,091	—	5,091
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>5,091</u>	<u>(47,885)</u>	<u>(42,794)</u>
Waiver of liabilities from ultimate controlling party	<u>—</u>	190,275	<u>—</u>	<u>—</u>	190,275
Arising from the Reorganisation . .	<u>48,444</u>	<u>(48,444)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2011	<u>48,444</u>	<u>141,831</u>	<u>10,008</u>	<u>(58,264)</u>	<u>142,019</u>

The accompanying notes form part of the Financial Information.

4 Consolidated cash flow statements

		Period from 11 December to 31 December 2009	Year ended 31 December	
	Section C Note		2010	2011
		RMB'000	RMB'000	RMB'000
Operating activities				
Cash used in operations	16(b)	—	(5,400)	(45,081)
Net cash used in operating activities . .		—	(5,400)	(45,081)
Investing activities				
Interest received		—	21	107
Payment for the purchase of property, plant and equipment		—	(100,684)	(351,319)
Purchase of net assets	11	—	(187,347)	—
Payment for other non-current assets . . .		—	(10,950)	(14,361)
Interest in an associate		—	—	(29,250)
Net cash used in investing activities . .		—	(298,960)	(394,823)
Financing activities				
Proceeds from bank loans		—	111,219	271,500
Repayment of bank loans		—	—	(17,755)
Advances from related parties		—	250,853	170,409
Repayment of advances from related parties		—	(6,750)	—
Interest paid		—	(9,082)	(20,401)
Net cash generated from financing activities		—	346,240	403,753
Net increase/(decrease) in cash		—	41,880	(36,151)
Cash at 11 December 2009/ 1 January 2010 and 2011		—	—	46,797
Effect of foreign exchange rate changes		—	4,917	5,091
Cash at 31 December		—	46,797	15,737

The accompanying notes form part of the Financial Information.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION**1 Significant accounting policies****(a) *Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards (“**HKASs**”) and related Interpretations promulgated by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The HKICPA has issued a number of new and revised HKFRSs. For the purposes of preparing the Financial Information, the Company has adopted all these new and revised HKFRSs in the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2011. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2011 are set out in note 27.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) *Basis of preparation and presentation*

The Financial Information comprises the Company and its subsidiaries, and has been prepared on the basis as further explained in Section A.

(c) *Basis of measurement*

The Financial Information is presented in Renminbi (“**RMB**”), rounded to the nearest thousand except per share data. It is prepared on the historical cost basis.

(d) *Going concern*

The Group incurred a net loss of RMB42,794,000 for the year ended 31 December 2011 and had net current liabilities of RMB856,348,000 as at 31 December 2011. Notwithstanding the operating loss and net current liabilities position, the Controlling Shareholder has undertaken in writing to provide financial support to the Group, if necessary, to enable the Group to meet its financial obligations as and when they fall due. In addition, the directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the eighteen months ending 30 June 2013, the Group will have the necessary liquid funds to finance its working capital and capital expenditure requirements.

Therefore, the Financial Information has been prepared assuming the Group will continue as a going concern. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the Financial Information.

(e) ***Use of estimates and judgements***

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information are disclosed in note 25.

(f) ***Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).

(g) ***Associates***

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Interest in an associate is accounted for in the consolidated financial statements under the equity method.

(h) Property, plant and equipment

Property, plant and equipment, which consist of machinery and equipment, motor vehicles and office equipment, are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in the consolidated statement of comprehensive income in the period in which it is incurred.

When proved and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred. Mining exploration costs, such as expenditures related to locating coal deposits and determining the economic feasibility, and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment over its estimated useful life on a straight-line basis, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
Machinery and equipment	10-15 years
Motor vehicles	5 years
Office equipment	6 years
Buildings	30-40 years

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is initially recognised in the consolidated balance sheet at cost. Cost comprises direct costs of construction and borrowing costs during the period of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are completed, notwithstanding any delays in the issue of the relevant completion certificates by the relevant authorities.

No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(i) Intangible assets**(i) Mining rights**

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). The mining rights are amortised using the units of production method based on the proved and probable mineral reserves. The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

(ii) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 1(k)). Exploration and evaluation assets include exploration and development costs. Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining right and amortised to profit or loss using the units of production method based on the proved and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(j) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) Impairment of assets**(i) Impairment of other receivables**

Other receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss of other receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

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

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

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- other non-current assets;
- intangible assets; and
- investment in a subsidiary

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(l) ***Other receivables***

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) ***Inventories***

Inventories of ancillary materials, spare parts and small tools used in the construction of mining structure are stated at cost less provisions for obsolescence.

(n) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) ***Other payables***

Other payables are initially recognised at fair value. Other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and in hand.

(q) ***Provisions and contingent liabilities***

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

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

(r) ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) ***Sale of goods***

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) ***Interest income***

Interest income is recognised as it accrues using the effective interest method.

(s) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) ***Translation of foreign currencies***

Foreign currency transactions during the Relevant Period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(u) ***Obligations for land reclamation***

The Group's obligations for land reclamation consist of spending estimates at underground mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are 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. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

(v) ***Employee benefits***

(i) *Short-term employee benefits*

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the Relevant Period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these accounts are stated at their present values.

(ii) *Defined contribution retirement plans*

The Group's contributions to defined contribution retirement plans administered by the PRC government are recognised as an expense when incurred according to the contribution determined by the plans.

(w) ***Income tax***

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria is adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(x) ***Related parties***

For the purposes of the Financial Information, a related party is a person or entity that is related to the Group.

- (i) A person or a close member of that person's family is related to the Group if:
 - (a) that person has control or joint control over the Group;
 - (b) that person has significant influence over the Group; or

- (c) that person is a member of the key management personnel of the Group or of a parent of the Group.
- (ii) An entity is related to the Group if any of the following conditions applies:
 - (a) the entity and the Group are members of the same group;
 - (b) the entity is an associate or joint venture of the Group or the Group is an associate or joint venture of the entity or of a member of a group of which the entity is a member;
 - (c) the entity and the Group are joint ventures of the same third party;
 - (d) the entity is a joint venture of a third entity and the Group is an associate of the same third entity, or vice versa;
 - (e) the entity is a post-employment plan for the benefit of employees of either the Group or an entity related to the Group;
 - (f) the entity is controlled or jointly-controlled by a person identified in (i); or
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) ***Segment reporting***

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on coal mining. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented for the Relevant Period.

No geographic information is shown as the Group's operating loss is entirely derived from coal mining activities in the PRC.

2 Turnover

The principal activities of the Group are the extraction and sale of coal products. The Group did not earn any revenue from this activity during the Relevant Period as it is still in a development stage.

3 Other revenue

	Period from 11 December to 31 December 2009	Year ended 31 December	
		2010	2011
	RMB'000	RMB'000	RMB'000
Sales of scrapings	—	6,144	14,330
Interest income.	—	21	108
	<u>—</u>	<u>6,165</u>	<u>14,438</u>

4 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs:

	Period from 11 December to 31 December 2009	Year ended 31 December	
		2010	2011
	RMB'000	RMB'000	RMB'000
Interest expenses on bank loans.	—	15,198	50,160
Less: interest expenses capitalised into construction in progress [#]	<u>—</u>	<u>(6,091)</u>	<u>(29,759)</u>
	<u>—</u>	<u>9,107</u>	<u>20,401</u>

The borrowing costs have been capitalised at a rate of 6.336%-6.556% and 6.556%-7.590% per annum during the years ended 31 December 2010 and 2011 respectively.

(b) *Staff costs:*

	Period from 11 December to 31 December 2009	Year ended 31 December	
		2010	2011
	RMB'000	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	—	3,499	11,191
Contribution to defined contribution plans . .	—	322	1,059
	—	3,821	12,250

Employees of the Group are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which ranged from 15% to 20% of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees. The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

(c) *Other items:*

	Period from 11 December to 31 December 2009	Year ended 31 December	
		2010	2011
	RMB'000	RMB'000	RMB'000
Operating lease charges	—	673	2,513
Auditor's remuneration	—	10	41
Listing expenses	—	1,399	18,036
Consultancy fee	—	135	604
Depreciation	—	223	832

5 Income tax in the consolidated statements of comprehensive income

- (a) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Company and Blue Gems are not subject to any income tax in the Cayman Islands and BVI respectively.
- (b) No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the Relevant Period.
- (c) The Group's PRC subsidiaries are subject to income tax at 25% during the Relevant Period.
- (d) Reconciliation between income tax and loss before taxation at applicable tax rates is as follows:

	Period from 11 December to 31 December 2009	Year ended 31 December	
	RMB'000	2010 RMB'000	2011 RMB'000
Loss before taxation	<u>—</u>	<u>(12,982)</u>	<u>(55,824)</u>
Tax on loss before taxation, calculated at the rates applicable to results in the jurisdictions concerned	—	(3,055)	(12,333)
Entity not subject to income tax	—	370	3,149
Effect of non-deductible expenses . . .	<u>—</u>	<u>82</u>	<u>1,245</u>
	<u>—</u>	<u>(2,603)</u>	<u>(7,939)</u>

6 Loss per share

The calculation of basic loss per share during the Relevant Period is based on the loss attributable to equity shareholders of the Company during the Relevant Period and a total number of 7,500,000,000 ordinary shares of the Company, which are expected to be in issue immediately prior to the proposed global offering of the Company as if the shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period, and therefore, diluted loss per share is the same as the basic loss per share.

7 Directors' remuneration

Details of directors' remuneration are set out below:

Period from 11 December 2009 to 31 December 2009					
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zhang Li	—	—	—	—	—
Mr. Wang Changchun	—	—	—	—	—
Mr. Zhang Liang Johnson	—	—	—	—	—
Non-executive directors					
Ms. Zhang Lin	—	—	—	—	—
Independent non-executive directors					
Mr. Shi Xiaoyu	—	—	—	—	—
Ms. Liu Peilian	—	—	—	—	—
Mr. Dai Feng	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—

Year ended 31 December 2010					
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zhang Li	—	—	—	—	—
Mr. Wang Changchun	—	350	150	—	500
Mr. Zhang Liang Johnson	—	—	—	—	—
Non-executive directors					
Ms. Zhang Lin	—	—	—	—	—
Independent non-executive directors					
Mr. Shi Xiaoyu	—	—	—	—	—
Ms. Liu Peilian	—	—	—	—	—
Mr. Dai Feng	—	—	—	—	—
	—	350	150	—	500
	—	—	—	—	—

Year ended 31 December 2011					
	Salaries, allowances and Directors' fees	benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zhang Li	—	—	—	—	—
Mr. Wang Changchun	—	700	399	—	1,099
Mr. Zhang Liang, Johnson	—	—	—	—	—
Non-executive directors					
Ms. Zhang Lin	—	—	—	—	—
Independent non-executive directors					
Mr. Shi Xiaoyu	—	—	—	—	—
Ms. Liu Peilian	—	—	—	—	—
Mr. Dai Feng	—	—	—	—	—
	<u>—</u>	<u>700</u>	<u>399</u>	<u>—</u>	<u>1,099</u>

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period. No director waived or agreed to waive any emoluments during the Relevant Period.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, nil, one and one, for the period from 11 December 2009 to 31 December 2009 and each of the years ended 31 December 2010 and 2011 respectively, are directors whose emoluments are disclosed in note 7 during the Relevant Period. The emoluments in respect of the other individuals during the Relevant Period are as follows:

	Period from 11 December to 31 December 2009	Year ended 31 December	
	RMB'000	2010	2011
	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	—	856	1,982
Contributions to the retirement scheme . . .	—	14	34
Discretionary bonuses	—	300	1,261
	<u>—</u>	<u>1,170</u>	<u>3,277</u>

The emolument of the remaining individuals with highest emoluments during the Relevant Period are within the band of HK\$ nil to HK\$1,000,000.

9. Property, plant and equipment

	Construction in progress	Machinery and equipment	Motor vehicles	Office equipment	Buildings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
As at 11 December 2009						
and 31 December 2009	—	—	—	—	—	—
Purchase of net assets (note 11) . .	149,108	425	1,331	138	—	151,002
Additions	86,547	729	835	306	—	88,417
As at 31 December 2010	235,655	1,154	2,166	444	—	239,419
Additions	420,454	153	703	909	—	422,219
Transfer from CIP	(5,621)	—	—	—	5,621	—
As at 31 December 2011	650,488	1,307	2,869	1,353	5,621	661,638
Accumulated depreciation:						
As at 11 December 2009 and						
31 December 2009	—	—	—	—	—	—
Charge for the year	—	(39)	(154)	(30)	—	(223)
As at 31 December 2010	—	(39)	(154)	(30)	—	(223)
Charge for the year	—	(113)	(488)	(158)	(73)	(832)
As at 31 December 2011	—	(152)	(642)	(188)	(73)	(1,055)
Carrying amount:						
As at 31 December 2009	—	—	—	—	—	—
As at 31 December 2010	235,655	1,115	2,012	414	—	239,196
As at 31 December 2011	650,488	1,155	2,227	1,165	5,548	660,583

The Group is in the process of applying for the title certificates of certain motor vehicles and buildings with carrying value of approximately RMB1,909,000 and RMB5,621,000 as at 31 December 2011.

10 Intangible assets

	Mining rights
	RMB'000
Cost:	
As at 11 December 2009 and 31 December 2009	—
Purchase of net assets (note 11)	719,951
As at 31 December 2010 and 2011	719,951

Mining rights with carrying value of RMB719,951,000 was pledged as securities of bank loans of the Group as at 31 December 2010 and 31 December 2011 (note 18(b)).

Mining rights will be amortised using the units of production method when the mines commence production.

11 Purchase of net assets

On 11 June 2010, a subsidiary of the Company, Kinetic (Asia) acquired the entire equity interests in Kinetic Coal from Zhunge' er Banner Fuliang Coal Mining Limited ("**Fuliang Coal Mining**") (note 24(a)(ii)).

Prior to the acquisition, Kinetic Coal primarily held mining rights of a coal mine and had no established infrastructure or significant mining equipment at the date of acquisition. The underlying set of the assets acquired and liabilities assumed was not integrated in forming a business to generate external revenues to the Group as a whole. As such, the acquisition of Kinetic Coal is considered as a purchase of assets and assumption of liabilities which do not constitute a business combination for accounting purposes.

The aggregate acquisition consideration was RMB200,000,000 satisfied in cash. The aggregate amount recognised at the acquisition date of these assets and liabilities are RMB930,696,000 and RMB730,696,000 respectively.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of intangible assets is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

The acquisition had the following effect on the Group's assets and liabilities:

	Carrying values prior to purchase	Fair value adjustments	Carrying values upon purchase
	RMB'000	RMB'000	RMB'000
Property, plant and equipment (note 9).	151,002	—	151,002
Intangible assets (note 10).	570,205	149,746	719,951
Deferred tax assets (note 19).	10,565	—	10,565
Other non-current assets	32,904	—	32,904
Inventories	3	—	3
Other receivables	3,618	—	3,618
Cash at bank and in hand	12,653	—	12,653
Other payables	(346,696)	—	(346,696)
Bank loans	(384,000)	—	(384,000)
Net identifiable assets	<u>50,254</u>	<u>149,746</u>	<u>200,000</u>
Cash consideration			200,000
Cash acquired.			<u>12,653</u>
Net cash outflow in respect of purchase of net assets			<u>(187,347)</u>

12 Interest in an associate

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Share of net assets	<u>—</u>	<u>—</u>	<u>29,250</u>

The following contains the particulars of an associate during the Relevant Period, which is an unlisted corporate entity:

Name of associate	Form of business structure	Place of establishment and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited* ("Xiaojia JV")	Incorporated	PRC	RMB65,000,000	45%	Coal storage, delivery and handling

* The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

Summary financial information on an associate:

	Assets	Liabilities	Equity	Revenue	Profit
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011					
100 per cent	65,000	—	65,000	—	—
Group's effective interest	<u>29,250</u>	<u>—</u>	<u>29,250</u>	<u>—</u>	<u>—</u>

Xiaojia JV was incorporated on 21 September 2011, and had not carried on any business from its date of incorporation to 31 December 2011.

13 Prepayments for machinery

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Deposits for purchase of machinery	<u>—</u>	<u>52,356</u>	<u>42,165</u>

14 Other non-current assets

The Group had formed a joint venture, Xiaojia JV, with an independent third party (note 12). Xiaojia JV will develop and operate the loading station for transporting coal products by railway and the station is planned to build near the Group's mining location. The Group has entered into contracts with civil contractor for the drainage and structures of the proposed loading station. As at 31 December 2010 and 2011, other non-current assets represented the payment to the contractor amounting to RMB10,950,000 and RMB25,311,000 respectively. The Company's directors are of the opinion that these construction contracts will be taken over by the joint venture after its incorporation, which is expected to be within the first half of 2012.

15 Other receivables

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Prepaid expenses, deposits and other receivables . .	<u>—</u>	<u>6,127</u>	<u>30,421</u>

16 Cash at bank and in hand

(a) *Cash at bank and in hand comprise:*

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Cash at bank	—	45,755	13,676
Cash in hand	—	1,042	2,061
	<u>—</u>	<u>46,797</u>	<u>15,737</u>

(b) *Reconciliation of loss before taxation to cash used in operations:*

	Period from 11 December to 31 December	Year ended 31 December	
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Operating activities			
Loss before taxation	—	(12,982)	(55,824)
Adjustments for:			
Depreciation	—	223	832
Interest expenses on bank loans	—	9,107	20,401
Interest income	—	(21)	(107)
Changes in working capital:			
Decrease in inventories	—	3	—
Increase in other receivables	—	(2,509)	(24,294)
Increase in other payables	—	779	18,930
Increase in pledge deposits	—	—	(5,019)
Cash used in operations	<u>—</u>	<u>(5,400)</u>	<u>(45,081)</u>

Non-cash transactions

On 19 July 2011, 229,320,000 new shares of Kinetic Asia of HKD1.00 each were authorised to issue and allotted at par, and credited as fully paid by way of capitalisation of HKD229,320,000 (equivalent to RMB190,275,000) due to Mr Zhang Liang, Johnson.

17 Other payables

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Payables for construction.	—	21,138	81,847
Other payables and accruals	—	4,047	28,305
Amounts due to related parties (note 24(b))	—	573,603	548,409
	<u>—</u>	<u>598,788</u>	<u>658,561</u>

All of the other payables are expected to be settled within one year or repayable on demand.

The amounts due to related parties are unsecured, interest free and repayable on demand.

18 Bank loans

(a) *As at 31 December 2009, 2010 and 2011, the bank loans were repayable as follows:*

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Bank loans:			
Within 1 year.	—	8,509	248,964
After 1 year but within 2 years	—	230,000	—
After 2 years but within 5 years	—	256,710	500,000
	<u>—</u>	<u>495,219</u>	<u>748,964</u>

(b) *As at 31 December 2009, 2010 and 2011, the bank loans were secured and guaranteed as follows:*

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Secured by intangible assets	<u>—</u>	<u>486,710</u>	<u>729,000</u>

The bank loans of RMB486,710,000 and RMB729,000,000 as at 31 December 2010 and 2011 respectively were secured by mining right (note 10) and guaranteed by Mr. Zhang Li and Huizhou Jin'e SPA Co., Ltd (note 24(c)).

No banking facilities were granted to the Group as at 31 December 2009.

As at 31 December 2010 and 2011, banking facilities of the Group totalling RMB738,509,000 and RMB755,204,000 were utilised to the extent of RMB495,219,000 and RMB748,964,000, respectively.

(c) *The effective interest rates per annum at each balance sheet date ranged from:*

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Bank loans	—	1.685%-7.840%	1.765%-9.310%

19 Income tax in the consolidated balance sheets

Deferred tax arising from:

	Tax losses
	RMB'000
At 11 December 2009 and 31 December 2009	—
Purchase of net assets (note 11)	10,565
Credited to profit or loss	2,603
At 31 December 2010	13,168
Credited to profit or loss	7,939
At 31 December 2011	21,107

Deferred tax assets are recognised on certain unused tax losses of Kinetic Coal. On 11 June 2010, the Group acquired the entire equity interests in Kinetic Coal. With the new management and operational plan, directors of the Company considered it is probable that Kinetic Coal, in future, will earn taxable profits to utilise most of its unused tax losses before they expire and, as such, deferred tax assets are recognised accordingly.

20 Share capital

(a) *Authorised share capital*

The Company was incorporated on 27 July 2010 with an authorised capital of USD50,000 divided into 500,000 shares of US\$0.1 each and 1 fully paid share was issued thereafter. After the completion of the Reorganisation on 20 July 2011, the share capital of Blue Gems was transferred from King Lok Holdings Limited ("King Lok") to the Company.

On 20 July 2011, each of the 500,000 ordinary shares with par value of USD0.1 each in the authorised share capital of the Company was subdivided into 100 ordinary shares with par value of USD0.001 each (the “**Subdivision**”) so that the authorised share capital of the Company became USD50,000 consisting of 50,000,000 shares. Immediately following the Subdivision, the authorised share capital of the Company was increased from USD50,000 consisting of 50,000,000 shares to USD500,000,000 consisting of 500,000,000,000 shares.

(b) **Issued share capital**

For the purpose of this report, share capital in the Group’s consolidated balance sheets as at the respective year/period ends was presented as follows:

- (i) As at 31 December 2009, share capital represented the share capital of Blue Gems. Blue Gems was incorporated on 11 December 2009 with authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each. Upon incorporation, 1 fully paid share was issued, representing the entire issued share capital of Blue Gems.
- (ii) Share capital as at 31 December 2010 represented the aggregate amounts of share capital of the Company and Blue Gems.
- (iii) Share capital as at 31 December 2011 represented the share capital of the Company.

On 20 July 2011, the Company issued 7,499,999,900 shares at nominal value of USD0.001 each to King Lok in consideration for the transfer of the entire issued share capital of Blue Gems from King Lok to the Company as part of the Reorganisation.

Ordinary shares

	Number of ordinary shares	Nominal value of fully paid ordinary shares USD'000	Nominal value of fully paid ordinary shares RMB'000
At 27 July 2010 (date of incorporation)			
issue of one ordinary share of USD0.1 each	1	—	—
Subdivision of each share into 100 shares of USD0.001 each on 20 July 2011	99	—	—
Issuance upon Reorganisation	7,499,999,900	7,500	48,444
	<u>7,500,000,000</u>	<u>7,500</u>	<u>48,444</u>

(c) **Capital management**

The Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Neither the Company nor any of the subsidiaries now comprising the Group are subject to externally imposed capital requirements.

21 Reserves

(a) *Other reserves*

On 19 July 2011, Kinetic Asia allotted and issued a total of 229,320,000 new shares of HKD1.00 each to Blue Gems at par. Such allotment was settled by way of capitalisation of an aggregate amount of HKD229,320,000 (equivalent to RMB190,275,000) of non-interest bearing loans payable by Kinetic Asia to Mr. Zhang Liang, Johnson. As a result, other reserve of the Group amounting to HKD229,320,000 has been arisen.

On 20 July 2011, the Company allotted and issued 7,499,999,900 shares to King Lok in consideration for the transfer of the entire issued share capital of Blue Gems from King Lok to the Company as part of the Reorganisation. The other reserve of the Group arising from the Reorganisation represents the difference between (a) the nominal value of share capital of Blue Gem; and (b) the nominal value of the shares issued by the Company in exchange under the Reorganisation of the Group on that date.

The other reserve of the Company represents the difference between (a) the consolidated net assets of the subsidiaries acquired; and (b) the nominal value of the shares issued by the Company in exchange under the Reorganisation of the Group on 20 July 2011.

(b) *Exchange reserve*

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(t).

(c) *Distributability of reserves*

There was no reserve available for distribution to shareholders at 31 December 2009, 2010 and 2011.

(d) *Dividend*

No dividend was declared or paid by the Company during the Relevant Period to its equity shareholders.

22 Financial risk management**(a) Financial risk management objectives and policies**

Management has adopted certain policies on financial risk management with the objective of:

- (i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and
- (ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) Credit risk

The Group has no significant credit risk during the Relevant Period as it is still in a development stage.

(c) Foreign currency exchange risk

The Company and the subsidiaries now comprising the Group are not exposed to significant foreign currency exchange risks as their transactions and balances were substantially denominated in their respective functional currencies.

(d) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

A general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would have increased / decreased the Group loss after taxation by an amount as follows:

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
100 basis point increase	—	2,132	1,970

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(e) *Liquidity risk*

The Group's management reviews the liquidity position of the Group on an ongoing basis, including review of the expected cash inflows and outflows, maturity of bank loans in order to monitor the Group's liquidity requirements in the short and longer terms.

At the balance sheet dates, financial obligations of the Group included other payables and bank loans. The directors are of the opinion that the Group will be able to finance its working capital and capital expenditure requirements based on the financial support provided by the Controlling Shareholder as referred to in note 1(d) of this section and a cash flow forecast prepared by the Group's management for the eighteen months ending 30 June 2013. The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates) and the earliest date the Group can be required to pay:

As at 31 December 2010

	Contractual undiscounted cash outflow				Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	8,512	255,391	312,609	576,512	495,219
Other payables	598,788	—	—	598,788	598,788
	<u>607,300</u>	<u>255,391</u>	<u>312,609</u>	<u>1,175,300</u>	<u>1,094,007</u>

As at 31 December 2011

	Contractual undiscounted cash outflow				Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	296,894	37,950	531,520	866,364	748,964
Other payables	658,561	—	—	658,561	658,561
	<u>955,455</u>	<u>37,950</u>	<u>531,520</u>	<u>1,524,925</u>	<u>1,407,525</u>

(f) **Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009, 2010 and 2011.

23 Commitments(a) **Capital commitments**

Capital commitments outstanding as at 31 December 2009, 2010 and 2011 not provided for in the Financial Information were as follows:

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Contracted for mining structure construction	—	280,064	156,397

(b) **Lease commitments**

At 31 December 2011, the total future minimum lease payments under non-cancellable operating lease are payables as follows:

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Contracted for lease commitments			
- Within 1 year	—	—	400
- After 1 year but within 2 years	—	—	500
	—	—	900

(c) **Environmental contingencies**

To date, the Group has not incurred any significant expenditure for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

- (i) the exact nature and extent of the contamination at the mines and coal washing plants;
- (ii) the extent of required cleanup efforts;

- (iii) varying costs of alternative remediation strategies;
- (iv) changes in environmental remediation requirements; and
- (v) the identification of new remediation sites.

The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed for future environmental legislation cannot be reasonably estimated at present and could be material.

24 Related party transactions

During the Relevant Period, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Liang, Johnson	Controlling Shareholder
Mr. Zhang Li	Director
Fuliang Coal Mining (准格爾旗富量礦業有限公司)*	Controlled by Mr. Zhang Li
Huizhou Jin'e SPA Co., Ltd. ("Jin'e SPA") (惠州市金鵝溫泉實業有限公司)*	Controlled by Mr. Zhang Li

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Particulars of significant transactions between the Group and the above related parties during the Relevant Period are as follows:

(a) Non-recurring transaction

	Period from 11 December to 31 December		
	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
(i) Advances from:			
- Mr. Zhang Liang, Johnson	—	195,603	—
- Mr. Zhang Li	—	250	—
- Fuliang Coal Mining	—	55,000	170,409
	—	250,853	170,409

Advances from related parties are unsecured, interest free and have no fixed terms of repayment.

(ii) Purchase of net assets

On 11 June 2010, a subsidiary of the Company, Kinetic (Asia) acquired the entire equity interests in Kinetic Coal from Fuliang Coal Mining (note 11).

(b) *Amounts due to related parties*

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Non-trade related			
- Mr. Zhang Li	—	308,000	308,000
- Fuliang Coal Mining	—	70,000	240,409
- Mr. Zhang Liang, Johnson.	—	195,603	—
	<u>—</u>	<u>573,603</u>	<u>548,409</u>

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

The balances had been settled prior to the listing of the Company's shares on the Stock Exchange.

(c) *Financial guarantees*

As at 31 December 2010 and 2011, certain banking facilities totalling RMB730,000,000 and RMB730,000,000 were guaranteed by Mr Zhang Li and Huizhou Jin'e SPA Co., Ltd., of which RMB486,710,000 and RMB729,000,000 were utilised by the Group as at 31 December 2010 and 2011 respectively as disclosed in note 18.

The financial guarantees issued by Mr Zhang Li and Huizhou Jin'e SPA Co., Ltd. are to be released by the bank prior to the listing of the Company's shares on the Stock Exchange.

The financial support from the Controlling Shareholder as referred to in note 1(d) of this section is to be terminated upon the listing of the Company's shares on the Stock Exchange.

(d) *Key management personnel remuneration*

Remuneration for key management personnel, including the amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Period from 11 December to 31 December	Year ended 31 December	
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	—	2,606	4,522
Contribution to defined contribution retirement plan	—	41	123
	<u>—</u>	<u>2,647</u>	<u>4,645</u>

25 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) *Useful lives of property, plant and equipment*

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

(b) *Impairment of assets*

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, other non-current assets and intangible assets (note 1(k)), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs.

The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

26 Information of statutory financial statements of the subsidiaries

As at the date of this report, no audited financial statements have been prepared for the Company and Blue Gems, as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation.

The list of auditors of the statutory financial statements of the subsidiaries was as follows:

Name of entities	Financial period	Statutory auditors
Kinetic (Asia)	Period from 21 January 2010 (date of incorporation) to 31 December 2010	KPMG
Kinetic Coal	Years ended 31 December 2009 and 2010	Beijing Zhongtongxing Accountant's Company Ltd. (北京中同興會計師事務所)

The statutory financial statements of Kinetic Coal were prepared in accordance with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC.

On 11 June 2010, Kinetic (Asia) acquired the entire equity interests in Kinetic Coal, whereupon Kinetic Coal became wholly-owned subsidiary of the Group. The financial information in respect of Kinetic Coal for the year ended 31 December 2009 and the six months ended 30 June 2010 is included in Appendix IB to the Prospectus.

27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2011

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 10, <i>Consolidated financial statements</i>	1 January 2013
HKAS 27, <i>Separate financial statements (2011)</i>	1 January 2013
HKAS 28, <i>Investments in associates and joint ventures</i>	1 January 2013
Revised HKAS 19, <i>Employee benefits</i>	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 27 July 2010 with an authorised share capital of USD50,000 divided into 500,000 shares with par value of USD0.1 each. As a result of the Subdivision on 20 July 2011, par value of USD0.1 each in the authorised share capital of the Company was subdivided into USD0.001 each.

Immediately after the Subdivision, the Company issued 7,499,999,900 shares at nominal value of USD0.001 each as part of the Reorganisation as detailed in the section headed "Statutory and General Information" in Appendix VI to the Prospectus.

The Company has not carried on any business since its date of incorporation.

		As at 31 December	
	Section C	2010	2011
	Notes	RMB'000	RMB'000
Asset			
Investment in a subsidiary		—	190,275
Capital and reserves			
Share capital	20(b)	—	48,444
Other reserve	21(a)	—	141,831
Total equity		<u>—</u>	<u>190,275</u>

E IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2011, the directors consider the immediate parent of the Company to be King Lok and the ultimate controlling party of the Company to be Mr Zhang Liang, Johnson.

F SUBSEQUENT EVENTS

On 9 March 2012, the Company entered into a memorandum of understanding with Mr. Zhang Li and Fuliang Coal Mining, pursuant to which the Company has the right (purchase option) to acquire 85% of equity interest of Guizhou Fuliang Mining Limited ("Guizhou Fuliang"). The purchase option was granted to the Company at nil consideration. The purchase option can be exercised at a purchase price equal to the prevailing fair market value of Guizhou Fuliang as determined by one or more independent firms of international valuers in accordance with the corresponding purchase option agreement. The execution of such purchase option will be subject to certain conditions as set out in the corresponding purchase option agreement and subsequent decision of respective contracting parties.

G SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the subsidiaries now comprising the Group in respect of any period subsequent to 31 December 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong. This report is prepared in accordance with Rule 4.05A of the Listing Rules in relation to the pre-acquisition financial information of Inner Mongolia Zhunge'er Kinetic Coal Limited for the year ended 31 December 2009 and the six months ended 30 June 2010. Completion of the acquisition of Inner Mongolia Zhunge'er Kinetic Coal Limited took place on 11 June 2010. As Inner Mongolia Zhunge'er Kinetic Coal Limited only prepares management accounts on a monthly basis, there are no management accounts as of 11 June 2010 readily available. In addition, Inner Mongolia Zhunge'er Kinetic Coal Limited did not carry out any substantive operations during the six months ended 30 June 2010, and, in particular, there were no material transactions conducted by Inner Mongolia Zhunge'er Kinetic Coal Limited between the date of our acquisition and 30 June 2010. Our Directors are therefore of the opinion that the impact (if any) to have the report drawn up to 30 June 2010, instead of the date of acquisition, both in terms of net assets value and loss for the period, would be immaterial.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

13 March 2012

The Directors
Kinetic Mines and Energy Limited

The Hongkong and Shanghai Banking Corporation Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Inner Mongolia Zhunge'er Kinetic Coal Limited (the "**Company**") including the statements of comprehensive income, the statements of changes in equity and the cash flow statements of the Company, for the year ended 31 December 2009 and the six months ended 30 June 2010 (the "**Relevant Period**"), and the balance sheets of the Company as at 31 December 2008 and 2009 and 30 June 2010, together with the notes thereto (the "**Financial Information**"), for inclusion in the prospectus of Kinetic Mines and Energy Limited dated 13 March 2012 (the "**Prospectus**").

The Company was incorporated in the PRC on 22 December 2006 with limited liability. Pursuant to an acquisition on 11 June 2010, the Company became a wholly-owned subsidiary of Kinetic Mines and Energy Limited.

The Company has adopted 31 December as its financial year end. The statutory financial statements of the Company were prepared in accordance with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "**PRC**").

The directors of the Company have prepared the financial statements of the Company for the Relevant Period in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (the "**Underlying Financial Statements**"). The Underlying Financial Statements for the year ended 31 December 2009 and the six months ended 30 June 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 30 June 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, in accordance with the accounting policies set out in Section B below, gives a true and fair view of the Company's results and cash flows for the Relevant Period, and the state of affairs of the Company as at 31 December 2009 and 30 June 2010.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended 30 June 2009, together with the notes thereon (the “**Corresponding Financial Information**”), for which the directors are responsible, 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.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review 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 Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION**1 Statements of comprehensive income**

	<i>Section B Note</i>	Year ended 31 December	Six months ended 30 June	
		2009	2009	2010
		RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	2	—	—	—
Cost of sales		—	—	—
Gross profit		—	—	—
Other revenue	3	89	3	1,263
Administrative expenses		(9,005)	(4,569)	(5,550)
Loss from operations		(8,916)	(4,566)	(4,287)
Finance costs	4(a)	(13,760)	(4,922)	(8,791)
Loss before taxation	4	(22,676)	(9,488)	(13,078)
Income tax	5	—	—	10,565
Loss for the year / period		(22,676)	(9,488)	(2,513)
Total comprehensive loss		(22,676)	(9,488)	(2,513)

The accompanying notes form part of this Financial Information.

2 Balance sheets

	<i>Section B</i>	As at	As at 30 June
	<i>Note</i>	31 December	
		2009	2010
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment.	8	103,348	151,002
Intangible assets	9	570,205	570,205
Deferred tax assets	10	—	10,565
Prepayments for machinery	11	13,817	32,904
		<u>687,370</u>	<u>764,676</u>
Current assets			
Inventories		—	3
Other receivables	12	3,356	3,618
Cash at bank and in hand.	13	62,484	12,653
		<u>65,840</u>	<u>16,274</u>
Current liabilities			
Other payables.	14	320,443	346,696
Net current liabilities		<u>254,603</u>	<u>330,422</u>
Total assets less current liabilities		<u>432,767</u>	<u>434,254</u>
Non-current liabilities			
Bank loans.	15	380,000	384,000
Net assets		<u>52,767</u>	<u>50,254</u>
Capital and reserves			
Paid-in capital		190,000	190,000
Accumulated losses		(137,233)	(139,746)
Total equity		<u>52,767</u>	<u>50,254</u>

The accompanying notes form part of this Financial Information.

3 Statements of changes in equity

	Paid-in capital	Accumulated losses	Total equity
	RMB'000	RMB'000	RMB'000
At 1 January 2009	190,000	(114,557)	75,443
Loss for the year	—	(22,676)	(22,676)
At 31 December 2009.	<u>190,000</u>	<u>(137,233)</u>	<u>52,767</u>
(unaudited)			
At 1 January 2009	190,000	(114,557)	75,443
Loss for the period	—	(9,488)	(9,488)
At 30 June 2009.	<u>190,000</u>	<u>(124,045)</u>	<u>65,955</u>
At 1 January 2010	190,000	(137,233)	52,767
Loss for the period	—	(2,513)	(2,513)
At 30 June 2010.	<u>190,000</u>	<u>(139,746)</u>	<u>50,254</u>

The accompanying notes form part of this Financial Information.

4 Cash flow statements

	<i>Section B Note</i>	Year ended 31 December	Six months ended 30 June	
		2009	2009	2010
		RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities				
Cash used in operations	13(b)	(10,453)	(6,299)	(2,625)
Net cash used in operating activities		(10,453)	(6,299)	(2,625)
Investing activities				
Interest received		89	3	63
Acquisition of property, plant and equipment		(59,522)	(9,460)	(60,728)
Acquisition of intangible assets		(221,930)	(216,000)	(1,000)
Net cash used in investing activities		(281,363)	(225,457)	(61,665)
Financing activities				
Proceeds from bank loans		380,000	230,000	4,000
Capital injection		—	—	—
Advance from related parties		75,250	26,500	40,050
Repayment of advance from related parties		(73,807)	(6,200)	(20,800)
Interest paid		(28,760)	(19,921)	(8,791)
Net cash generated from financing activities		352,683	230,379	14,459
Net increase / (decrease) in cash at bank and in hand		60,867	(1,377)	(49,831)
Cash at bank and in hand at 1 January		1,617	1,617	62,484
Cash at bank and in hand at 31 December / 30 June		62,484	240	12,653

The accompanying notes form part of this Financial Information.

B NOTES TO FINANCIAL INFORMATION**1 Significant accounting policies****(a) *Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards ("**HKASs**") and related Interpretations promulgated by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued certain new and revised HKFRSs. For the purposes of preparing this Financial Information, the Company has adopted all these new and revised HKFRSs in the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2010 are set out in note 21.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2009 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) *Basis of presentation of the Financial Information*

The Company was incorporated in the PRC on 22 December 2006 with limited liability. Pursuant to an acquisition on 11 June 2010, the Company became a wholly owned subsidiary of Kinetic Mines and Energy Limited. Since no activity having a significant financial impact had taken place between the date of acquisition and 30 June 2010, the directors have prepared the pre-acquisition financial information of the Company presented in the Financial Information drawn up to 30 June 2010 for financial reporting purpose.

The Financial Information is presented in Renminbi ("**RMB**"), which is the functional and reporting currency of the Company. It is prepared on the historical cost basis.

The Company incurred a net loss of RMB2,513,000 for the six months ended 30 June 2010 and had accumulated losses of RMB139,746,000. Its current liabilities exceeded its current assets by RMB330,422,000 as at 30 June 2010. These conditions indicate the existence of an uncertainty which may cast doubt on the Company's ability to continue as a going concern.

As at 30 June 2010, the Company had available banking facilities totalling RMB346,000,000 for working capital purposes. In light of the listing plan of Kinetic Mines and Energy Limited on the Stock Exchange, the Company's directors also considered that the new ultimate controlling party of the Company, upon the completion the acquisition of 100% equity interests of the Company on 11 June 2010, would provide financial support to the Company when necessary to enable the Company to continue as a going concern. Therefore, the Financial Information has been prepared on a going concern basis.

(c) *Use of estimates and judgements*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information are disclosed in note 19.

(d) *Property, plant and equipment*

Property, plant and equipment, which consist of machinery and equipment, motor vehicles and office equipment, are stated at cost less accumulated depreciation and impairment losses (see note 1(f)).

The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other cost is recognised as an expense in the statement of comprehensive income in the period in which it is incurred.

When proven and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred. Mining exploration costs, such as expenditures related to locating coal deposits and determining the economic feasibility, and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment over its estimated useful life on a straight-line basis, after taking into account its estimated residual value of 5%. The estimated useful lives of property, plant and equipment are as follows:

	<i>Depreciable life</i>
Machinery and equipment	10-15 years
Motor vehicles	5 years
Office equipment	6 years

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is initially recognised in the balance sheet at cost. Cost comprises direct costs of construction and borrowing costs during the year of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are completed, notwithstanding any delays in the issue of the relevant completion certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(e) *Intangible assets*

Intangible assets that are acquired by the Company are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(f)).

(i) *Mining rights*

The mining rights are amortised using the units of production method based on the proven and probable mineral reserves. The Company's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

(ii) *Exploration and evaluation assets and mining development assets*

Exploration and evaluation assets include exploration and development costs. Exploration and development costs include expenditures incurred in connection with the exploration for and

evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining structure and amortised to profit or loss using the units of production method based on the proven and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(f) *Impairment losses*

(i) *Impairment of other receivables*

Other receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

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

Impairment losses recognised in respect of other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against other receivables directly and any amounts held in

the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- other non-current assets; and
- intangible assets

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) ***Other receivables***

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(h) ***Inventories***

Inventories of ancillary materials, spare parts and small tools used in the construction of mining structure are stated at cost less provisions for obsolescence.

(i) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(j) ***Other payables***

Other payables are initially recognised at fair value. Other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

(m) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(n) *Borrowing costs*

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(o) *Translation of foreign currencies*

Foreign currency transactions during the Relevant Period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

(p) ***Obligations for land reclamation***

The Company's obligations for land reclamation consist of spending estimates at underground mines in accordance with the PRC rules and regulations. The Company estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are 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. The Company records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

(q) ***Operating lease charges***

Operating lease payments are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(r) ***Employee benefits***

(i) ***Short-term employee benefits***

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the Relevant Period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) ***Defined contribution retirement plans***

The Company's contributions to defined contribution retirement plans administered by the PRC government are recognised as an expense when incurred according to the contribution determined by the plans.

(s) ***Income tax***

Income tax for the year / period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year / period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria is adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) to the extent that, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on the same taxable entity.

(t) ***Related parties***

For the purposes of the Financial Information, a related party is a person or entity that is related to the Company.

- (i) A person or a close member of that person's family is related to the Company if:
 - (a) that person has control or joint control over the Company;
 - (b) that person has significant influence over the Company; or
 - (c) that person is a member of the key management personnel of the Company or of a parent of the Company.
- (ii) An entity is related to the Company if any of the following conditions applies:
 - (a) the entity and the Company are members of the same group;
 - (b) the entity is an associate or joint venture of the Company or the Company is an associate or joint venture of the entity or of a member of a group of which the entity is a member;
 - (c) the entity and the Company are joint ventures of the same third party;
 - (d) the entity is a joint venture of a third entity and the Company is an associate of the same third entity, or vice versa;
 - (e) the entity is a post-employment plan for the benefit of employees of either the Company or an entity related to the Company;
 - (f) the entity is controlled or jointly-controlled by a person identified in (i); or
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) ***Segment reporting***

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Company that are used to assess the performance and allocate resources.

The chief operating decision maker of the Company assesses the performance and allocates the resources of the Company as a whole, as all of the Company's activities are considered to be primarily dependent on the performance on coal mining. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented for the Relevant Period.

No geographic information is shown as the Company's operating loss is entirely derived from coal mining activities in the PRC.

2 Turnover

The principle activities of the Company are the extraction and sale of coal products. The Company did not earn any revenue from this activity during the Relevant Period as it is still in a development stage.

3 Other revenue

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of scrapings	—	—	1,200
Interest income	89	3	63
	<u>89</u>	<u>3</u>	<u>1,263</u>

4 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs:

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expenses on bank loans	10,260	242	13,596
Other interest expense	4,680	4,680	—
Total interest expense	14,940	4,922	13,596
Less: interest expenses capitalised into construction in progress*	(1,180)	—	(4,805)
	<u>13,760</u>	<u>4,922</u>	<u>8,791</u>

* The borrowing costs have been capitalised at a rate of 6.336% per annum.

(b) **Staff costs:**

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, wages, bonuses and benefits	4,119	2,328	2,603
Contributions to defined contribution retirement plan	91	24	90
	<u>4,210</u>	<u>2,352</u>	<u>2,693</u>

Employees of the Company are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Company contributes funds which ranged from 15% to 20% of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees. The Company has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

(c) **Other items:**

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Operating lease charges	164	30	183
Auditor's remuneration	60	10	4
Consultancy fee	—	—	300
Depreciation	<u>184</u>	<u>88</u>	<u>135</u>

5 Income tax in the statements of comprehensive income

- (a) Effective from 1 January 2008, the PRC's statutory income tax rate is 25%. The Company is subject to income tax at 25% during the Relevant Period.

- (b) Reconciliation between income tax credit and loss before taxation per statement of comprehensive income:

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Loss before taxation	<u>(22,676)</u>	<u>(9,488)</u>	<u>(13,078)</u>
Tax on loss before taxation, calculated at 25%	(5,669)	(2,372)	(3,270)
Tax effect of unused tax losses of current year / prior years	4,806	1,229	(7,378)
Effect of non-deductible expenses ⁽ⁱ⁾ . .	<u>863</u>	<u>1,143</u>	<u>83</u>
	<u>—</u>	<u>—</u>	<u>(10,565)</u>

(i) Non-deductible expenses are mainly entertainments which exceeded the deduction limits.

6 Directors' remuneration

The individual amounts of remuneration payable to directors of the Company during the Relevant Period are as follows:

	Year ended 31 December 2009				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr Wang Changchun	—	466	125	—	591
Mr Zhang Li	—	—	—	—	—
Mr Zhang Xiaolin	—	—	—	—	—
Mr Lu Jing	—	—	—	—	—
Mr Xie Qiang	—	—	—	—	—
Mr Wu Kai	—	—	—	—	—
Mr Yeung Hoi Ching	—	—	—	—	—
Mr Yang Peijun	—	—	—	—	—
Ms Chen Suqin	—	—	—	—	—
Total	<u>—</u>	<u>466</u>	<u>125</u>	<u>—</u>	<u>591</u>

Six months ended 30 June 2010

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr Wang Changchun	—	317	—	—	317
Mr Zhang Li	—	—	—	—	—
Mr Zhang Xiaolin	—	—	—	—	—
Mr Lu Jing	—	—	—	—	—
Mr Xie Qiang	—	—	—	—	—
Mr Wu Kai	—	—	—	—	—
Mr Yeung Hoi Ching	—	—	—	—	—
Mr Yang Peijun	—	—	—	—	—
Ms Chen Suqin	—	—	—	—	—
Total	<u>—</u>	<u>317</u>	<u>—</u>	<u>—</u>	<u>317</u>

Six months ended 30 June 2009 (unaudited)

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr Wang Changchun	—	216	—	—	216
Mr Zhang Li	—	—	—	—	—
Mr Zhang Xiaolin	—	—	—	—	—
Mr Lu Jing	—	—	—	—	—
Mr Xie Qiang	—	—	—	—	—
Mr Wu Kai	—	—	—	—	—
Mr Yeung Hoi Ching	—	—	—	—	—
Mr Yang Peijun	—	—	—	—	—
Ms Chen Suqin	—	—	—	—	—
Total	<u>—</u>	<u>216</u>	<u>—</u>	<u>—</u>	<u>216</u>

During the Relevant Period, there were no amounts paid or payable by the Company to the directors or any of the highest paid individuals set out in note 7 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

7 Individuals with highest emoluments

The five highest paid individuals of the Company include one director for the year ended 31 December 2009 and the six months ended 30 June 2009 and 2010, whose emoluments are disclosed in note 6. Details of remuneration paid to the remaining highest paid individuals of the Company are as follows:

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other emoluments	1,231	722	748
Discretionary bonuses	116	—	—
	<u>1,347</u>	<u>722</u>	<u>748</u>

The emoluments of the remaining four individuals for the year ended 31 December 2009 and the six months ended 30 June 2009 and 2010 with the highest emoluments are within the band of HK\$ nil to HK\$1,000,000.

8 Property, plant and equipment

	Construction in progress	Machinery and equipment	Motor vehicles	Office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
As at 1 January 2009	55,260	114	916	84	56,374
Addition	46,888	—	351	73	47,312
As at 31 December 2009 . . .	102,148	114	1,267	157	103,686
Addition	46,960	346	457	26	47,789
As at 30 June 2010	149,108	460	1,724	183	151,475
Accumulated depreciation:					
As at 1 January 2009	—	(6)	(137)	(11)	(154)
Charge for the year	—	(12)	(154)	(18)	(184)
As at 31 December 2009 . . .	—	(18)	(291)	(29)	(338)
Charge for the period	—	(17)	(102)	(16)	(135)
As at 30 June 2010	—	(35)	(393)	(45)	(473)
Carrying amount:					
As at 31 December 2008 . . .	55,260	108	779	73	56,220
As at 31 December 2009 . . .	102,148	96	976	128	103,348
As at 30 June 2010	149,108	425	1,331	138	151,002

The Company is in process of applying for the title certificates of certain motor vehicles with carrying value of approximately RMB1,385,000 as at 30 June 2010.

9 Intangible assets

	Mining rights	Exploration and evaluation assets	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2009	566,555	3,470	570,025
Additions	—	180	180
Transfer to mining rights	3,650	(3,650)	—
At 31 December 2009 and 30 June 2010 . .	<u>570,205</u>	<u>—</u>	<u>570,205</u>

Included in the Company's mining rights and exploration and evaluation assets are assets related to mines which are not operative until 30 June 2010. These assets are not subject to amortisation until they are placed in use.

Mining rights with carrying value of RMB570,205,000 was pledged as securities of bank loans of the Company as at 30 June 2010 (note 15(b)).

10 Income tax in the balance sheets

Deferred tax arising from:

	Tax losses
	RMB'000
At 1 January 2009 and 31 December 2009	—
Credited to profit or loss	<u>10,565</u>
At 30 June 2010.	<u>10,565</u>

On 11 June 2010, the Company was acquired by a proposed listing group. With the new management and operational plan, Directors of the Company considered it is probable that the Company, in future, will earn taxable profits to utilise most of its unused tax losses before they expire and as such, deferred tax assets are recognised accordingly.

11 Prepayments for machinery

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Deposits for purchase of machinery	<u>13,817</u>	<u>32,904</u>

12 Other receivables

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Prepayments, deposits and other receivables	<u>3,356</u>	<u>3,618</u>

13 Cash at bank and in hand**(a) Cash at bank and in hand comprise:**

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Cash in hand	1,930	64
Cash at bank	<u>60,554</u>	<u>12,589</u>
	<u>62,484</u>	<u>12,653</u>

(b) Reconciliation of loss before taxation to cash generated from operations:

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Loss before taxation	(22,676)	(9,488)	(13,078)
Adjustments for:			
Depreciation	184	88	135
Interest income	(89)	(3)	(63)
Finance costs	13,760	4,922	8,791
Changes in working capital			
Increase in inventories	—	—	(3)
Increase in other receivables	(2,347)	(1,823)	(262)
Increase in other payables	<u>715</u>	<u>5</u>	<u>1,855</u>
Cash used in operation	<u>(10,453)</u>	<u>(6,299)</u>	<u>(2,625)</u>

14 Other payables

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Payables for mining rights	1,000	—
Accrued construction costs	7,807	13,954
Other payables and accruals	1,386	3,242
Amounts due to related parties (note 18b)	310,250	329,500
	<u>320,443</u>	<u>346,696</u>

All of the other payables are expected to be settled within one year or repayable on demand.

The amounts due to related parties are unsecured, interest free and repayable on demand.

15 Bank loans

(a) *As at 31 December 2009 and 30 June 2010, the bank loans were repayable as follows:*

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Bank loans:		
After 1 year but within 2 years	—	230,000
After 2 years but within 5 years	380,000	154,000
	<u>380,000</u>	<u>384,000</u>

(b) *As at 31 December 2009 and 30 June 2010, the bank loans were secured and guaranteed as follows:*

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Secured by intangible assets	<u>380,000</u>	<u>384,000</u>

The bank loans as at 31 December 2009 and 30 June 2010 were secured by mining rights with a carrying amount of RMB570,205,000 (note 9) and guaranteed by Mr. Zhang Li and Huizhou Jin'e SPA Co., Ltd (note 18(c)).

As at 31 December 2009 and 30 June 2010, banking facilities of the Company totalling RMB730 million were utilised to the extent of RMB380 million and RMB384 million respectively.

(c) *The effective interest rates per annum at each balance sheet date ranged from:*

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Bank loans	<u>6.336% - 7.56%</u>	<u>6.336% - 7.56%</u>

16 Financial risk management

(a) *Financial risk management objectives and policies*

Management has adopted certain policies on financial risk management with the objective of:

- (i) ensuring that appropriate funding strategies are adopted to meet the Company's short term and long term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Company; and
- (ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

(b) *Credit risk*

The Company has no significant credit risk during the Relevant Period as it is still in a development stage.

(c) *Foreign currency exchange risk*

The Company is not exposed to significant foreign currency exchange risks as its transactions and balances were substantially denominated in its functional currency.

(d) *Interest rate risk*

The Company's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates and fixed rates expose the Company to cash flow interest rate risk and fair value interest rate risk respectively. The Company does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Company does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

A general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would have increased / decreased the Company loss after taxation by an amount as follows:

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
100 basis point increase	<u>469</u>	<u>94</u>

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(e) **Liquidity risk**

The Company's management reviews the liquidity position of the Company on an ongoing basis, including review of the expected cash inflows and outflows, maturity of bank loans in order to monitor the Company's liquidity requirements in the short and longer terms.

At the balance sheet dates, financial obligations of the Company included other payables and bank loans. The directors are of the opinion that the Company will be able to finance its working and financial requirements based on a cash flow forecast prepared by the Company's management. The following table details the remaining contractual maturities at the balance sheet date of the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates) and the earliest date the Company can be required to pay:

As at 31 December 2009

	Contractual undiscounted cash outflow				Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	—	—	463,123	463,123	380,000
Other payables	<u>320,443</u>	<u>—</u>	<u>—</u>	<u>320,443</u>	<u>320,443</u>
	<u>320,443</u>	<u>—</u>	<u>463,123</u>	<u>783,566</u>	<u>700,443</u>

As at 30 June 2010

	Contractual undiscounted cash outflow				Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	—	264,631	190,075	454,706	384,000
Other payables	346,696	—	—	346,696	346,696
	<u>346,696</u>	<u>264,631</u>	<u>190,075</u>	<u>801,402</u>	<u>730,696</u>

(f) **Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 30 June 2010.

17 Commitments(a) **Capital commitments**

Capital commitments outstanding as at 31 December 2009 and 30 June 2010 not provided for in the Financial Information were as follows:

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Contracted for mining rights acquisitions and mining structure construction	<u>226,262</u>	<u>215,352</u>

(b) *Environmental contingencies*

To date, the Company has not incurred any significant expenditures for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Company. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Company's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

- (i) the exact nature and extent of the contamination at the mines and coal washing plants;
- (ii) the extent of required cleanup efforts;
- (iii) varying costs of alternative remediation strategies;
- (iv) changes in environmental remediation requirements; and
- (v) the identification of new remediation sites.

The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed for future environmental legislation cannot be reasonably estimated at present and could be material.

18 Related party transactions

During the Relevant Period, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Li.	Controlling shareholder of the Company
Fuliang Coal Mining (准格爾旗富量礦業有限公司)*	Controlled by Mr. Zhang Li
Beijing Fushengli Real Estate Agency Co., Ltd. ("Fushengli") (北京富盛利房地產經紀有限公司)*	Controlled by Mr. Zhang Li
Huizhou Jin'e SPA Co., Ltd. ("Jin'e SPA") (惠州市金鵝溫泉實業有限公司)*	Controlled by Mr. Zhang Li

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Particulars of significant transactions between the Company and the above related parties during the Relevant Period are as follows:

(a) ***Non-recurring transactions***

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000 (unaudited)	RMB'000
Advances from			
- Mr. Zhang Li	43,750	6,000	750
- Fuliang Coal Mining	—	—	28,300
- Fushengli.	31,500	20,500	11,000
	<u>75,250</u>	<u>26,500</u>	<u>40,050</u>

(b) ***Amounts due to related parties***

	As at 31 December	As at 30 June
	2009	2010
	RMB'000	RMB'000
Non trade related		
- Mr. Zhang Li	310,250	310,500
- Fuliang Coal Mining	—	15,000
- Fushengli.	—	4,000
	<u>310,250</u>	<u>329,500</u>

Amounts due to related parties are unsecured, interest free and to be repaid on demand.

(c) ***Financial guarantees***

Certain banking facilities of totalling RMB730,000,000 were guaranteed by Mr Zhang Li and Jin'e SPA, of which RMB380,000,000 and RMB384,000,000 were draw down by the Company as at 31 December 2009 and 30 June 2010 respectively as disclosed in note 15(b).

(d) Key management personnel remuneration

Remuneration for key management personnel, including the amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Year ended 31 December	Six months ended 30 June	
	2009	2009	2010
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	3,297	1,428	1,606
Contribution to defined contribution retirement plan	8	—	8
	<u>3,305</u>	<u>1,428</u>	<u>1,614</u>

19 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Company makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Company's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Company's accounting policies.

(a) Useful lives of property, plant and equipment

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

(b) Impairment of assets

In considering the impairment losses that may be required for certain of the Company's assets which include property, plant and equipment, other non-current assets and intangible assets (note 1(f)(ii)), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating

costs. The Company uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cashflows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Notwithstanding that the Company has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

20 Statutory financial statements of the Company

Statutory financial statements of the Company for the year ended 31 December 2009 were audited by Beijing Zhongtongxing Accountant's Company Ltd. (北京中同興會計師事務所).

21 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2010

Up to the date of issue of this Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2010 and which have not been adopted in the Financial Information.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

D IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 30 June 2010, the directors consider the immediate parent and ultimate controlling party of the Company to be Kinetic (Asia) Limited and Mr. Zhang Liang, Johnson respectively.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' reports prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Group, as set forth in Appendices IA and IB to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' reports set forth in Appendices IA and IB to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS/(LIABILITIES)

The following unaudited pro forma statement of adjusted net tangible assets/(liabilities) prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to illustrate the effect of the Global Offering on our consolidated net tangible assets/(liabilities) attributable to equity shareholders of our Company as of 31 December 2011 as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets/(liabilities) of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets/(liabilities) following the completion of the Global Offering.

	Consolidated net tangible assets/ (liabilities) attributable to equity shareholders as at 31 December 2011 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets/ (liabilities) attributable to equity shareholders	Unaudited pro forma adjusted net tangible assets/ (liabilities) per Share ⁽³⁾	Unaudited pro forma adjusted net tangible assets/ (liabilities) per Share ⁽⁴⁾
	(RMB in thousands)			(RMB)	(HK\$)
Based on the Offer Price of HK\$1.26 per Share	(577,932)	916,764	338,832	0.04	0.05
Based on the Offer Price of HK\$1.51 per Share	(577,932)	1,101,265	523,333	0.06	0.08

Notes:

- (1) The consolidated net tangible assets/(liabilities) attributable to equity shareholders as of 31 December 2011 is compiled based on the consolidated financial information included in the accountants' report of our Company, the text of which is set out in Appendix IA to this prospectus, which is based on the consolidated net assets of our Group as of 31 December 2011 of RMB142 million less intangible assets of RMB720 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.26 or HK\$1.51 per Offer Share, being the low or high end of the stated offer price range, after deduction of the underwriting fees and other related expenses payable by our Group and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the share option scheme. The estimated net proceeds from the Global Offering are converted to RMB at an exchange rate of HK\$1.2286 to RMB1.00.

- (3) The unaudited pro forma adjusted net tangible assets/(liabilities) per Share is arrived at on the basis that 8,430,000,000 Shares (including the Shares in issue as of 31 December 2011, and Shares that may be issued under the Global Offering) are in issue without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the share option scheme.
- (4) The unaudited pro forma adjusted net tangible assets/(liabilities) per Share in RMB is converted to Hong Kong dollars at an exchange rate of HK\$1.2286 to RMB1.00.

B. COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter, prepared for the purpose of incorporation in this prospectus, received from KPMG, Certified Public Accountants, reporting accountants to our Company, in connection with the unaudited pro forma financial information.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

13 March 2012

The Directors
Kinetic Mines and Energy Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the **"Pro Forma Financial Information"**) of Kinetic Mines and Energy Limited (the **"Company"**) and its subsidiaries (collectively referred to as the **"Group"**) set out in Part A of Appendix II of the prospectus dated 13 March 2012 (the **"Prospectus"**), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the Global Offering might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in Part A of Appendix II of the Prospectus.

Responsibilities

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

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

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“**HKSIR**”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed 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 of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2011 or any future date.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described under “Use of Proceeds” set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

Opinion

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant, in connection with its valuation as at 31 December 2011 of the property interests of the Group.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

13 March 2012

The Board of Directors
Kinetic Mines and Energy Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Kinetic Mines and Energy Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) have interests in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 December 2011 (the “**date of valuation**”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

In valuing the property interest in Group I which is currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group II, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of official plans and various tenancy agreements relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Jingtian & Gongcheng Attorneys at Law, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was first carried out in January 2011. Subsequent re-inspection of the properties was carried out in the period from 6 February 2012 to 10 February 2012 by Ms. Kathy Hao. Ms. Kathy Hao is a member of RICS and a qualified Real Estate Appraiser of China.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T.W. Yiu
MRICS MHKIS RPS(GP)
Associate Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 18 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interest held under development by the Group in the PRC

No.	Property	Capital value in existing state as at 31 December 2011 (RMB)	Interest attributable to the Group	Capital value attributable to the Group as at 31 December 2011 (RMB)
1.	Various buildings and structures under construction located at Dafanpu Coal Mine Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	No commercial value	100%	No commercial value
Sub-total:				Nil

Group II — Property interests leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 December 2011 (RMB)	Interest attributable to the Group	Capital value attributable to the Group as at 31 December 2011 (RMB)
2.	3 residential units of He Shuo Ya Yuan located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	No commercial value	100%	No commercial value
3.	2 residential units of Huitong Residential Community located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	No commercial value	100%	No commercial value

APPENDIX III**PROPERTY VALUATION**

No.	Property	Capital value in existing state as at 31 December 2011 (RMB)	Interest attributable to the Group	Capital value attributable to the Group as at 31 December 2011 (RMB)
4.	4 residential units and a retail unit of Litai Residential Community located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	No commercial value	100%	No commercial value
5.	4 residential units of Huxi Residential Community located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	No commercial value	100%	No commercial value
6.	Level 2 of the extension building of Zhongmei Mansion No. 301 Minzu Road Qinhuangdao City Hebei Province The PRC	No commercial value	100%	No commercial value
7.	A portion of a parcel of land located at the eastern section of Qinhuang Street Qinhuangdao City Hebei Province The PRC	No commercial value	100%	No commercial value
Sub-total:		<u>Nil</u>		<u>Nil</u>
Grand total:		<u><u>Nil</u></u>		<u><u>Nil</u></u>

VALUATION CERTIFICATE

Group I — Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
1.	Various buildings and structures under construction located at Dafanpu Coal Mine Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	The property comprises 19 buildings and various structures (including underground constructions) which are currently under construction (the "Development"). As advised by the Group, the Development is scheduled to be completed in the first quarter of 2012. Upon completion, the buildings of the development will have a total gross floor area of approximately 27,479.4 sq.m. The total construction cost of the Development is estimated to be approximately RMB253,326,000 of which approximately RMB164,663,000 has been paid up to the date of valuation. Pursuant to a Land Use Rights Exchange Agreement, the land use rights of the land parcel (the "Land Parcel") on which the property is erected with a site area of approximately 236,067.39 sq.m. is contracted to be exchanged to Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), a wholly-owned subsidiary of the Company (see note 1).	The property is currently under construction.	No commercial value

Notes:

- Pursuant to 2 Agreements dated 20 April 2006 and 29 December 2009 and a Land Use Rights Exchange Agreement dated 29 April 2008 entered into between Kinetic Coal and Shenhua Zhunge'er Resources Company Limited (神華準格爾能源有限責任公司) ("Shenhua Zhunge'er Resources", an independent third party of the Company), the land use rights of the Land Parcel were contracted to be exchanged to Kinetic Coal free of charge as the compensation for the loss of coal production volume due to the preservation of safety pillars under Shenhua Zhunge'er Resources' surface infrastructure and Shenhua Zhunge'er Resources will transfer the land use rights to Kinetic Coal after Shenhua Zhunge'er Resources obtained the relevant land use rights certificate. As advised by the Group, Shenhua Zhunge'er Resources is in the process of applying for the land use rights certificate of the Land Parcel.
- Pursuant to an Explanation Letter dated 6 April 2011 issued by the Stated-owned Land Resources Bureau of Zhunge'er Banner, the exchange of the Land Parcel mentioned in note 1 is under processing. After the completion of relevant procedures, Shenhua Zhunge'er Resources will transfer the land use rights of the Land Parcel to Kinetic Coal in accordance with the relevant PRC regulations.

3. We have not been provided with any Construction Land Planning Permit, Construction Work Planning Permit and Construction Work Commencement Permit (together as the “Construction Permits”) in respect of the Development.
4. In the valuation of the property, we have attributed no commercial value to the property which has neither obtained the land use rights of the Land Parcel nor the Construction Permits as mentioned in note 3. However, for reference purposes, we are of the opinion that the aggregate replacement cost of the building and structures (excluding the land) as at the date of valuation would be RMB205,987,000, assuming the relevant land use rights and Construction Permits had been obtained and the buildings and structures could be freely transferred.
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The form and content of the agreements mentioned in note 1 are legal, valid and enforceable and binding on the contractual parties;
 - b. There are no material legal impediments for the Group to obtain the land use rights of the Land Parcel provided that Shenhua Zhunge’er Resources completed relevant procedures and obtained the relevant land use rights certificate and transferred the Land Parcel to the Group in accordance with the agreements as mentioned in note 5(a);
 - c. If Shenhua Zhunge’er Resources does not perform its obligations under the agreements as mentioned in note 5(a) or fails to obtain and transfer the relevant land use rights certificate to the Group, the Group’s rights as owner or occupier of the property may be materially and adversely affected; however, the Group has the rights to claim for resulting economic losses against Shenhua Zhunge’er Resources’ compensation obligations under the agreements mentioned in note 1; and
 - d. For the Development which has not obtained any Construction Permits, the Group may be ordered to cease the construction works and subject to rectification requirements within a stipulated time and penalty by the relevant authorities due to the absence of the construction permits.

VALUATION CERTIFICATE

Group II — Property interests leased and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
2.	3 residential units of He Shuo Ya Yuan located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	The property comprises 3 residential units on Levels 2, 3 and 6 of three 6-storey residential buildings completed in 2007. The property has a total lettable area of approximately 332.56 sq.m. The property is leased to Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), a wholly-owned subsidiary of the Company, from 3 independent third parties for various terms with the expiry dates between 5 February 2012 and 30 June 2012 at a total annual rent of RMB66,000 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 3 Tenancy Agreements, the property is leased to Kinetic Coal from 3 independent third parties (the "Lessors") for various terms with the expiry dates between 5 February 2012 and 30 June 2012 at a total annual rent of RMB66,600, exclusive of management fees, water and electricity charges. The details are summarised as below:

Unit	Lessor	Lettable Area (m ²)	Lease Term	Annual Rent (RMB)
Unit 302 of Entrance 1, Block 4	Nie Hongbin (聶宏斌)	101.28	from 1 July 2011 to 30 June 2012	24,000
Unit 601 of Entrance 2, Block 6	Gao Yong (高永)	115.64	from 6 February 2011 to 5 February 2012	20,000
Unit 202 of Entrance 2, Block 8	Wang Xiumei (王秀梅)	115.64	from 27 March 2011 to 26 March 2012	22,000
	Total:	<u>332.56</u>		<u>66,000</u>

The Tenancy Agreement in respect of the unit rented from Gao Yong expired in February 2012, however, it will be duly renewed as advised by the Group.

2. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- a. The Lessors have not provided any title certificates of the property. Hence, the PRC legal advisers cannot ascertain whether there are any mortgages or third party rights imposed on the property or likelihood of dissension or claiming for rights that might be raised by any third parties. However, pursuant to the Group's written confirmation and the PRC legal advisers' investigation, the Tenancy Agreements reflect the real volition of both sides of the contractual parties and have been implemented accordingly. No dissension or claiming for rights have been raised by any third parties and no penalty has been imposed on the Group by the government competent authority in respect of these Tenancy Agreements. If the utilisation of the property is affected by the third parties' claiming for rights, the Group will seek for substituted leases and the Group's normal operation activities will not be significantly affected;
 - b. The Tenancy Agreements have not been registered with the relevant government competent authority; and
 - c. The aforesaid absence of registration will not affect the validity of the Tenancy Agreements; however, according to the relevant PRC laws, rectification measure need to be done before a specific time limit in case that the tenancy has not been registered within 30 days after its signing. If no measures have been taken to rectify this before the specific time limit, an amount of RMB1,000 below or between RMB1,000 and RMB10,000 will be fined for individual and organisation respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
3.	2 residential units of Huitong Residential Community located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	The property comprises 2 residential units on Levels 4 and 5 of two 6-storey residential buildings completed in 2007. The property has a total lettable area of approximately 204.64 sq.m. The property is leased to Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), a wholly-owned subsidiary of the Company, from 2 independent third parties for terms of 1 year expiring on 24 March 2012 and 15 December 2012 at a total annual rent of RMB41,000 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 2 Tenancy Agreements, the property (Unit 501 of entrance 3 of Block 7 and Unit 402 of entrance 4 of Block 9) is leased to Kinetic Coal from Liushu (劉樹) and Zhao Rongtao (趙嶸滔) (the "Lessors") for terms of 1 year expiring on 24 March 2012 and 15 December 2012, at a total annual rent of RMB41,000 exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Lessors have not provided any title certificates of the property. Hence, the PRC legal advisers cannot ascertain whether there are any mortgages or third party rights imposed on the property or likelihood of dissension or claiming for rights that might be raised by any third parties. However, pursuant to the Group's written confirmation and the PRC legal advisers' investigation, the Tenancy Agreements reflect the real volition of both sides of the contractual parties and have been implemented accordingly. No dissension or claiming for rights have been raised by any third parties and no penalty has been imposed on the Group by the government competent authority in respect of these Tenancy Agreements. If the utilisation of the property is affected by the third parties' claiming for rights, the Group will seek for substituted leases and the Group's normal operation activities will not be significantly affected;
 - b. The Tenancy Agreements have not been registered with the relevant government competent authority; and
 - c. The aforesaid absence of registration will not affect the validity of the Tenancy Agreements; however, according to the relevant PRC laws, rectification measure need to be done before a specific time limit in case that the tenancy has not been registered within 30 days after its signing. If no measures have been taken to rectify this before the specific time limit, an amount of RMB1,000 below or between RMB1,000 and RMB10,000 will be fined for individual and organisation respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
4.	4 residential units and a retail unit of Litai Residential Community located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	The property comprises a retail unit on Levels 1 to 2 of a 6-storey commercial and residential building and 4 residential units on Levels 2, 3 and 5 of three 6-storey residential buildings completed in 2006. The property has a total lettable area of approximately 701.39 sq.m. The property is leased to Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), a wholly-owned subsidiary of the Company, from 5 independent third parties for various terms with the expiry dates between 7 February 2012 and 30 June 2012 at a total annual rent of RMB137,000 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential and canteen purposes.	No commercial value

Notes:

- Pursuant to 5 Tenancy Agreements, the property is leased to Kinetic Coal from 5 independent third parties (the "Lessors") for various terms with the expiry dates between 7 February 2012 and 30 June 2012, at a total annual rent of RMB137,000 exclusive of management fees, water and electricity charges. The details are summarised as below:

Unit	Lessor	Lettable Area (m ²)	Lease Term	Annual Rent (RMB)
Unit 201 of Entrance 4, Block 4	Niu Qingzhi (牛清枝)	100.71	from 1 July 2011 to 30 June 2012	22,000
Unit 202 of Entrance 3, Block 1	Li Junqing (李俊清)	144.68	from 8 February 2011 to 7 February 2012	25,000
Unit 501 of Entrance 3, Block 3	Wang Yongqing (王永清)	203.12	from 8 November 2011 to 8 November 2012	26,000
Unit 301 of Entrance 3, Block 3	Bai Xiuqing (白秀清)	126.37	from 28 February 2011 to 27 February 2012	21,000
Commercial Unit 2, Block 1	Xing Yugui (邢玉贵)	126.51	from 26 April 2011 to 25 April 2012	43,000
Total:		701.39		137,000

The Tenancy Agreements in respect of the units rented from Li Junqing and Bai Xiuqing expired in February 2012, however, they will be duly renewed as advised by the Group.

2. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- a. The Lessors (excluding Niu Qingzhi as mentioned in note 1) have not provided any title certificates of the property. Hence, the PRC legal advisers cannot ascertain whether there are any mortgages or third party rights imposed on the property or likelihood of dissension or claiming for rights that might be raised by any third parties. However, pursuant to the Group's written confirmation and the PRC legal advisers' investigation, the Tenancy Agreements reflect the real volition of both sides of the contractual parties and have been implemented accordingly. No dissension or claiming for rights have been raised by any third parties and no penalty has been imposed on the Group by the government competent authority in respect of these Tenancy Agreements. If the utilisation of the property is affected by the third parties' claiming for rights, the Group will seek for substituted leases and the Group's normal operation activities will not be significantly affected;
 - b. The Tenancy Agreements have not been registered with the relevant government competent authority; and
 - c. The aforesaid absence of registration will not affect the validity of the Tenancy Agreements; however, according to the relevant PRC laws, rectification measure need to be done before a specific time limit in case that the tenancy has not been registered within 30 days after its signing. If no measures have been taken to rectify this before the specific time limit, an amount of RMB1,000 below or between RMB1,000 and RMB10,000 will be fined for individual and organisation respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
5.	4 residential units of Huxi Residential Community located at Xuejiawan Town Zhunge'er Banner Erdos City Inner Mongolia Autonomous Region The PRC	The property comprises 4 residential units on Levels 2 to 4 of four 6-storey residential buildings completed in 2006. The property has a total lettable area of approximately 313.38 sq.m. The property is leased to Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), a wholly-owned subsidiary of the Company, from 4 independent third parties for various terms with the expiry dates between 28 October 2012 and 21 November 2012 at a total annual rent of RMB70,000 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

- Pursuant to 4 Tenancy Agreements, the property is leased to Kinetic Coal from 4 independent third parties (the "Lessors") for various terms with the expiry dates between 28 October 2012 and 21 November 2012 at a total annual rent of RMB70,000 exclusive of management fees, water and electricity charges. The details are summarized as below:

Address	Lessor	Lettable Area (m ²)	Lease Term	Annual Rent (RMB)
Unit 301 of Entrance 2, Block 59	Li Yuzhu (李玉柱)	78.51	from 1 November 2011 to 31 October 2012	18,000
Unit 202 of Entrance 2, Block 42	Lu Yongquan (陸永權)	78.26	from 28 October 2011 to 28 October 2012	16,000
Unit 202 of Entrance 1, Block 51	Bai Jinquan (白金泉)	78.51	from 17 November 2011 to 16 November 2012	18,000
Unit 402 of Entrance 2, Block 68	Chang Jixin (常繼新)	78.10	from 22 November 2011 to 21 November 2012	18,000
Total:		<u>313.38</u>		<u>70,000</u>

2. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- a. The Lessors have not provided any title certificates of the property. Hence, the PRC legal advisers cannot ascertain whether there are any mortgages or third party rights imposed on the property or likelihood of dissension or claiming for rights that might be raised by any third parties. However, pursuant to the Group's written confirmation and the PRC legal adviser's investigation, the Tenancy Agreements reflect the real volition of both sides of the contractual parties and has been implemented accordingly. No dissension or claiming for rights have been raised by any third parties and no penalty has been imposed on the Group by the government competent authority in respect of the Tenancy Agreements. If the utilisation of the property is affected by the third parties' claiming for rights, the Group will seek for substituted leases and the Group's normal operation activities will not be significantly affected;
 - b. The Tenancy Agreements have not been registered with the relevant government competent authority; and
 - c. The aforesaid absence of registration will not affect the validity of the Tenancy Agreements; however, according to the relevant PRC laws, rectification measure need to be done before a specific time limit in case that the tenancy has not been registered within 30 days after its signing. If no measure have been taken to rectify this before the specific time limit, an amount of RMB1,000 below or between RMB1,000 and RMB10,000 will be fined for individual and organisation respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
6.	Level 2 of the extension building of Zhongmei Mansion No.301 Minzu Road Qinhuangdao City Hebei Province The PRC	The property comprises Level 2 of a 5-storey office building completed in about 2000. The property has a lettable area of approximately 547 sq.m. The property is leased to Kinetic (Qinhuangdao) Energy Co., Ltd. ("Kinetic Qinhuangdao"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 3 years commencing from 31 October 2011 and expiring on 30 October 2014 at an annual rent of RMB100,000 exclusive of tax, heating and health costs, water, cable TV and electricity charges and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Kinetic Qinhuangdao from Qinhuangdao Zhongmei Mansion (秦皇島中煤大廈) (the "Lessor"), for a term of 3 years commencing from 31 October 2011 and expiring on 30 October 2014 at an annual rent of RMB100,000 exclusive of tax, heating and health costs, water, cable TV and electricity charges and other outgoings.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. According to the title documents provided, the property is owned by China Coal Energy Group Company Qinhuangdao Branch Company (中國中煤能源集團公司秦皇島分公司) (the "Property Owner"). In view of this, the Lessor has issued a Letter to prove its possession of the leasehold of the property and to take the responsibility for any title disputes if happening in the future;
 - b. Despite the Letter mentioned in note 2(a), the Lessor has neither provided any written explanations nor any written consent or authorization from the Property Owner in respect of the lease of the property. Hence, the PRC legal advisers cannot ascertain whether there are any mortgages or third party rights imposed on the property or likelihood of dissension or claiming for rights that might be raised by any third parties. However, pursuant to the Group's written confirmation and the PRC legal adviser's investigation, the Tenancy Agreement reflects the real volition of both sides of the contractual parties and has been implemented accordingly. No dissension or claiming for rights have been raised by any third parties and no penalty has been imposed on the Group by the government competent authority of the Tenancy Agreement. If the utilisation of the property is affected by the third parties' claiming for rights, the Group will seek for substituted leases and the Group's normal operation activities will not be significantly affected;

- c. The Tenancy Agreement has not been registered with the relevant government competent authority; and
- d. The aforesaid absence of registration will not affect the validity of the Tenancy Agreement; however, according to the relevant PRC laws, rectification measure need to be done before a specific time limit in case that the tenancy has not been registered within 30 days after its signing. If no measures have been taken to rectify this before the specific time limit, an amount of RMB1,000 below or between RMB1,000 and RMB10,000 will be fined for individual and organisation respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
7.	A portion of a parcel of land located at the eastern section of Qinhuang Street Qinhuangdao City Hebei Province The PRC	The property comprises a portion of a parcel of land with a lettable site area of approximately 30 Mu (i.e. 20,000 sq.m.). The property is leased to Kinetic (Qinhuangdao) Energy Co., Ltd. ("Kinetic Qinhuangdao"), a wholly-owned subsidiary of the Company, from an independent third party for a term of 3 years commencing from 1 October 2011 and expiring on 30 September 2014 at an annual rent of RMB450,000 exclusive of water, electricity and heating charges.	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

- Pursuant to a Land Lease Agreement, the property is leased to Kinetic Qinhuangdao from Qinhuangdao China Coal Storage and Transportation Co., Ltd. (秦皇島中煤儲運有限公司) (the "Lessor"), for a term of 3 years commencing from 1 October 2011 and expiring on 30 September 2014 at an annual rent of RMB450,000 exclusive of water, electricity and heating charges.
- We have been provided with a legal opinion on the legality of the Land Lease Agreement to the property issued by the Company's PRC legal advisers that the Lessor is the owner of the land use rights of the property and has the rights to lease the land use rights of the property to Kinetic Qinhuangdao. Meanwhile, the current use of the property complies with the stipulated use that is agreed in the Land Lease Agreement.



Kinetic Mines and Energy Limited.

Dafanpu Coal Project

**Independent Technical Review and Competent
Person's Report**

Date: January 2012
Project No. ADV-MN-36110





**Competent Person's Report
Dafanpu Coal Project
Inner Mongolia, People's Republic of China**

**Minarco-MineConsult,
13/F, 68 Yee Wo Street,
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January 2012

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APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Kinetic Mines and Energy Limited
Unit 1202,
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Central,
Hong Kong

18 January 2012

RE: INDEPENDENT TECHNICAL REVIEW AND COMPETENT PERSON'S REPORT

Runge Asia Limited ("RAL"), trading as Minarco-MineConsult ("MMC"), has been engaged by Kinetic Mines and Energy Limited ("Kinetic" or the "Client" or "Company") to undertake an Independent Technical Review ("ITR" or "Review") of the Dafanpu Coal Project ("the Relevant Asset" or the "Project") located in Inner Mongolia Autonomous Region, the People's Republic of China. The Project is being listed on the Hong Kong Stock Exchange ("HKEx") in an Initial Public Offering ("IPO").

The process and conclusions of the ITR are summarised in the attached Independent Technical Review and Competent Person's Report ("CPR"), which will be included in the prospectus and offering circulars relating to the IPO.

As outlined in this document, MMC completed an independent estimate of Coal Resources and Coal Reserves for the Project in accordance with the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code")".

MMC's technical team ("the Team") consisted of both International and Chinese national senior mining engineers, geologists and process/infrastructure engineers. The Team undertook a number of site visits to the Project to familiarise themselves with site conditions and had open discussions with the Company personnel on technical aspects relating to the project. MMC found the personnel to be cooperative and open in facilitating MMC's work.

In addition to work undertaken to generate estimates of Coal Resources and Coal Reserves, this report relies largely on information provided by the Company, either directly from the site and other offices, or from reports by other organisations whose work is the property of the Company. The data relied upon for the JORC Coal Resource and Coal Reserve estimates (dated October 2011) completed by MMC have been compiled primarily by the Company and validated where possible by MMC.

This report is based on information made available to MMC prior to the 18 January 2012. Kinetic has not advised MMC of any material change, or event likely to cause material change, to the designs or forecasts since the date of Project inspection.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

MMC has conducted its review and preparation of the Independent Technical Review and Competent Person's Report in accordance with the requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The report is also in compliance with:

- the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves", "The JORC Code" (2004 edition published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia) (the "JORC Code"); for determining Resources and Reserves, and
- the Code and Guidelines for technical assessment and/or valuation of mineral and petroleum assets and mineral and petroleum securities for Independent Expert Reports (the "Valmin Code").

MMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. This report was prepared on behalf of MMC by technical specialists, details of whose qualifications and experience are set out in **Annexure A**.

MMC has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of MMC or its directors, staff or sub-consultants who contributed to this report has any interest in:

- the Company; or
- rights or options in the Relevant Asset; or
- the outcome of the IPO.

The work undertaken is an ITR of the information provided, as well as information collected during site inspections completed by MMC as part of the ITR process. It specifically excludes all aspects of legal issues, marketing, commercial and financing matters, insurance, land titles and usage agreements, and any other agreements/contracts that the Company may have entered into.

MMC has exercised all due care whilst reviewing the information supplied by the Company, but does not warrant the completeness or accuracy of information provided by the Company which has been used in the preparation of this report.

The title of this report does not pass to the Company until all consideration has been paid in full.

Drafts of this report were provided to the Company but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Generally, the data available was sufficient for MMC to complete the scope of work. The quality and quantity of data available, and the cooperative assistance, in MMC's view, showed a willingness by the Company to assist the ITR process. All opinions, findings and conclusions expressed in the report are those of MMC and its specialist advisors.

Project Summary and Conclusions

- The Project is located 13 km to the southwest of Xuejiawan Town in Zhunge'er Banner, Erdos City of Inner Mongolia Autonomous Region, the People's Republic of China (the "PRC"). The Mining Licence lies within the triangular area defined by the Longwanggou Detailed Exploration District, the Heidaigou Exploration District and the Southern Detailed Exploration District, in the southern portion of Zhunge'er Coal Field. The licence area is 9.6108 sq.km. The licensed production rate is 2.4 Mtpa, trial production commenced in January 2012. The Mining Licence has a term of 30 years, expiring on the 23 November 2039.
- A Preliminary Design report (2.4 Mtpa) was approved in March 2009 by the Coal Industrial Bureau, Inner Mongolia. The Preliminary Design Report outlines a mine life of 20 years with an annual coal production of 2.4 Mtpa.
- A Feasibility Study outlining a plan for expansion to 5 Mtpa was completed by the Beijing Yuanzhihan Coal Engineering Design Co., Ltd in August 2011. The design institute is a Limited Company with "Class A" mining design licence, Licence No. A111000229, issued by Department of Housing and Urban of the PRC on 5 August 2008. The licensed production rate will need to be increased from 2.4 Mtpa to 5 Mtpa prior to this proposed production rate being implemented. All relevant Feasibility Studies, Preliminary Design Reports and Mining Licence approvals will need to be prepared and/or granted to achieve the increased Production Rate approval.
- The Project is expected to produce predominately long flame coal with a small amount of non-caking coal (Chinese Coal Classification Standard - GB 5751 — 86). The coal is suitable for use as a steaming and civil thermal coal. The construction of coal washing plant with a planned 5 Mtpa feed capacity has been completed and is expected to commence operation in March 2012.
- Specific Energy (MJ/kg) of the raw coal product (Lump Coal), air dried (ad) is estimated at 23.19 MJ/kg (approximate calorific value of 5,539 kCal). Specific Energy (MJ/kg) of washed clean product (Fine Coal) was estimated to be 28.15 MJ/kg (ad) (~6,722 kCal).
- Coal Resources have been independently estimated by MMC in accordance with the Recommendations of the JORC Code. A combined total of **449.9 Mt of JORC Coal Resources** have been estimated, including **145.6 Mt of Measured Coal Resources**, **247.7 Mt of Indicated Coal Resources** and **56.6 Mt of Inferred Coal Resources**.
- Coal Reserves have been independently estimated by MMC in accordance with the Recommendations of the JORC Code. A combined total of **201.2 Mt of JORC Coal Reserves**, (**67.2 Mt Proven Coal Reserves** and **134.0 Mt Probable Coal Reserves**) have been estimated.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

- All JORC Coal Resources and Reserve Estimations were valid as of October 2011. There were no material changes made to the JORC Resource Estimates from November 2010 to October 2011.
- The Feasibility Study and Preliminary Design Report ("Mining Studies") both describe the use of two underground high production mining methods to match the deposit's characteristics; these are longwall and longwall top coal caving. These methods have been successfully implemented in China and MMC considers these methods appropriate for the deposit.
- The mine includes four mineable seams. The main seam, Seam No. 6, has an average thickness of 23.0 m and is suitable for extraction using the longwall top coal caving method.
- A railway traverses north-south across the centre of the licence area. A life of mine barrier pillar has been designed to protect the railway and surface infrastructure. The mine's main headings development roadways will be constructed underneath the pillar, and design and construction of the Life of Mine (LOM) surface infrastructure lies within the confines of this barrier pillar. No secondary extraction has been designed to take place within the boundaries of the barrier pillar.
- The Mining Studies outline favourable mining conditions with low gas levels, are relatively "stable" and having the structural complexity defined as "simple" to "complex". Testing has shown that the coal has a moderate propensity to spontaneous combustion, which will require on-going management over the mine life.
- Many coal partings are present within the mineable coal seams. The coal parting qualities are not currently known as testing of the partings has not been conducted. The variable presence of the partings may result in coal quality variations over the mine life as well as variations to the coal mining characteristics.
- A planned increase in annual production to 5 Mtpa is currently being assessed by the Company. MMC considers the mine's layout and characteristics to be suitable for the forecast increased coal production rate. Updated licences and approvals are required prior to the commencement of construction of the infrastructure required to achieve a higher production rate.
- The forecast mining operating costs described in the updated 2011 "5 Mtpa Feasibility Study" (including direct and indirect costs) is 101.79 RMB/ROM t. Overall, MMC considers the aggregate operating cost to be reasonable for steady state production; however, the costs are in the lower range of those typically anticipated for this style of operation. Actual operating costs for mining projects may vary significantly from estimates due to geological and operating conditions encountered over the project life.
- The forecast coal washing operating cost described in the Coal Washing Feasibility Study for a 5 Mtpa plant is 12.91 RMB/feed t. The operating cost per tonne of washed coal is estimated to be 16.34 RMB/product t (approximating an average product yield of 79%). These costs are within the range anticipated by MMC.
- Based on the level of study completed, MMC estimates that the operating costs to be within an accuracy of 25% which is typical for operations at the equivalent level of development. MMC recommends that upon commencement of production, operating budgets be revised to reflect actual operating costs.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

- The forecast direct capital costs for the mine development are RMB 978.32 M. Additional indirect capital costs of RMB 72.66 M for interest and working capital have also been estimated. The forecast capital cost of the coal washery is RMB 239 M. The forecast capital cost of the rail spurs and loading station have been estimated to be RMB 96 M. All capital expenditure estimates are within the expected range.
- Mine construction appears to be well advanced with main and auxiliary drifts and a ventilation shaft completed. Surface construction is currently progressing and trial production commenced in January 2012.
- The modern equipment, mining techniques and mine layout planned for the operation make the mine amenable to an increase in the production rate.
- The Project is located close to sources of skilled labour and established infrastructure.

TABLE OF CONTENTS

1	INTRODUCTION	IV-12
1.1	SCOPE OF WORK	IV-12
1.2	RELEVANT ASSETS	IV-13
1.3	REVIEW METHODOLOGY	IV-13
1.4	SITE VISITS AND INSPECTIONS	IV-13
1.5	INFORMATION SOURCES	IV-14
1.6	COMPETENT PERSON AND RESPONSIBILITIES	IV-15
1.7	LIMITATIONS AND EXCLUSIONS	IV-16
1.8	CAPABILITY AND INDEPENDENCE	IV-18
2	PROJECT OVERVIEW	IV-19
2.1	PROJECT LOCATION	IV-19
2.2	REGIONAL ENVIRONMENT	IV-19
2.3	LICENCES AND APPROVALS	IV-20
2.4	HISTORY OF EXPLORATION	IV-21
2.5	HISTORY OF MINING	IV-23
3	GEOLOGY	IV-26
3.1	REGIONAL GEOLOGY	IV-26
3.2	MINE GEOLOGY	IV-26
4	COAL SEAMS AND COAL PROPERTIES	IV-28
4.1	MINEABLE COAL SEAM	IV-28
4.2	COAL PROPERTIES	IV-28
5	JORC COAL RESOURCE ESTIMATE	IV-29
5.1	TOPOGRAPHY	IV-29
5.2	DRILL HOLE COLLARS	IV-30
5.3	POINTS OF OBSERVATION	IV-30
5.4	VALIDATION OF POINTS OF OBSERVATION	IV-30
5.5	SEAM CORRELATION	IV-31
5.6	COAL QUALITY	IV-32
5.7	MODEL VALIDATION	IV-32
5.8	JORC RESOURCE CLASSIFICATION AND REPORTING	IV-33
5.9	RESOURCE ESTIMATE	IV-34
6	JORC COAL RESERVE ESTIMATE	IV-41
6.1	BACKGROUND	IV-41
6.2	DESCRIPTION OF MINING METHOD	IV-41
6.3	RESERVE ESTIMATION PARAMETERS	IV-42
6.4	RESERVE ESTIMATION PROCEDURE	IV-46

APPENDIX IV COMPETENT PERSON’S INDEPENDENT TECHNICAL REPORT

7	MINING	IV-55
7.1	DESCRIPTION OF OPERATIONS	IV-55
7.2	COAL MINING PROCESSES	IV-55
7.3	COAL MINING METHODS	IV-58
7.4	PRODUCTION SCHEDULE AND MINING CAPACITY	IV-58
7.5	UNDERGROUND MINE DEVELOPMENT	IV-60
7.6	SUBSIDENCE CONTROL	IV-65
7.7	MINE CHARACTERISTICS	IV-65
7.8	SITE INFRASTRUCTURE	IV-67
8	COAL PROCESSING	IV-69
8.1	PROCESS SELECTION	IV-70
9	TRANSPORTATION	IV-73
9.1	RAIL FACILITY LOCATION	IV-73
9.2	RAIL NETWORK CAPACITY	IV-74
9.3	RAIL SPUR DESIGN	IV-74
9.4	RAIL SPUR STATION	IV-75
9.5	RAIL SPUR AND LOADING STATION CONSTRUCTION SCHEDULE	IV-75
10	OPERATING AND CAPITAL COSTS	IV-76
10.1	MINING OPERATING COST	IV-76
10.2	COAL WASHING PLANT	IV-77
10.3	CAPITAL COSTS	IV-78
11	MINE SAFETY	IV-79
11.1	SAFETY SPECIAL CHAPTER	IV-79
12	ENVIRONMENT, HEALTH AND SAFETY	IV-83
12.1	ENVIRONMENTAL SETTING	IV-83
12.2	SOCIAL SETTING	IV-84
12.3	EHSS PERFORMANCE ASSESSMENT	IV-84
13	PROJECT RISK AND OPPORTUNITY ASSESSMENT	IV-88
13.1	RISK SUMMARY	IV-88
13.2	OPPORTUNITY SUMMARY	IV-91
14	ANNEXURE A — QUALIFICATIONS AND EXPERIENCE	IV-93
15	ANNEXURE B — GLOSSARY OF TERMS	IV-101
16	ANNEXURE C — CHINESE AND OTHER INTERNATIONAL RESOURCE REPORTING STANDARDS	IV-103
17	ANNEXURE D — MINING EQUIPMENT INCLUDED IN THE FEASIBILITY STUDY REPORT . . .	IV-108
18	ANNEXURE E — WASHERY EQUIPMENT INCLUDED IN THE FEASIBILITY STUDY REPORT WASHERY FEASIBILITY STUDY	IV-112
19	ANNEXURE F — DAFANPU JORC RESERVE CHECKLIST	IV-113

LIST OF TABLES

TABLE 2-1 DAFANPU COAL PROJECT — LICENCE DETAILS	IV-20
TABLE 2-2 DAFANPU COAL PROJECT — LICENCE COORDINATES	IV-21
TABLE 2-3 DAFANPU COAL PROJECT — OTHER RELATED LICENCES	IV-21
TABLE 2-4 DAFANPU COAL PROJECT — EXPLORATION HISTORY RELEVANT TO THE MERGED COAL MINE . . .	IV-22
TABLE 3-1 DAFANPU COAL PROJECT — THE JUNGAR COAL BASIN STRATIGRAPHIC SEQUENCE	IV-26
TABLE 4-1 DAFANPU COAL PROJECT — RESULTS OF WASHABILITY TESTING	IV-29
TABLE 5-1 DAFANPU COAL PROJECT — STRUCTURAL MODEL PARAMETERS	IV-31
TABLE 5-2 DAFANPU COAL PROJECT — QUALITY MODEL PARAMETERS	IV-32
TABLE 5-3 DAFANPU COAL PROJECT — MMC ESTIMATED JORC COAL RESOURCE QUANTITIES (IN SITU BASIS) AS AT NOVEMBER 2010	IV-35
TABLE 5-4 DAFANPU COAL PROJECT — MMC ESTIMATED JORC MEASURED RESOURCES QUALITIES AS AT NOVEMBER 2010	IV-35
TABLE 5-5 DAFANPU COAL PROJECT — MMC ESTIMATED JORC INDICATED RESOURCES QUALITIES AS AT NOVEMBER 2010	IV-36
TABLE 5-6 DAFANPU COAL PROJECT — MMC ESTIMATED JORC INFERRED RESOURCES QUALITIES AS AT NOVEMBER 2010	IV-36
TABLE 5-7 DAFANPU COAL PROJECT — MMC ESTIMATED JORC QUALITIES BY CLASSIFICATION AS AT NOVEMBER 2010	IV-36
TABLE 6-1 DAFANPU COAL PROJECT — TYPICAL MINE PLAN PARAMETERS	IV-44
TABLE 6-2 DAFANPU COAL PROJECT — MMC ESTIMATED JORC LUMP COAL RESERVES — BY PRODUCT; SEAM; CLASSIFICATION AS AT OCTOBER 2011 (LUMP COAL — RAW PRODUCT)	IV-47
TABLE 6-3 DAFANPU COAL PROJECT — MMC ESTIMATED JORC FINE COAL RESERVES — BY PRODUCT; SEAM; CLASSIFICATION AS AT OCTOBER 2011 (FINE COAL — WASHED PRODUCT)	IV-48
TABLE 6-4 DAFANPU COAL PROJECT — MMC ESTIMATED JORC TOTAL COAL RESERVES — BY SEAM TOTAL; CLASSIFICATION AS AT OCTOBER 2011 (FINES AND LUMP — TOTAL PRODUCT)	IV-48
TABLE 6-5 DAFANPU COAL PROJECT — MMC ESTIMATED JORC TOTAL COAL RESERVES — SEAM 5; BY PRODUCT/CLASSIFICATION AS AT OCTOBER 2011 (TOTAL PRODUCT)	IV-48
TABLE 6-6 DAFANPU COAL PROJECT — MMC ESTIMATED JORC TOTAL COAL RESERVES — SEAM 6U; BY PRODUCT/CLASSIFICATION AS AT OCTOBER 2011 (TOTAL PRODUCT)	IV-49
TABLE 6-7 DAFANPU COAL PROJECT — MMC ESTIMATED JORC TOTAL COAL RESERVES — SEAM 6L ₁ ; BY PRODUCT/CLASSIFICATION AS AT OCTOBER 2011 (TOTAL PRODUCT)	IV-49
TABLE 6-8 DAFANPU COAL PROJECT — MMC ESTIMATED JORC TOTAL COAL RESERVES — SEAM 6L ₂ ; BY PRODUCT/CLASSIFICATION AS AT OCTOBER 2011 (TOTAL PRODUCT)	IV-49
TABLE 6-9 DAFANPU COAL PROJECT — MMC ESTIMATED JORC TOTAL COAL RESERVES — ALL SEAMS; PRODUCT/CLASSIFICATION AS AT OCTOBER 2011 (TOTAL PRODUCT)	IV-50
TABLE 6-10 DAFANPU COAL PROJECT — PRODUCT YIELDS BY SEAM PER ROM TONNE RECOVERED	IV-50
TABLE 7-1 DAFANPU COAL PROJECT — NO.5 SEAM LONGWALL UNIT OPERATING DESIGN PARAMETERS	IV-59
TABLE 7-2 DAFANPU COAL PROJECT — NO.6 SEAM LONGWALL UNIT OPERATING DESIGN PARAMETERS	IV-59
TABLE 7-3 DAFANPU COAL PROJECT — MAIN INCLINED DRIFT DESIGN PARAMETERS	IV-60
TABLE 7-4 DAFANPU COAL PROJECT — AUXILIARY DRIFT DESIGN PARAMETERS	IV-61
TABLE 7-5 DAFANPU COAL PROJECT — VENTILATION SHAFT DESIGN PARAMETERS	IV-61
TABLE 7-6 DAFANPU COAL PROJECT — GAS COMPOSITION TEST RESULTS TABLE	IV-65
TABLE 8-1 DAFANPU COAL PROJECT — WASHING PLANT	IV-70
TABLE 8-2 DAFANPU COAL PROJECT — WASHABILITY SUMMARY BY SIZE FRACTION	IV-71

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

TABLE 10-1 DAFANPU COAL PROJECT — FORECAST OPERATING COST — MINING	IV-76
TABLE 10-2 DAFANPU COAL PROJECT — COAL WASHING PLANT OPERATING EXPENDITURE	IV-77
TABLE 10-3 DAFANPU COAL PROJECT — MINING DEVELOPMENT CAPITAL COSTS	IV-78
TABLE 10-4 DAFANPU COAL PROJECT — COAL WASHING PLANT CAPITAL COSTS	IV-79
TABLE 12-1 DAFANPU COAL PROJECT — BASIC INFORMATION OF VILLAGES WITHIN A 500M RADIUS OF THE MINE AREA	IV-84
TABLE 13-1 DAFANPU COAL PROJECT — OVERALL RISK ASSESSMENT	IV-88
TABLE 13-2 DAFANPU COAL PROJECT — PROJECT RISK SUMMARY	IV-89
TABLE A1 — MINING RELATED IPO AND CAPITAL RAISING DUE DILIGENCE EXPERIENCE	IV-98
TABLE C1 — BOREHOLE SPACING COMPARISON (CHINESE, UN AND JORC CODES)	IV-103
TABLE C2 — NEW CHINESE RESOURCE/RESERVE CATEGORIES (1999)	IV-105

LIST OF FIGURES

FIGURE 2-1 DAFANPU COAL PROJECT — GENERAL LOCATION PLAN	IV-24
FIGURE 2-2 DAFANPU COAL PROJECT — ASSET LOCATION PLAN	IV-25
FIGURE 5-1 DAFANPU COAL PROJECT — JORC COAL RESOURCE CONFIDENCE AND SEAM THICKNESS, PART 1 OF 2	IV-37
FIGURE 5-2 DAFANPU COAL PROJECT — JORC COAL RESOURCE CONFIDENCE AND SEAM THICKNESS — PART 2 OF 2	IV-38
FIGURE 5-3 DAFANPU COAL PROJECT — EAST-WEST CROSS SECTIONS	IV-39
FIGURE 5-4 DAFANPU COAL PROJECT — NORTH-SOUTH CROSS SECTIONS	IV-40
FIGURE 6-1 DAFANPU COAL PROJECT — MINE LAYOUT	IV-45
FIGURE 6-2 DAFANPU COAL PROJECT — SEAM THICKNESS	IV-51
FIGURE 6-3 DAFANPU COAL PROJECT — TOTAL SULPHUR	IV-52
FIGURE 6-4 DAFANPU COAL PROJECT — RAW ASH	IV-53
FIGURE 6-5 DAFANPU COAL PROJECT — JORC RESERVE POLYGONS AND JORC RESERVE EXCLUSION AREAS	IV-54
FIGURE 7-1 DAFANPU COAL PROJECT — LONGWALL TOP COAL CAVING SCHEMATIC	IV-63
FIGURE 7-2 DAFANPU COAL PROJECT — MINE AND SURFACE INFRASTRUCTURE LAYOUT	IV-64
FIGURE 8-1 DAFANPU COAL PROJECT — CHINESE COAL QUALITY CLASSIFICATION SYSTEM	IV-72
FIGURE C1 — NEW CHINESE RESOURCE/RESERVE CLASSIFICATION MATRIX (1999)	IV-104

1 INTRODUCTION

Runge Asia Limited (“RAL”), trading as Minarco-MineConsult (“MMC”), has been engaged by Kinetic Mines and Energy Limited (“Kinetic” or the “Client” or “Company”) to undertake an Independent Technical Review (“ITR” or “Review”) of the Dafanpu Coal Project (“the Project” or “Issuer”) located in the Inner Mongolia Autonomous Region, PRC. The Project is being listed on the Hong Kong Stock Exchange (“HKEx”) in an IPO.

The Project has been formed by the integration of the original “Dafanpu Mine”, the original “Yintai Mine” and an adjacent mining block. The Dafanpu Mine and the Yintai Mine were small-scale mining projects. MMC understands that no mining has occurred on either licence prior to the development of the current Project. The consolidation was approved by Erdos City and the Inner Mongolia Government in 2007. The Project Mining Licence was issued by the Department of Land and Resource of the Inner Mongolia Autonomous Region on the 21 November 2007. The licence was renewed by Ministry of Land and Resources of the PRC on the 31 August 2009, and further renewed on the 9 May 2011. The current Mining Licence has a production capacity of 2.4 Mtpa of ROM coal. The Project proposes to produce 5 Mtpa of ROM coal and will be required to obtain relevant licences and operating approvals to support the increased production rate. A 5 Mtpa coal washing plant has commenced construction and the Client is currently assessing the opportunity to increase the annual ROM coal production to 5 Mtpa.

A Preliminary Design report (2.4 Mtpa) was approved by Coal Industrial Bureau of Inner Mongolia Autonomous Region on 23 March 2009. A Feasibility Study Report (5 Mtpa) was completed by Beijing Yuanzhihan Coal Engineering Design Co., Ltd in August 2011. The Project commenced construction in July 2008. The Project commenced trial production in January 2012.

1.1 Scope of Work

MMC carried out the following scope of work for the ITR:

- Gathered relevant information about the Project including Chinese standard resources and reserves, life of mine production schedules, operating and capital cost information;
- Reviewed Chinese standard resources and reserves, including quantity and quality of drilling, reliability of historic data, adequacy of resource estimation methods;
- Reviewed the categorisation of Chinese coal resource and coal reserve estimates;
- Estimated and reported Coal Resource in compliance with the recommendations of the JORC Code;
- Estimated and reported Coal Reserves in compliance with the recommendations of the JORC Code;
- Reviewed and commented on the appropriateness of planned mining methods and mine design in the relevant technical studies;

- Reviewed and commented on the appropriateness of planned coal washing and rail transportation plans;
- Reviewed potential production profiles;
- Reviewed and commented on forecast operating and capital expenditure in the relevant technical studies;
- Reviewed the company's short and long term development plans; and
- Completed Environmental and Social review of the Project.

1.2 Relevant Assets

The Relevant Asset is the Dafanpu Coal Project located 13 km to the southwest of Xuejiawan Town in Zhunge'er Banner, Erdos City of Inner Mongolia Autonomous Region. The Relevant Asset is an underground coal mine currently undergoing construction and underground development.

1.3 Review Methodology

MMC's ITR methodology included the following:

1. Prepared for the study by translating and reviewing existing reports. The lists of reports reviewed are given in **Information Sources** below;
2. Various site visits were conducted by a senior Chinese mining engineer, international mining engineers, and an international chemical engineer to discuss technical issues with project personnel;
3. Project information was reviewed; and
4. MMC prepared this Report and provided drafts to the Company and its specialist advisers.

The comments and forecasts in this Report are based on information compiled by enquiry and verbal comment from the Company. Where possible, this information has been cross-checked with hard data or by comment from more than one source. Where there was conflicting information on issues, MMC used its professional judgment to assess and comment on the issues.

1.4 Site Visits and Inspections

MMC's technical team ("the Team") consisted of an international senior mining consultant (Mr Michael Johnson) and a Chinese senior mining engineer (Mr Kevin Qu). The team travelled to the project site during March 2010. The site inspections included physical inspections of the surface, access roads and general inspections of the surrounding countryside, as well as three adjacent coal mines; two open cast coal mines and an underground coal mine. Chinese senior mining engineer (Mr Kevin Qu) undertook a further three visits for additional exploration drilling inspection and original drilling data

validation. The first visit was conducted in May 2010 and the second, accompanied by senior mining engineer (Mr Dan Peel), was in July 2010. During February 2011 Mr Kevin Qu accompanied an international senior rail consultant (Mr Gary Harradine) to check development progress and rail infrastructure construction plans.

Open discussions were held with the Project owner’s personnel and associated design institute’s experts on technical aspects relating to the technical issues of the Project. Technical personnel were found to be co-operative and open in facilitating MMC’s work.

1.5 Information Sources

The following information sources were provided for review:

Reports

- “The Reconciliation Report of Coal Resources of Inner Mongolia Zhunge’er Coal Field Longwanggou Detailed Exploration District Dafanpu Coal Mine” Inner Mongolia Longwang Geological Exploration Co., Ltd, June 2007;
- “Geology Report (Draft) of Inner Mongolia Zhunge’er Banner Liliang Coal Industry Co., Ltd Dafanpu Coal Mine” Inner Mongolia Coalfield Geological Bureau No. 153 Coalfield Geological Exploration Team, July 2010;
- “Feasibility Study of Consolidation and Reforming for Dafanpu Coal Mine of Inner Mongolia Zhunge’er Banner Liliang Coal Industry Co., Ltd” (5 Mtpa) Beijing Yuanzhihan Coal Project Design Co., Ltd, August 2011;
- “Preliminary Design (2.4 Mtpa) for Inner Mongolia Junger Banner Liliang Coal Industry Co., Ltd Dafanpu Coal” Beijing Yuanzhihan Coal Project Design Co., Ltd, March 2009;
- “Safety Special Chapter of Preliminary Design (2.4 Mtpa) for Inner Mongolia Zhunge’er Banner Liliang Coal Industry Co., Ltd Dafanpu Coal Mine” Beijing Yuanzhihan Coal Project Design Co., Ltd, April 2009;
- “Environment Comment Report on Inner Mongolia Junger Banner Liliang Coal Industry Co., Ltd Dafanpu Coal Mine”; “China Environment Science Research Institute October 2007”;
- “Xiaojia Centralised Transport Station Feasibility Study for Dafanpu Mine Coal Washing Plant”. Third Railway Survey & Design Institute Group Corporation, August 2010;
- “Inner Mongolia Zhunge’er Qi Power Coal Industry Co., Ltd Dafanpu Mine Coal Washing Plant Feasibility Study” Zhengzhou Design and Research Institute of Coal Industry Co., Ltd June 2010; and
- “Coal Production Additional Exploration Report of Inner Mongolia Zhunge’er Coal Field Dafanpu Coal Mine” Inner Mongolia Junger Banner Liliang Coal Industry Co., Ltd. July 2010.

Licences

- Business Licence No. 150000000000163, Inner Mongolia ICAB, 22 November 2006, and
- Mining Licence of Dafanpu Coal Mine No. C1000002009081120035462, Ministry of Land and Resources of P. R. China, 9 May 2011. Expires 23 November 2039.

Approvals

- “Mineral Resource/Reserve Review and Record Certification for The Reconciliation Report of Coal Resources of Inner Mongolia Zhunge’er Coal Field Longwanggou Detailed Exploration District Dafanpu Coal Mine” Department of Land and Resource of Inner Mongolia Autonomous Region, 27 June 2007;
- “Approval Reply for Feasibility Study of Consolidation and Reforming for Dafanpu Coal Mine of Inner Mongolia Zhunge’er Banner Liliang Coal Industry Co., Ltd” Coal Industrial Bureau of Inner Mongolia Autonomous Region, 23 February 2009;
- “Approval Reply for Preliminary Design (2.4 Mtpa) for Inner Mongolia Zhunge’er Banner Liliang Coal Industry Co., Ltd Dafanpu Coal” Coal Industrial Bureau of Inner Mongolia Autonomous Region, 23 March 2009;
- “Approval Reply for Safety Special Chapter of Preliminary Design (2.4 Mtpa) for Inner Mongolia Zhunge’er Banner Liliang Coal Industry Co., Ltd Dafanpu Coal Mine” Coal Mine Safety Supervision Bureau of Inner Mongolia Autonomous Region, 10 April 2009; and
- “Record Certification for Environment Comment Report on Inner Mongolia Zhunge’er Banner Liliang Coal Industry Co., Ltd Dafanpu Coal Mine” Environmental Protection Bureau of Inner Mongolia Autonomous Region, 1 November 2007.

1.6 Competent Person and Responsibilities

The estimation and reporting of Coal Resources in this Competent Person's Report complies with recommendations in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves; The JORC Code (2004) by the Joint Ore Reserves Committee (JORC). Therefore it is suitable for public reporting.

The information in this report that relates to Coal Resources is based on information compiled by Mr Andrew Banks, a full time employee of MMC at the time of the Resource estimate and a Member of the Australasian Institute of Mining and Metallurgy. Mr Banks has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code For the Reporting of Coal Resources.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

The information in this report that relates to Coal Reserves is based on information compiled by Mr Michael Johnson, a full time employee of MMC and a Member of the Australasian Institute of Mining and Metallurgy. Mr Johnson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code For the Reporting of Coal Reserves.

Mr Michael Johnson meets the requirements of a Competent Person, as defined by Chapter 18 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. These requirements include:

- Greater than five years' experience relevant to the style of mineralisation and type of deposit under consideration, and to the mining activity which the Issuer and its subsidiaries are undertaking;
- Member of the Australasian Institute of Mining and Metallurgy ("AusIMM");
- Will not be remunerated on and does not have any economic or beneficial interest (present or contingent) in the Relevant Asset and/or part thereof;
- Has not received a fee dependent on the findings outlined in the Competent Person's Report;
- Is not an officer, employee or proposed officer for the issuer or any group, holding or associated company of the issuer; and
- Assumes overall responsibility for the Competent Person's Report.

1.7 Limitations and Exclusions

The Review was based on various reports, plans and tabulations provided by the Client either directly from the mine sites and other offices, or from reports by other organisations whose work is the property of the Client. The Client has not advised MMC of any material change, or event likely to cause material change, to the operations or forecasts since the date of inspection of the Relevant Asset.

The work undertaken for this Report included a technical review of the information, coupled with such inspections as the Team considered appropriate to prepare this Report. It specifically excludes all aspects of legal issues, project approvals, commercial and financing matters, operating licences, regulatory approvals, product pricing and marketing, land titles and agreements, excepting such aspects as may directly influence technical, operational or cost issues. MMC is reliant on the Client's legal advisor for all matters of legal review, including chapter 12 Environment, Health and Safety.

MMC has specifically excluded making any comments on the competitive position of the Relevant Asset compared with other similar and competing coal producers around the world. MMC strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Relevant Asset in the market, and the fundamentals of the coal products market at large.

1.7.1 Limited Liability

MMC will not be liable for any loss or damage suffered by a third party relying on this report (regardless of the cause of action, whether breach of contract, tort (including negligence) or otherwise unless and to the extent that that third party has signed a reliance letter in the form required by MMC (in its sole discretion). MMC's liability in respect of this report (if any) will be specified in that reliance letter.

1.7.2 Responsibility and Context of this Report

The contents of this Report have been created using data and information provided by or on behalf of the Company. MMC accepts no liability for the accuracy or completeness of data and information provided to it by, or obtained by it from, the Company or any third parties, even if that data and information has been incorporated into or relied upon in creating this Report. The Report has been produced by MMC using information that is available to MMC as at the date stated on the cover page. This Report cannot be relied upon in any way if the information provided to MMC changes. MMC is under no obligation to update the information contained in the Report at any time.

1.7.3 Limitations and Exclusions for Chapter 12 Environment, Health and Safety

Chapter 12 'Health, Environment and Safety' and its **Annexure E** 'Environment, Health and Safety Risk Assessment' were written by an associate, Environmental Resources Management (Shanghai) Ltd ("ERM").

Disclaimer for Chapter 12 Environment, Health and Safety

This Chapter and Annexure were prepared in accordance with the contracted scope of services for the specific purpose stated and subject to the applicable cost, time and other constraints. In preparing this report, ERM relied on: (a) client/third party information which was not verified by ERM except to the extent required by the scope of services, and ERM does not accept responsibility for omissions or inaccuracies in the client/third party information; and (b) information taken at or under the particular times and conditions specified, and ERM does not accept responsibility for any subsequent changes. This report has been prepared solely for use by, and is confidential to, the client and ERM accepts no responsibility for its use by other persons, except where ERM expressly agrees otherwise. This report is subject to copyright protection and the copyright owner reserves its rights. This report does not constitute legal or financial advice.

This review is the result of applying scientific principles and professional judgments to certain facts. Professional judgments expressed herein are based on factual information available within the limits of the existing data, scope of work, budget and schedule. Assessment of the Project's compliance with legal, permitting and licensing requirements are explicitly excluded from this scope of work. To the extent that more definitive conclusions are desired by the client than are warranted by the currently available facts, it is specifically ERM's intent that the conclusions and recommendations stated herein will be intended as guidance and not necessarily as a firm course of action, except where explicitly stated as such. We make no warranties, expressed or implied, including, without limitation, warranties as to merchantability or fitness of the property for a particular purpose. In addition, the information provided in this report is not to be construed as legal advice.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Limitations and Use of Chapter 12 Environment, Health and Safety and Annexure E Environment, Health and Safety Risk Assessment

Construction of the Project commenced in July 2008 and was completed in December 2011. At the time of ERM's site visit, it was reported that the construction of the ventilation shaft was completed; construction of the main and auxiliary inclined drifts almost completed; construction of the surface engineering was on going. However, environmental protection facilities, such as the wastewater treatment plant had not yet been built. There were no operational activities at the mine area during the site visit. ERM did not visit the underground areas of the mine.

No environmental sampling was undertaken as part of this compliance review.

A sampled interview of households within the mine area was conducted due to time constraint and the accessibility.

1.7.4 Intellectual Property

All copyright and other intellectual property rights in this report are owned by and are the property of MMC.

MMC grants the Client a non-transferable, perpetual and royalty-free Licence to use this report for its internal business purposes and to make as many copies of this report as it requires for those purposes.

1.7.5 Mining Unknown Factors

The findings and opinions presented herein are not warranted in any manner, expressed or implied. The ability of the operator, or any other related business unit, to achieve forward-looking production and economic targets is dependent on numerous factors that are beyond the control of MMC and cannot be fully anticipated by MMC. These factors included site-specific mining and geological conditions, the capabilities of management and employees, availability of funding to properly operate and capitalise the operation, variations in cost elements and market conditions, developing and operating the mine in an efficient manner, etc. Unforeseen changes in legislation and new industry developments could substantially alter the performance of any mining operation.

1.8 Capability and Independence

MMC provides advisory services to the mining and finance sectors. Within its core expertise it provides independent technical reviews, resource evaluation, mining engineering and mine valuation services to the resources and financial services industries.

MMC has independently assessed the Relevant Assets of the Client by reviewing pertinent data, including resources, reserves, manpower requirements and the life of mine plans relating to productivity, production, operating costs and capital expenditures. All opinions, findings and conclusions expressed in this Report are those of MMC and its specialist advisors.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Drafts of this report were provided to the Client, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in this Report.

MMC has been paid, and has agreed to be paid, a fixed professional fee for its preparation of this Report. None of MMC or its directors, staff or specialists who contributed to this Report has any interest or entitlement, direct or indirect, in:

- the Company, securities of the Company or companies associated with the Company; or
- the Relevant Assets; or
- the outcome of the IPO.

This ITR was prepared on behalf of MMC by the signatories to this letter, details of whose qualifications and experience are set out in Annexure A to this ITR. The Specialists who contributed to the findings within this Report have each consented to the matters based on their information in the form and context in which it appears.

2 PROJECT OVERVIEW

2.1 Project Location

The Project is located in Zhunge'er Banner, Erdos City of Inner Mongolia Autonomous Region. The mining licence (Certificate Number: C1000002009081120035462) (the "Mining Licence") lies within the triangular area defined by the Longwanggou Detailed Exploration District, the Heidaigou Exploration District and the Southern Detailed Exploration District, in the southern portion of Zhunge'er Coal Field. The licence's geographic coordinates are:

- Longitude: 111°11'30" - 111°14'14", and
- Latitude: 39°44'42"- 39°47'17".

Access to the project is available via a railway which passes through the Mining Licence as well as a national highway (No.109; Beijing to Lhasa), which is adjacent to the licence. National Highway 109 provides access to a railway station on the Fengzhun Railway (Fengzhen to Zhunge'er) at Xuejiawan Town approximately 10 km northeast of the mine and connects to provincial highway S103 (Zhunge'er to Hohhot). In addition, the national highway No. 210 (Baotou to Nanning) and Baoshen Railway (Baotou to Shenmu) is about 130 km west of the Project site.

The location of the Project is shown in **Figure 2-1** and **2-2**.

2.2 Regional Environment

The Project area is located in the eastern part of Erdos Plateau. The overall topography falls from north to south with surface elevation ranging from +1,250 m elevation to +1,150 m elevation. The area has a large cover of Quaternary loess (wind-blown sediment). Over time, surface erosion has resulted in a typical hilly landscape with steep-sided gullies.

The area is an arid temperate plateau with a continental climate that features long cold winters, hot short summers, with large temperature differences between day and night; strong winds occur during winter and spring. The average temperature is 5 ~ 7.8 °C, maximum temperatures of 38 °C and minimum temperatures -36.3 °C have been recorded. The average annual precipitation is 408 mm, and the annual evaporation is 5-8 times this precipitation.

A seismic event has been recorded in 1976, which took place at about 85 km away from the Project area. No fatality occurred in the incident. According to the Seismic Intensity Zoning Map of China (1990) 'seismic fortification intensity' of the site is 7 degree; meaning seismic peak ground acceleration is 0.10 g.

2.3 Licences and Approvals

The Project has been formed by integrating the original "Dafanpu Mine", the original "Yintai Mine" and an adjacent mining block. The consolidation has been approved by Erdos City and Inner Mongolia Government. The current licences held for the Project are summarised in the tables below. The current licence below uses the 1980 Xi'an co-ordinate system. Figures within this document use the 1954 Beijing co-ordinate system.

Table 2- 1 Dafanpu Coal Project — Licence Details

Mine/Project	Dafanpu Coal Mine
Name of certificate	PRC Mining Licence
Certificate No.	C1000002009081120035462
Mine right holder	Inner Mongolia Zhunge'er Banner Liliang Coal Mining Co., Ltd
Location	Inner Mongolia Erdos City Zhunge'er Banner Inner Mongolia Zhunge'er Banner Liliang Coal Industry Co., Ltd
Name of minefield	Dafanpu Coal Mine
Company category	Limited
Mine Method	Underground mining
Production Scale	2.4 Mtpa
Minefield acreage	9.6108 sq.km
Excavation depth	1000 m-750 m
Validity Period	23 November 2009 — 23 November 2039
Issue Date	9 May 2011
Issuer	Ministry of Land and Resources, PRC

Source: MMC viewed a copy of the document.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table 2-2 Dafanpu Coal Project — Licence Coordinates

Point	X	Y
1	4,406,063.21	37,516,351.00
2	4,406,063.22	37,518,169.02
3	4,405,603.21	37,518,167.02
4	4,405,603.26	37,520,059.11
5	4,404,879.21	37,520,058.05
6	4,404,851.21	37,520,252.05
7	4,404,533.20	37,520,044.05
8	4,403,883.20	37,519,589.04
9	4,402,793.18	37,518,609.03
10	4,402,433.18	37,518,399.03
11	4,402,425.18	37,518,399.03
12	4,402,319.18	37,518,052.03
13	4,404,033.19	37,516,353.01

Source: MMC viewed a copy of the document.

Table 2-3 Dafanpu Coal Project — Other Related Licences

Licences	No.	Valid Period	
		From	To
Business	150000000000163	22 nd of Dec 2006	22 nd of Dec 2056

Source: MMC viewed a copy of the document.

Note: The production and safety certificates are only able to be issued by governmental checking and permitting after the mine is in production.

MMC provides this information for reference only and legal experts will cover land titles and ownership rights in their opinion.

2.4 History of Exploration

The Project is situated across three regional exploration areas:

1. Longwanggou general exploration area (70%);
2. Heidaigou exploration area (20%), and
3. Southern general exploration area in south of the Jungar Basin (10%).

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

A summary of the relevant and recent exploration history is provided below in **Table 2-4**.

Table 2-4 Dafanpu Coal Project — Exploration History Relevant to the Merged Coal Mine

Year	Exploration Unit	Activity	Comment
1979-1980	Team 153, Inner Mongolian Coal Exploration Company	1,524 sq.km of Geological Mapping 1:5,000 scale, 2,466 m of Trench and 655 boreholes with length of 122,840 m.	Heidaigou: The reports of detailed exploration in 1979 and additional detailed exploration in December 1982 in Heidaigou strip coal mine area were submitted. The reported resources was 1,848.8 Mt.
1981	Team 151, Inner Mongolian Coal Exploration Company	Geological Survey 1:50,000 scale (120 sq.km), 89 boreholes with total length of 28,457 m.	Longwanggou: The report of general exploration in Longwanggou exploration area was submitted in September 1981. The reported resources were 3,488.5 Mt.
1979-1983	Team 153, Inner Mongolian Coal Exploration Company	470 sq.km of Topography Survey 1:5,000, 302 boreholes with footage of 80,836 m.	Zhunge'er: The report of general exploration in the southern Zhunge'er coal basin was submitted in November 1983. The reported resources were 12,621.7 Mt.
2005	Team 117, Inner Mongolian Coal Geology Bureau	Reconciliation of resources as per the leases of Dafanpu and Heidaigou coal mines.	99 Mt in the lease of Dafanpu coal mine and 93 Mt in the lease of Yintai coal mine.
2007	Longwang Geology Exploration Ltd, Inner Mongolia	30 boreholes in history were used, among which are 10 in the previous Longwanggou Coal Mine, 15 in Heidaigou detailed exploration area, 5 in the general exploration area of the southern Jungar Basin.	The resource tonnes of the merged coal mine were reconciled as 368 Mt, among which are 218 Mt in Longwanggou, 105 Mt in Heidaigou and 45 Mt in the southern Jungar basin.

Source: 2010 Geological Report

Note: All resources stated above are based on the Chinese standard.

2.5 History of Mining

Although the original Dafanpu and Yintai mines gained mining licences in 2006 and 2007 respectively, no mining or construction activity occurred within the two licences. Apart from waste dumps located in the eastern corner of the current licence from the adjacent open pit mine, there is no evidence of any other mining activity on the Mining Licence.

Adjacent to the Project, there are three mining operations. The Haerwusu Open Pit and Heidaigou Open Pit are located to the east and southeast respectively, owned by China Shenhua Energy Company Limited and its subsidiaries ("Shenhua Group"). The Xinglong Mine is an underground operation, located adjacent to the southwest boundary of the Project.

Figure 2-1 Dafanpu Coal Project — General Location Plan

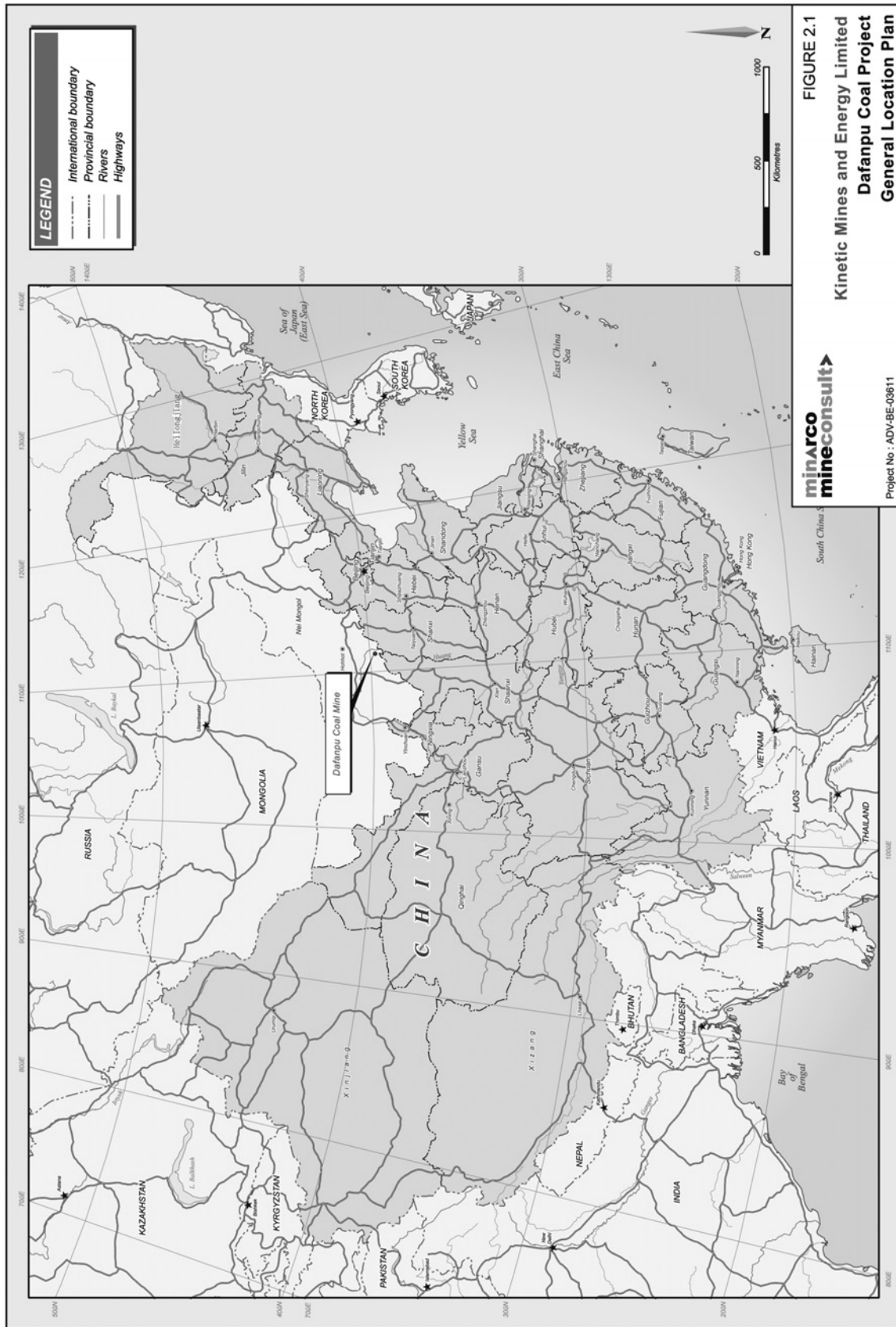
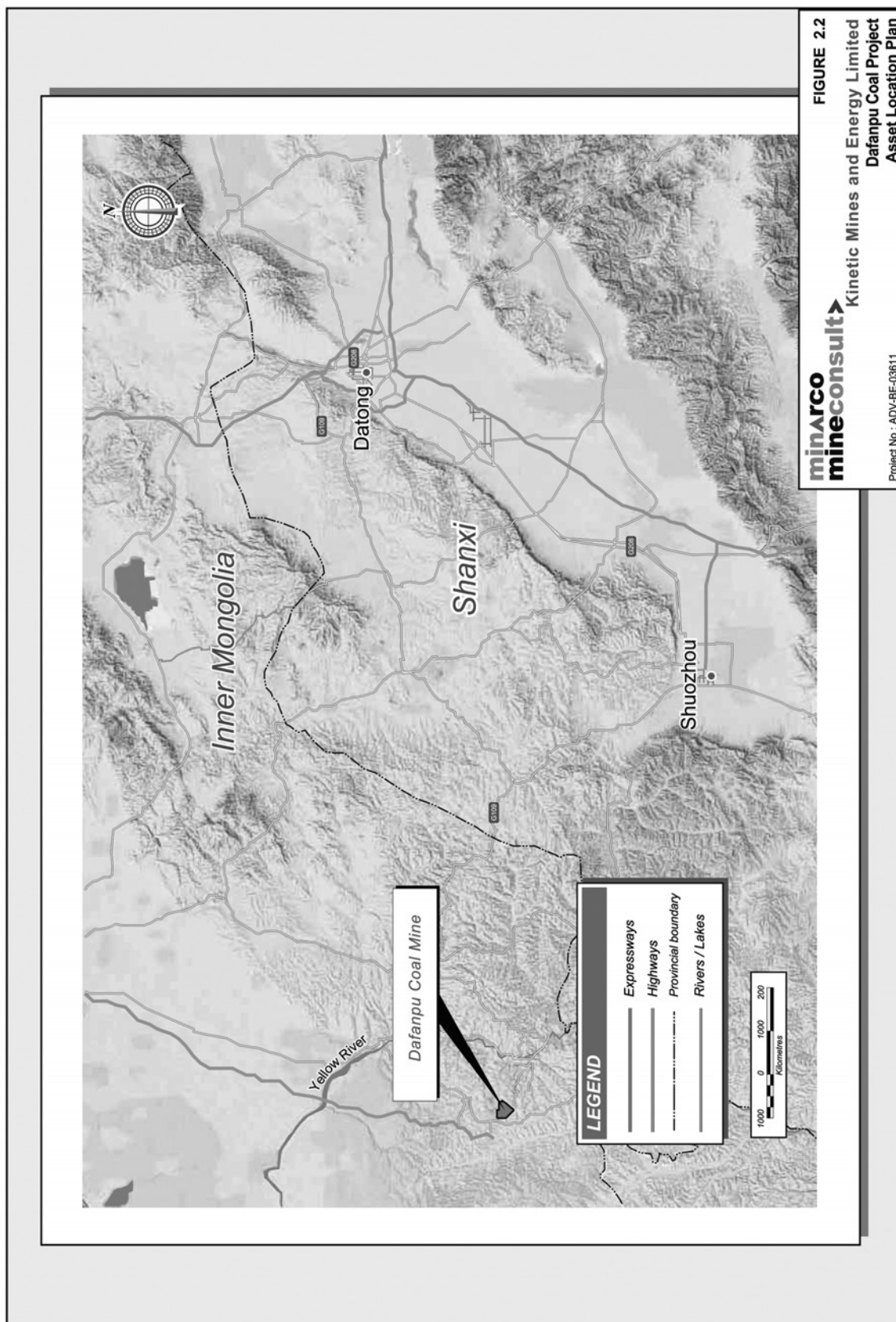


Figure 2-2 Dafanpu Coal Project — Asset Location Plan



3 GEOLOGY

3.1 Regional Geology

The Project area is hosted within the Jungar Coal Basin which is a regionally significant coal hosting basin. The stratigraphic units of the Jungar Coal Basin are outlined in **Table 3-1**. The general strike of strata within the Jungar Coal Basin is approximately south to north, with a dip angle of 10°. The overall shape of the geological structure is characterised by a monocline with a wave-like and westward tilt.

Table 3-1 Dafanpu Coal Project — The Jungar Coal Basin Stratigraphic Sequence

Stratigraphy Unit					True Thickness	
Erathem	System	Series	Formation	Symbol	(m)	
Kz	Quaternary	Holocene		Q ₄	4-18	
		Upper Pleistocene	Malan	Q _{3m}	0-120	
	Tertiary	Pliocene		N ₂	85	
Mz	Cretaceous		Zhidan (Group)	K _{1zh}	>400	
	Triassic	Down	Heshangou	T _{1h}	>160	
			Liujiagou	T _{1l}	257-385	
			Permian		Upper	Shiqianfeng
	Permian	Low	Shangshihezi	P _{2s}	300	
Xiashihezi			P _{1x}	120		
Shanxi			P _{1s}	60		
Pz	Carboniferous	Upper	Taiyuan	C _{2t}	60	
		Middle	Majiagou	O _{2m}	100	
	Ordovician	Down	Liangjiashan	O _{1l}	>125	
			Yieli	O _{1y}	50	

Source: 2010 Geological Report

3.2 Mine Geology

The Project area is predominantly covered by loess of Quaternary age and layers of red clay. The main stratigraphic units are the Liangjiashan Formation (O_{1l}), Majiagou Formation (O_{2m}), Taiyuan Formation (C_{2t}), Xiashihezi Formation (P_{1x}), Shangshihezi Formation (P_{2sh}), Tertiary and Quaternary (N₂, Q_{3m} and Q₄). The main coal-bearing measures are the Upper Carboniferous Taiyuan Formation (C_{3t}) and the Lower Permian Shanxi Formation (P_{1s}). Some outcrops of these formations can be observed in incised valleys on site.

3.2.1 Coal-Bearing Measures

The Lower Permian Shanxi Formation (P_1s) is the upper-most coal bearing unit and contains 5 coal seams, referred to as No.1, 2, 3, 4 and 5. The formation has an average thickness of approximately 107 m comprising both coal and non-coal rock units. The coal seams are structurally complex with variable thickness, seam-splitting and pinch-outs.

The Upper Carboniferous Taiyuan Formation (C_3t) is the main coal-bearing unit within the deposit. It has an average thickness of approximately 55 m, and contains seven coal seams (described below). It has been divided into two sections, referred to as “upper” and “lower” which are based on lithological compositions.

The upper section is composed of mudstone, sandy mudstone, and clay, and has two coal-bearing units, namely the Middle and the Lower Unit:

- The Middle Unit contains three coal seams namely, Seam 6 (upper), Seam 6 (inferior), and Seam 6.
- The Lower Unit has four coal seams namely, Seam 7, Seam 8, Seam 9 and Seam 10. The mid-burden between Seam 8 and Seam 9 is a layer of stable marl, with thickness of approximately 1 m. This stratigraphic unit can be used as a marker layer for correlation between the coal seams. All coal seams are structurally complex with variable thickness, seam-splitting and seam pinch-outs.

The lower section of Taiyuan Formation has an average thickness of around 20 m. It is composed predominantly of bauxite, bauxite clay, sand, shale, mudstone, and sandstone. There are two layers of lenticular limestone and marl that can be found within the section. The Taiyuan Formation is the deepest drill hole target.

3.2.2 Geology Structure

The coal seam dip is generally westward at approximately 5° . The seams outcrop to the east of the licence in the adjacent open pit mine.

The geological structure in the southern area of the Project comprises the Huangjialiang anticline and has little evidence to date of major faulting. No igneous intrusions have been found to date in the Project area.

4 COAL SEAMS AND COAL PROPERTIES

4.1 Mineable Coal Seam

There are 4 mineable coal seams in the Project area. From top to bottom they are, Seam 5, Seam 6^{upper}, Seam 6, and Seam 9. Seam 6 is the main seam. A description of each seam's characteristics within the Mining Licence area is summarised below:

- **Seam No. 5** is stable in occurrence over the Mining Licence. It varies in thickness from 1.1 m - 3.5 m, with an average of 2.1 m. The structure of this coal seam is simple to complex, is relatively stable, and contains up to 3 partings. It is mineable over most of the Project area.
- **Seam No. 6^{upper}** is stable in occurrence over the Mining Licence. It varies in thickness from 1.1 m - 3.9 m, with an average of 2.0 m. The structure of this coal seam is simple to complex, is relatively stable, and contains up to 6 partings. It is mineable over most of the Project area.
- **Seam No. 6** is stable in occurrence over the Mining Licence. It varies in thickness from 15.9 m - 26.9 m, with an average of 23.0 m. The structure of this coal seam is complex, is relatively stable, and contains between 0 to 15 partings. For modelling purposes it has been divided into four separate plies to allow for better mine planning and removal of the thicker parting horizons. It is minable over the entire coal mine extents.
- **Seam No. 9** is stable in occurrence over the Mining Licence. It varies in thickness from 1.05 m - 1.46 m, with an average of 1.19 m. The structure of this coal seam is simple to complex, is not stable, and contains up to 1 parting. It is mineable only over a small portion of the Project area.

The strata above the coal seams generally consist of mudstone and carbonaceous mudstone. The strata below the seams consist of mudstone and clay mudstone. Siltstone occurs at random above and below No.5, 6^{upper}, 6 and 9 seams.

4.2 Coal Properties

The physical properties of each coal seam at the Project are relatively similar; they are black with black/brown streaks and have a bituminous lustre and are hard. The fracture is uneven and partly conchoidal, indicating the presence of vitrinite. The weathered coal becomes loose, is brown in colour, and has no flame while burning.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Twenty four samples from seams No.5, 6^{upper}, and 6 were taken for washability testing from 7 boreholes. Results from the Additional Exploration Report 2010 are summarised in **Table 4-1**. The raw coal has mostly non-caking properties according to Chinese Coal Classification Standard (GB5751-86) and hence is most suited to steaming coal and civil thermal purposes.

Table 4-1 Dafanpu Coal Project — Results of Washability Testing

Seam	Assumed Washed Ash %	Coal amenability to washing
5	8	Somewhat difficult to wash
	9	Moderately washable
	12	Difficult to wash
	15	Moderate to extremely difficult to wash
6 ^{upper}	14	Moderate to difficult to wash
	16	Moderate to difficult to wash
	18	Moderate to difficult to wash
6	12	Somewhat difficult to difficult to wash
	14	Moderate to somewhat difficult to wash
	16	Moderate to somewhat difficult to wash
	18	Moderate to somewhat difficult to wash

Source: 2010 Geological Report

The sulphur content in the mineable coal seams is less than 1% (ad). According to GB/T 15224.2-2004, the sulphur content is classified as “low”.

Other deleterious elements present within the coal include phosphorus, chlorine and arsenic. The dry basis phosphorus content of the raw coal is 0.001 to 0.150%. This results in a “medium” phosphorus coal classification according to GB/T20475.1-2006 standard. The dry basis chlorine content of the raw coal is 0.016 to 0.028%. This is considered an extremely low chlorine coal according to the MT/T597 — 1996 standard. In general, the dry basis arsenic content of the raw coal is within the acceptable limits as specified by the standards.

5 JORC COAL RESOURCE ESTIMATE

A standalone detailed Coal Resource Report and Statement (November 2010) has been prepared by MMC for the Relevant Assets, for which JORC Coal Resources have been estimated. The report entitled “Dafanpu Coal Project — ITR Reported Coal Resources Report” has been compiled with the relevant ‘Competent Person Sign off’ by Mr Andrew Banks. This Report contains extracts from the standalone detailed JORC Coal Resource Report (November 2010).

5.1 Topography

A geological model was created in Vulcan software, which is a specialised mining software suited to modelling coal deposits. An electronic three dimensional topographic data of the project area was not provided by the Client; as such, a topographic model was created using drill hole collar locations, 2D contour plots and, where no other data was available, commercial 3D satellite data.

The model was constructed using a triangulation algorithm with a 25 m grid cell size selected. Holes that indicated anomalous elevation readings were removed before modelling commenced.

5.2 Drill Hole Collars

The accuracy and method of survey of drill hole collars are unknown and add a degree of uncertainty to the resultant models. Some drill hole collars were found to contain obvious errors with the elevation values. These holes were removed from the Vulcan Isis database and excluded from modelling. All drill hole coordinates were transformed to the UTM (WGS84 zone 49) coordinate system prior to modelling.

All drill holes were treated as vertical, as no downhole survey information was available.

The entire Project dataset contains 47 holes in total; all 47 were cored and sampled according to Chinese guidelines. Of these holes, 41 were deemed acceptable for modelling purposes. It is suggested that resurvey of these removed holes be undertaken for confirmation of the coordinates where possible.

5.3 Points of Observation

Drill holes from the database can be classified into three main types:

- Diamond core with valid coal analyses (type 1);
- Diamond cored hole with invalid or no analyses (type 2), and
- Diamond cored holes with known issues (type 3).

Only Type 1 holes were used for quality modelling purposes. Type 1 and Type 2 holes were used for construction of the structural model. Type 3 holes were not used for either structural or quality models.

All core holes with valid coal quality analyses and acceptable collar details have been deemed as points of observation due to their good recovery. Good structural and quality correlation has been exhibited across the deposit.

5.4 Validation of Points of Observation

Six holes in the database were deliberately excluded from use in structure modelling of the deposit. These holes were excluded primarily because of inconsistencies with hole collar co-ordinates and, to a lesser degree, seam coding.

MMC compared the original logs with the statistical list of boreholes used for resources estimation and the list of coal seam structures and thicknesses in the Reconciliation Report. Original columnar maps, logs and geophysics (where applicable) were checked, and comparisons made. Collar elevations, topographic plans, and any known GPS coordinates were validated and cross referenced. Any inconsistencies in the data that could not be validated were removed from the list of boreholes deemed to qualify as a Point of Observation.

5.5 Seam Correlation

The process used for creation of the seam structure model was to generate Vulcan map files which contain 'actual' structural data from the drill holes. Where structural data is partially missing for a particular drill hole, the location of this missing structure is estimated, with a zero thickness applied. This interpolation is repeated for each missing horizon in each drill hole. Ensuring seams occur in all drill holes (even with zero thickness) increases the consistency of interburden between modelled horizons and also avoids situations where modelled horizons would cross.

The structure model was constructed using the Stratigraphic Model Editor in Vulcan. This process uses the map files generated from the procedure described above to create grid models of each horizon roof and floor. The grid models were generated using the structural surfaces method which creates each seam independently of the others. For each seam, the roof grid model is first generated, secondly a thickness is then estimated using the same parameters, and finally a floor grid model is created by subtracting the thickness grid model from the roof grid model. Model parameters are summarised in **Table 5-1**.

Table 5-1 Dafanpu Coal Project — Structural Model Parameters

	Grid Size (m)	Interpolation Method	Power	Min. Samples	Max. Samples	Max. Search Distance	Octant Search
Structure Roof	25x25	Inverse Distance Weighting	2	10	10	No Limit	Not Used
Structure Floor	25x25	Inverse Distance Weighting	2	10	10	No Limit	Not Used
Structure Thickness	25x25	Inverse Distance Weighting	2	10	10	No Limit	Not Used

Seam 6 has been modelled as a series of plies (split up subset of coal seam; defined by either stone partings, set thicknesses or changes in the inherent coal seam geology and characteristics) in this estimation process. This is due to the presence of a number of thick partings within the seam, which may allow for selective mining within the coal seam as a whole. The highly variable nature of the partings within the very thick Seam 6 make correlation of the individual coal plies problematic. The overall horizontal continuity and flat nature of the seams, give sufficient confidence that miscorrelation is not a significant issue in most areas. The more recent phase of drilling seems to confirm this assertion.

Whilst the partings within Seam 6 are numerous, and are commonly variable in thickness, the laterally continuous thicker partings appear to confirm the validity of modelling this seam on a ply basis. Most notable of these is the parting horizon between plies 6C and the overlying 6D which can be many metres thick in isolated areas to the west of the licence.

The 2010 Geology Report does not list the presence of any additional faulting in the Mining Licence. The presence of faulting was not noted in the interpretation of the structure of the deposit by MMC and therefore no faulting was incorporated into the model. No intrusions have been detected or included in the model.

5.6 Coal Quality

Coal quality data was accessed from the client provided MS Excel spreadsheets. These spreadsheets were uploaded to the coal quality database.

All quality composite data was reported on an air dried basis. Only a limited number of relative density measurements were available, and therefore relative density estimation was not completed. No density information was available for parting horizons and as such a conservative density of 2.16 was used for all non-coal horizons. A relative density value of 1.4 was selected for coal horizons as it best reflects the limited data available.

Validation of quality data was undertaken by:

- Comparison with geological logging;
- Comparison with original laboratory reports, and
- Checking minimum and maximum values for outliers (histograms).

Coal quality models were created for Specific Energy (MJ/kg), Ash (%), Volatile Matter (%), Total sulphur (%), and moisture (%). All models are reported on an air dried moisture basis, except for volatile matter, which is reported on a dry ash free basis. Inverse distance weighting was used as the interpolation method. **Table 5.2** contains all the quality modelling parameters. All models were masked using the same limit polygons defined for the structural models.

Table 5-2 Dafanpu Coal Project — Quality Model Parameters

	Grid Size (m)	Interpolation Method	Power	Min. Samples	Max. Samples	Max. Search Distance	Octant Search
Ash	25x25	Inverse Distance Weighting	2	10	10	No Limit	Not Used
Specific Energy	25x25	Inverse Distance Weighting	2	10	10	No Limit	Not Used
Volatile Matter	25x25	Inverse Distance Weighting	2	10	10	No Limit	Not Used
Total Sulphur	25x25	Inverse Distance Weighting	2	10	10	No Limit	Not Used

5.7 Model Validation

A review of the database and geological models was completed. The steps undertaken during this process include:

- A further validation of the drill hole database was completed in Vulcan, using the check drill holes function. This function checks drill holes for missing intervals and seam codes, out of sequence seam codes, or additional undefined seam codes;
- A series of east-west, and north-south cross sections was created across the deposit and contour plots of seam thickness and structure were also created. An iterative process of reviewing and correcting any observed anomalies was continued until a satisfactory result was achieved (see **Figure 5-3** to **Figure 5-8**);

- Contour plots of modelled coal quality parameters were generated for each seam and reviewed, and
- Comparison of histograms and basic statistics of the input composite data and the estimated values from the grid models.

5.8 JORC Resource Classification and Reporting

The JORC Code provides minimum standards for public reporting of Resources and Reserves to the investment community. For coal deposits, the JORC Code is supplemented by the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves (referred to as “the Guidelines”).

The JORC Code and the Guidelines provide a methodology which reflects best industry practice to be followed when estimating the quality and quantity of Coal Resources and Reserves.

A Coal Resource is defined as that portion of a coal deposit in such form and quantity that there are reasonable prospects for economic extraction. The location, quantity, quality, geologic characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal Resources are subdivided into three categories:

- **Measured:** for which quantity and quality can be estimated with a high degree of confidence. The level of confidence is such that detailed mine plans can be generated, mining and beneficiation costs, and wash plant yields and quality specifications, can be determined;
- **Indicated:** for which quantity and quality can be estimated with a reasonable degree of confidence. The level of confidence is such that mine plans can be generated and likely product coal quality can be determined, and
- **Inferred:** for which quantity and quality can be estimated with a low degree of confidence. The level of confidence is such that mine plans cannot be generated.

Resources are estimated based on information gathered from Points of Observation. Points of Observation include surface or underground exposures, bore cores, geophysical logs, and/or drill cuttings in non-cored boreholes. It should be noted that Points of Observation for coal quantity estimation need not necessarily be used for coal quality estimation.

All licence and borehole information was converted to the same co-ordinate system so as to estimate JORC classifications.

5.9 Resource Estimate

Points of Observation used for Resource estimation of the Project were all diamond drill cored drill holes with quality composites, and at least 90% recovery. All qualities were estimated at an insitu 7% moisture basis. The following drill hole spacing has been used to define the Resources categories for the Project:

- **Measured:** Points of Observation less than 250 m apart;
- **Indicated:** Points of Observation less than 500 m apart, and
- **Inferred:** Points of Observation less than 1,000 m apart.

The distances between Points of Observation selected are within those suggested in the Guidelines of the JORC code.

It was necessary to use default values for the intra-seam non-coal parting bands, as there was no quality information for these units. To gain a satisfactory level of confidence in these default values, geophysics were analysed to understand the correlation between ash and relative density for coal units that had quality testing. A linear relationship was established and projected for ash vs. relative density, and ash vs. specific energy.

At an 85% ash value for intra-seam non-coal parting, this resulted in relative density and specific energy values of 2.16 g/cu.cm and ~1 MJ/kg respectively. Other default quality values were decided upon after analysis of average values from nearby coal deposits, and discussion with industry experts, familiar with Chinese coal deposits. It is suggested that full seam coal quality samples are taken in any future sampling programme. For estimation purposes, MMC used what it considers to be conservative quality figures for the non-coal partings and these have been included in all seam composites, however the accuracy of these assumptions will only be confirmed by further sampling. No coal thickness, depth or coal quality cut-offs have been used for resource estimation. A 20 m pillar has been allowed at the licence boundary. No discount has been made for additional shaft pillar locations. **Table 5-3**, to **Table 5-7** show the MMC estimated JORC Coal Resources for the Project. All energy values are in units of Specific Energy; (MJ/kg air dried). The conversion from Specific Energy to Calorific Value, is 1 MJ/kg = ~238.8 kCal/kg respectively.

The “coal seam” is defined as a complete composite from the “roof” to the “floor” of the coal seam and is inclusive of inherent stone bands and partings. The qualities’ of both coal and stone within the “coal seam” have been agglomerated and weight averaged and are shown in the tables below. High ranges in ash are due to the varying thickness proportions of stone parting/bands to coal across the mining licence and the inherent variability of ash within the coal itself.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table 5-3 Dafanpu Coal Project — MMC estimated JORC Coal Resource Quantities (In Situ Basis) as at November 2010

Seam	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
5	10.7	23.7	1.3	35.7
6U	10.4	13.7	11.6	35.7
6D	27.5	44.4	12.8	84.7
6C	65.9	91.2	4.8	161.9
6B	18.9	47.6	2.5	69
6A	12.2	18.5	8.0	38.7
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	145.6	247.7	56.6	449.9

Nb. 1: All tonnage figures reported using an estimated in-situ coal density

Nb. 2: All values reported on a 7% moisture basis

Nb. 3: Any Discrepancies in total values are due to rounding

Table 5-4 Dafanpu Coal Project — MMC estimated JORC Measured Resources Qualities as at November 2010

Seam	Av. Thickness (m)	Moisture % (ad)	Ash % (ad)	Specific Energy (MJ/kg) (ad)	Total Sulphur % (ad)	Volatile Matter % (daf)
5	2.4	3.7	32.2	19.7	0.76	35.6
6U	2.6	4.0	32.2	19.6	0.67	33.9
6D	7.0	4.1	33.5	19.4	0.52	31.8
6C	13.0	4.7	26.0	22.0	0.53	34.8
6B	5.0	4.3	29.3	20.9	0.60	33.8
6A	3.8	4.0	21.9	23.6	0.62	36.1

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table 5-5 Dafanpu Coal Project — MMC estimated JORC Indicated Resources Qualities as at November 2010

Seam	Av. Thickness (m)	Moisture % (ad)	Ash % (ad)	Specific Energy MJ/kg (ad)	Total Sulphur % (ad)	Volatile Matter % (daf)
5	2.6	3.7	43.7	15.8	0.74	28.3
6U	2.7	3.7	36.5	18.2	0.62	31.1
6D	6.5	3.7	41.7	16.2	0.51	26.9
6C	11.9	4.3	31.0	20.4	0.63	32.2
6B	5.6	4.2	36.7	18.2	0.57	30.4
6A	3.4	4.0	34.9	19.0	0.57	30.1
9	1.5	2.9	36.7	18.1	0.52	27.0

Table 5-6 Dafanpu Coal Project — MMC estimated JORC Inferred Resources Qualities as at November 2010

Seam	Av. Thickness (m)	Moisture % (ad)	Ash % (ad)	Specific Energy MJ/kg (ad)	Total Sulphur % (ad)	Volatile Matter % (daf)
5	2.8	3.3	56.6	11.1	0.5	19.4
6U	2.7	3.8	49.9	13.5	0.5	24.4
6D	5.1	3.6	49.1	13.4	0.61	22.5
6C	11.3	3.7	46.8	14.7	0.53	24.0
6B	5.8	3.8	49.3	13.7	0.51	23.2
6A	2.5	4.1	43.5	15.8	0.47	28.1
8	1.0	2.2	69.2	6.5	0.44	10.8
9	2.0	2.1	68.1	6.3	0.46	10.9

Table 5-7 Dafanpu Coal Project — MMC estimated JORC Qualities by Classification as at November 2010

Classification	Moisture % (ad)	Ash % (ad)	Specific Energy (MJ/kg) (ad)	Total Sulphur % (ad)	Volatile Matter % (daf)
Measured	4.35	28.40	21.16	0.57	34.21
Indicated	4.01	36.02	18.48	0.60	30.13
Inferred	3.32	53.83	11.90	0.51	20.56
Weighted Average	4.03	35.80	18.52	0.58	30.25

Figures 5-1 and **Figure 5-2** show the JORC Resource Classification areas and seam thicknesses. **Figure 5-3** to **Figure 5-4** shows cross sections of the deposit.

Figure 5-1 Dafanpu Coal Project — JORC Coal Resource Confidence and Seam Thickness, Part 1 of 2



Figure 5-2 Dafanpu Coal Project — JORC Coal Resource Confidence and Seam Thickness — Part 2 of 2

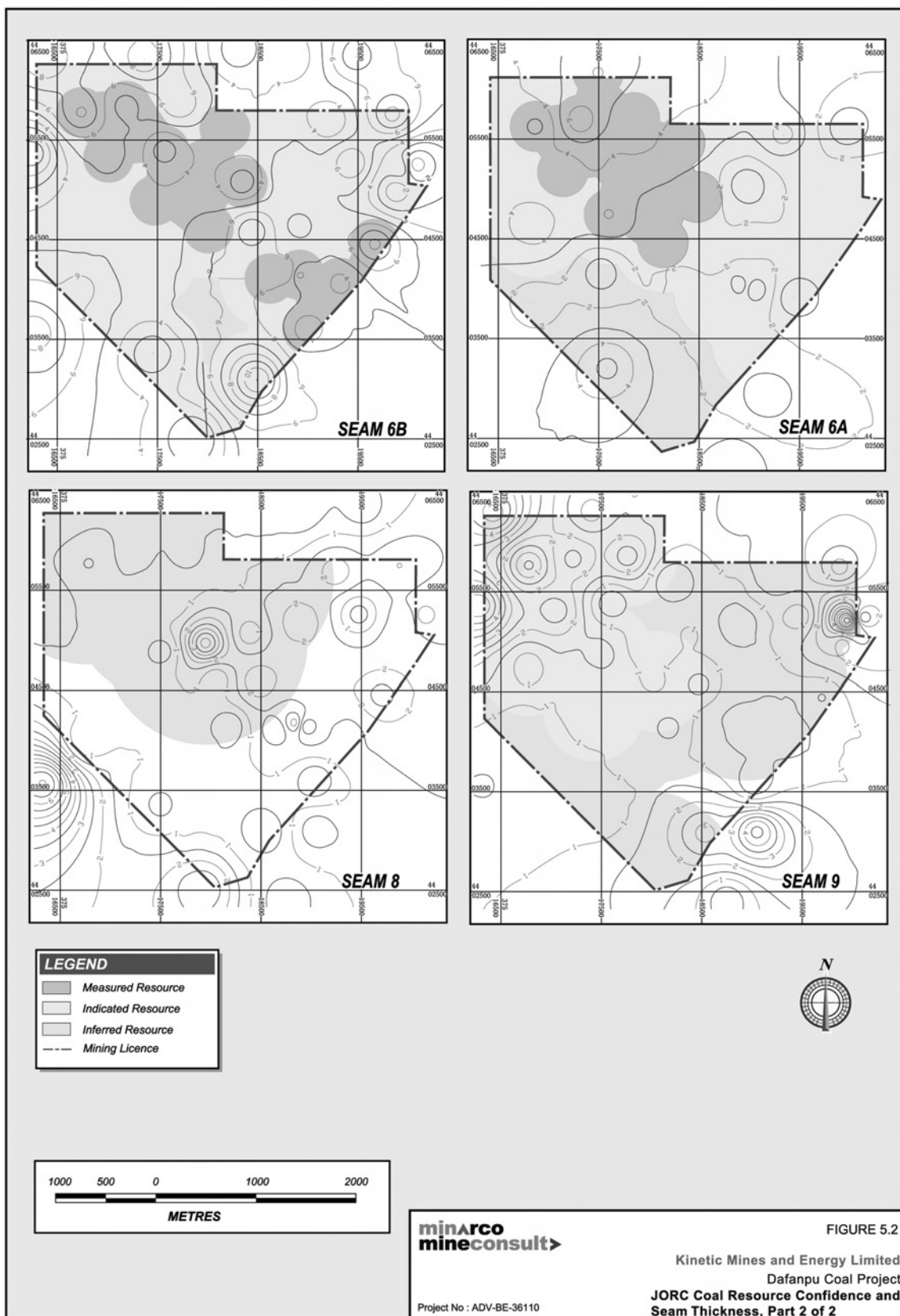


Figure 5-3 Dafanpu Coal Project — East-West Cross Sections

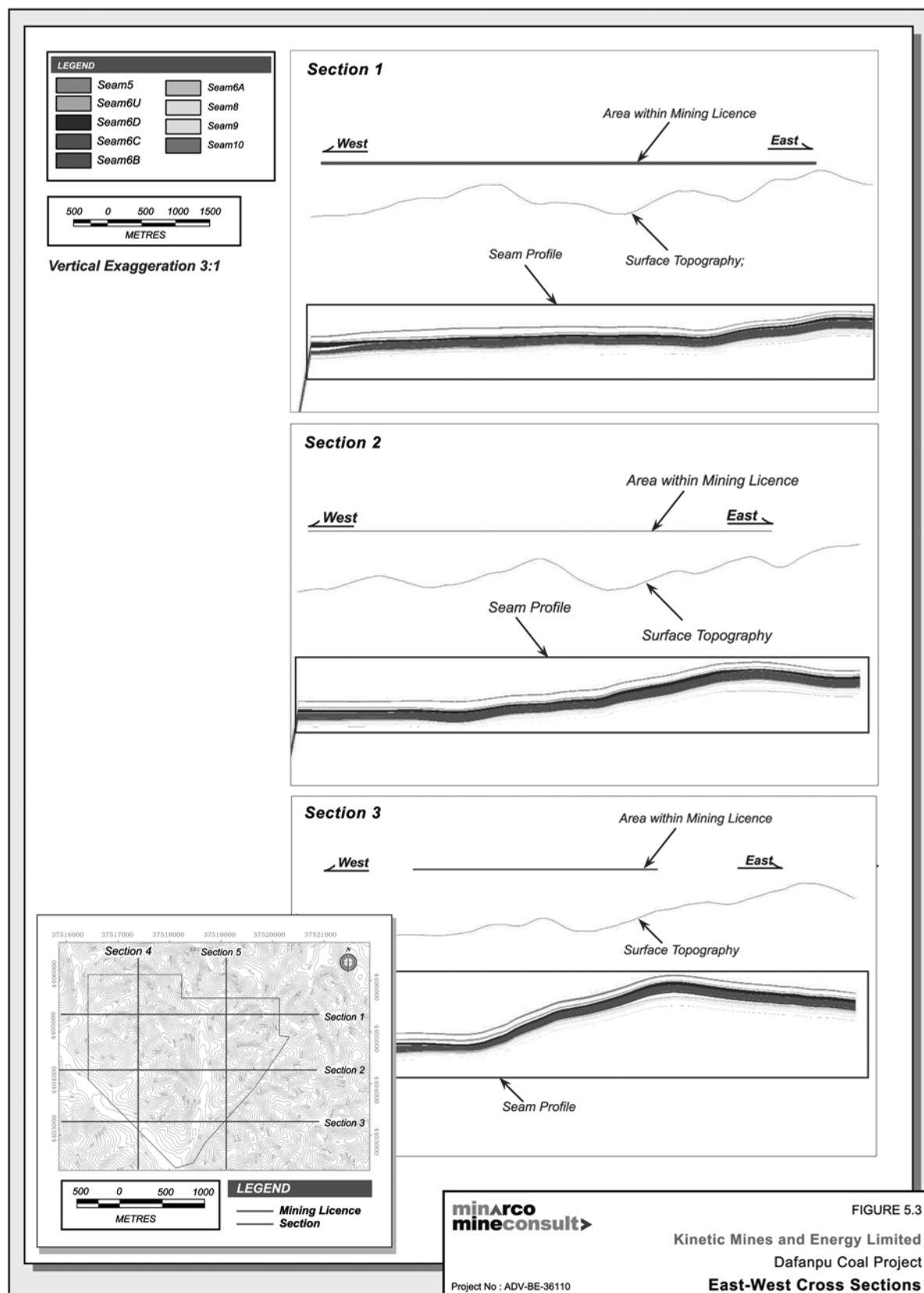
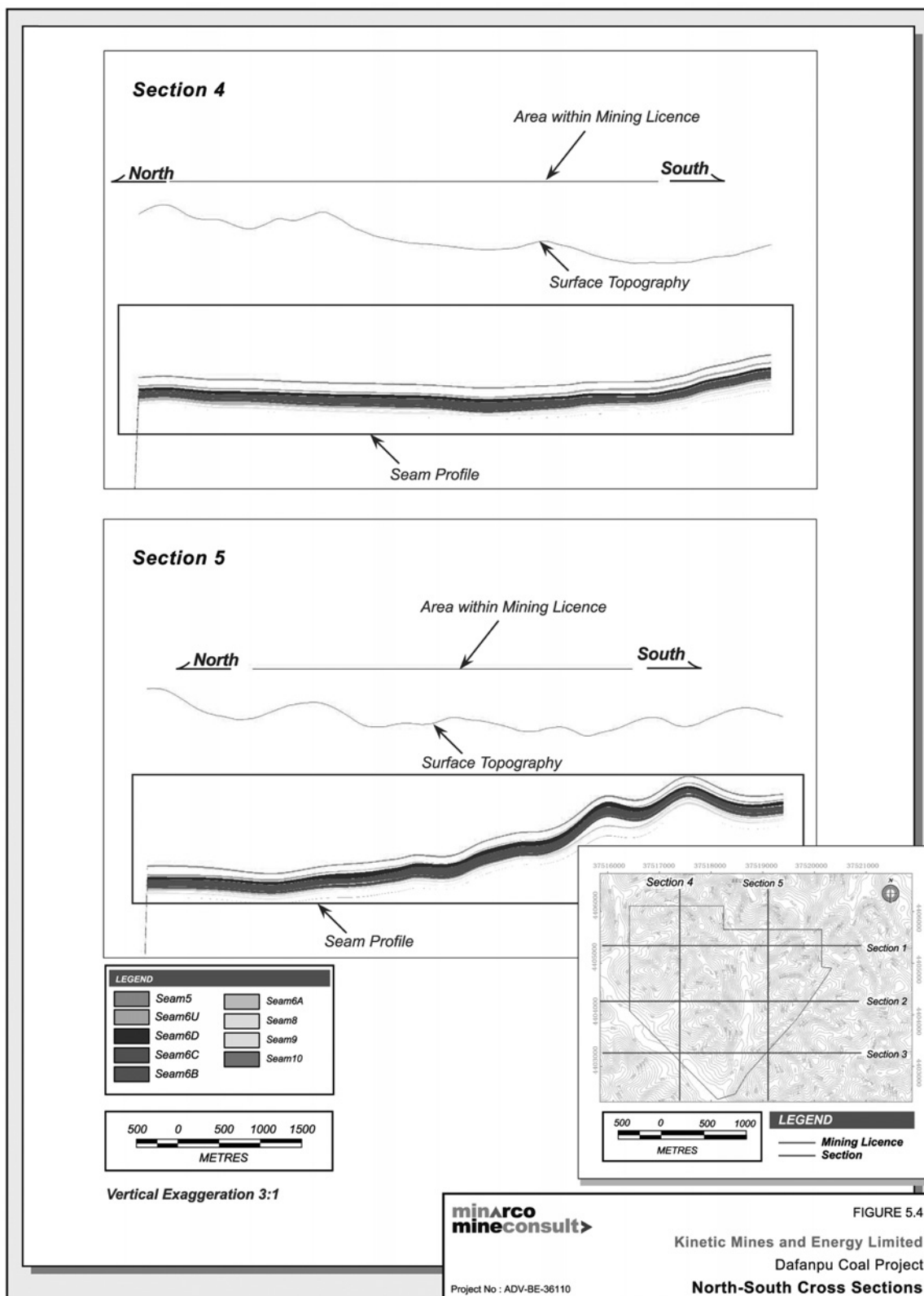


Figure 5-4 Dafanpu Coal Project — North-South Cross Sections



6 JORC COAL RESERVE ESTIMATE

A standalone detailed Coal Reserve Report and Statement (October 2011) has been prepared by MMC for the Relevant Asset, for which JORC Coal Reserves have been estimated. The report entitled 'Dafanpu Coal Project — ITR Reported Coal Reserves Report' has been compiled with the relevant 'Competent Person Sign off' by Mr Michael Johnson. This Report contains extracts from the standalone detailed JORC Coal Reserve Report (October 2011).

The Reserve estimate is based on mining parameters as outlined in the 5 Mtpa Feasibility Study and/or the 2.4 Mtpa Preliminary Design which were prepared by the "Beijing Yuanzhihan Coal Project Design Co., Ltd" (the "Mine Design Institute").

6.1 Background

The JORC Code defines Coal Reserves as the economically mineable portion of a JORC Compliant Measured and/or Indicated Coal Resource, taking into account any diluting materials and allowances for losses, which may occur when coal is mined. To enable the estimation of Coal Reserves MMC has:

- Contained within a mining plan and schedule;
- Characterised the deposit;
- Reviewed the applied mining method and current life of mine designs;
- Estimated appropriate rates of mining, coal loss and stone dilution;
- Verified the applied cut off grades and design parameters as provided by the Mine Design Institute as suitable for use in a Coal Reserve estimate;
- Completed an operating cost assessment to determine the economic viability of extraction of the Coal Reserves, and
- Estimated project NPV using a floating 2 year average price from documented thermal and lump coal sold from mines within the region from June 2009 to June 2011.

The Coal Reserve estimation was based only on Measured and Indicated Resources as Inferred Resource are not of a sufficient confidence categorisation to be converted to Coal Reserves.

This process and the findings are outlined in more detail below.

6.2 Description of Mining Method

Determination of the applied mining method is governed by the lateral extensiveness of the seam and the seam thickness. In the thicker seams (equal to and greater than 1.6 m and 1.8 m) longwall and longwall top coal caving methods respectively will be employed using mechanised hydraulic roof supports (shields) and a shearer to mine the coal. The mine will use road header units to extract coal from the development roadways.

There is currently no mechanised longwall unit in operation at the mine, as the mine is still in the development and construction phase. Development is currently underway in Seam 5. The coal clearance system from the working faces to the surface will comprise of a series of chain conveyors (Armoured Face Conveyor ("AFC")) in the case of the longwall face, and a network of conveyors will be used to remove coal from the working faces in the gate roads and development districts) which then load onto a network of belt conveyors to be hauled to the shaft and delivered to the surface stockpile.

6.3 Reserve Estimation Parameters

MMC has been supplied with a Preliminary Design Report (2.4 Mtpa) and an updated Feasibility Study (5 Mtpa) for the Project. Parameters from this report were used to create a mine plan. A site visit was undertaken in order to assist in determining suitable operating parameters to apply to the Coal Reserve estimation, and to qualify the extent of the current operations.

The following mining parameters have been applied to the Coal Reserve estimate for all coal seams to be extracted in the Mining Licence:

- Mechanised Longwall — Standard longwall mining will be applied in the thinner seams (and thinner areas of seams). The optimal longwall face operating height for standard longwall is between 1.6 m and 3.4 m;
- Mechanised Longwall — Top Coal Caving ("LTCC"). The optimal face operating height for the thick seams is 1.8 m to 3.4 m. Where the seam is greater than 3.4 m, longwall top coal caving method will be employed;
- The recommended recovery rates of provided by the Mine Design Institute have been applied to caving profiles above the longwall face cutting height, and longwall face cutting height profiles. A total seam recovery was estimated at approximately 80%, with an estimated recovery for Top Coal Caving profile at 71.7%;
- Standardised longwall face recoveries of 95% (provided by the Mine Design Institute) have been applied to all longwall faces profiles;
- The four plies of Seam 6 as described in the JORC Resources section has been divided into two mining seams; the thicker 6D is named 6L1, and the plies 6A, 6B, and 6C have been coalesced and named 6L2;
- The Longwall block dimensions of the two Longwall mining Methods are:
 - Standard LW approximately 250 m wide, > 400 m long, and
 - LTCC approximately 250 m wide, > 400 m long.

- To maximise the potential recovery of resources, where possible, thinner longwall panels (~170-200 m wide) have been designed on the flanking edges of the main deposit, and longwall panels were also manually adjusted to optimise recovery in areas confined by barrier pillars, licence boundaries and geological structure;
- Roadway dimensions are minimum 5 m wide, and have been modelled to a maximum of 3.5 m high. This is in line with the roadway cross sectional areas that were based on the Preliminary Design report. Appropriate parameters have been applied for mining losses and dilution to calculate ROM coal. Washability yields were then applied to the ROM coal to estimate product coal tonnages;
- Coal yield is based on washability data obtained from the drilling programme conducted from June to July 2010. Yields average between 75-80% (modelled from results obtained from the update Geological Report). Washability yields were applied to estimate the Product Fine Coal tonnes;
- No washability yields were applied to Lump Coal Tonnes, as the Lump Coal is to be sold as a raw product;
- An 80:20 split of Fine to Lump coal was used in the estimation of product tonnes, and
- All licence and borehole information was converted to the same co-ordinate system so as to estimate JORC classifications.

6.3.1 Mining Assumptions and Layout

Mine layouts have been prepared for all seams in the areas of the deposit defined as Measured and Indicated Resources. Although the proposed mine layouts extends beyond these areas into areas covered by Inferred Resources, the JORC Code stipulates that only Measured and Indicated Resources can be considered in Coal Reserves estimates.

The mine layouts take into consideration the conditions and constraints such as:

- Protection pillars for main headings and pre-existing mining areas;
- Drifts, inclines and shaft locations;
- Goaf protection pillars, surface protection pillars for rivers, roads, and industry yards, and
- Identified geological anomalies, such as faults, seam thinning, partings and seam convergence.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

A large protection pillar runs through the centre of the deposit from north to south. This pillar is designed to protect the pre-existing surface rail infrastructure that runs across the length of the deposit. As is planned, the mine's underground main headings, which supply water, compressed air and ventilation to the mining districts, and act as return ventilation routes and main conveyor roads will be developed under this pillar and as such, these areas have been designed so that no longwall mining (secondary extraction) will take place within the defined barrier pillar. The tonnes extracted from within this area by means of development road way mining has been included in the reserves estimation. All mine plans are illustrated in **Figure 6-1**.

Mine geology and coal quality data has been modelled in a Vulcan computerised software database. Mine planning has been carried out in a CAD software package. The Vulcan data and mine plan have then been exported into Runge's mine planning and scheduling software package (XPAC) for subsequent reserve estimation.

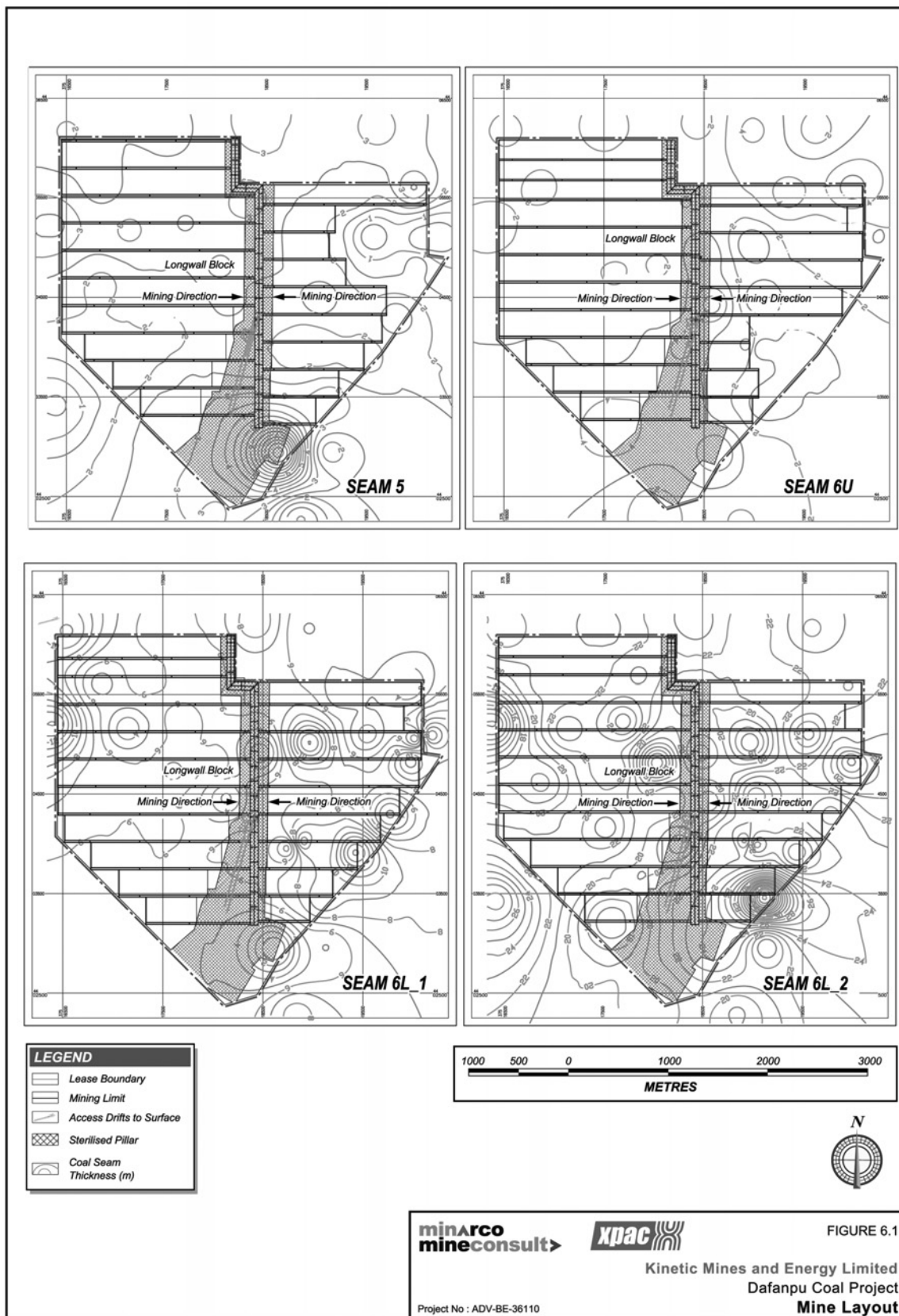
Typical parameters used for the mine plan layout were adopted from the Preliminary Design Report and Feasibility Study. A summary of these is shown in **Table 6-1** below.

Table 6-1 Dafanpu Coal Project - Typical Mine Plan Parameters

Item	Units	Value
Main heading roadways	No.	3
Gateroad panel roadways	No.	1-2
Gateroad pillar length (standard design length)	m	500
Main headings pillar width	m	40
Gateroad pillar width	m	20
Roadway width	m	5
Roadway height (gateroads/main headings)	m	~3.4/3.4-3.9
Standard Longwall panel width	m	~250
Minor Longwall panel width	m	~170-200
Longwall extraction height	m	1.6-3.4
Lease boundary barrier	m	20
Goaf boundary barrier	m	20
All Surface Barrier	m	20

N.B. Parameters used in Reserve Mine Deigns as adopted form the 2.4 Mtpa Preliminary Design Report and updated 5 Mtpa Feasibility Study

Figure 6-1 Dafanpu Coal Project — Mine Layout



6.4 Reserve Estimation Procedure

Coal Reserves were estimated using Runge's XPAC mine planning software and CADopia and XPAC Underground mine design software. The Coal Reserve estimation applied the life of mine design parameters to the 3-D geological model created for the Coal Resource estimate. The following steps were completed to accurately estimate Coal Reserves:

- All mine designs were modelled using gridded values supplied from Vulcan 3D geological modelling program. These included, seam thickness, stone parting thickness, relative density, raw and product qualities, including ash, total sulphur, volatile matter, moisture and specific energy;
- Quality and structure grids were registered to the mine plans. Mine plans were imported into XPAC and modelled. Mining recoveries, losses and dilutions, were applied to the mine plan in XPAC to produce ROM (run of mine) tonnes;
- The ROM Coal has been split into two products, namely, Lump Coal Product and Fine Coal Product, which is washed and used as a thermal coal. Both coal products (Fine and Lump) will be transported via rail once the loading facility is completed (estimated completion date June 2012) to Qinhuangdao. The ROM Coal has been divided into 20% Raw Lump Coal Product, and 80% Fine Coal Product. The Fine Coal is then estimated according to the appropriate washability yields for the coal from the specific area of the mine;
- Washability yields were applied to the portion of the Fine Coal Product split from the Fine Coal ROM Coal Quantities, and reported to the product quantities. These were then weighted accordingly to produce washed qualities and Fine Coal product tonnes in XPAC. Lump Coal does not pass through the washing process and was therefore a direct feed from the ROM stockpile to the Lump Stockpile through a simple separation screen and was modelled as such. Both products have been reported and qualities have been weight averaged accordingly;
- The basic mine designs (including longwall layouts), mining dimensions and mining parameters provided by the Mine Design Institute and the Company were redrawn and imported into Runge's mine planning software and extended to produce a full mine layout over each of the seams. They were then checked to determine whether the designs were appropriate for the new geological model. In most cases they were appropriate. If unsuitable, the layouts were redesigned to optimise recovery based on the data from the new geological model;
- Each mine layout was designed to ensure that mining of the lower seams would result in minimal impact on the pre-mined out areas from the seam above. These included the widening of gate road pillars, and offsetting the gate roads to align within the longwall 'block' of the seam above;
- Tonnages and grades of coal contained within the final mine design were estimated using Runge's XPAC mine planning software;

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

- The estimated Measured and Indicated Coal Resources were converted to Proven, and/or Probable Coal Reserves (or downgraded and written off from the Reserve estimations) based on consideration of Coal Resource Classification and operational considerations. MMC has classified all Coal Reserves as either Proven or Probable. Regression analysis from geophysical logs was used to obtain an Ash, SE, and RD for the stone plies and thus allow stone qualities to be modelled. Averages from these results were used and constants were applied to the stone qualities and modelled. These were integrated into the Reserve model. The stone qualities used are realistic and regionally appropriate;
- Seam 9 is quite variable and thin, with only small locally isolated 'pockets' of coal of reasonable thickness being quantifiable. The average seam thickness over the mine plan is 1.73 m, and is therefore not ideally suited to the thick-seam longwall method to be employed at the Project. There may be alternative methods that can mine some of these areas, but these have not been covered and are outside the scope of this report. For economic reasons and unsuitability of the proposed mining equipment, Seam 9 has been excluded from the Reserves Estimation. There may be potential for Seam 9 to be mined by alternative methods in the future; and
- Lump coal and associated product qualities are based on raw qualities; Fine coal and associated product qualities are based on washed qualities. Tables 6-4 to table 6-9 include weight averaged results on the combined Raw and Washed saleable products.

The JORC Coal Reserves estimate for the Project are summarised in **Table 6-2** to **Table 6-8**. All tonnes have been modelled and reported at 7% moisture. Seam plies in the Resources Section have been aggregated into workable mineable seams, with appropriate losses, dilutions and product yields applied. In the tables below, Ply 6D is renamed as 6L₁, and plies 6A, 6B, and 6C have been aggregated into seam 6L₂. All values have been rounded down to the nearest 100 kt.

The tables below (**Table 6-2** to **Table 6-3**) report tonnes by Product (Lump Coal, and Fine Coal), and then Seam and Classification; **Table 6-4** is total Product Coal by Seam and Classification.

Table 6-2 Dafanpu Coal Project — MMC Estimated JORC Lump Coal Reserves — By Product; Seam; Classification as at October 2011 (Lump Coal — Raw Product)

Seam	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Seam 5	1.7	2.8	4.4	26.94	4.49	21.92	0.71	39.45
Seam 6U	1.6	2.3	4.0	23.96	4.74	23.01	0.77	39.34
Seam 6L ₁	3.8	6.5	10.3	27.46	4.61	21.83	0.63	35.45
Seam 6L ₂	8.7	19.7	28.4	20.44	4.86	24.12	0.67	38.04
Total/Average	15.8	31.3	47.1	23.28	4.74	23.19	0.68	37.67

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~ 238.8 kCal/kg

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table 6-3 Dafanpu Coal Project - MMC Estimated JORC Fine Coal Reserves — By Product; Seam; Classification as at October 2011 (Fine Coal - Washed Product)

Seam	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Seam 5	4.6	7.9	12.5	13.28	4.72	28.77	0.71	38.59
Seam 6U	5.1	7.1	12.1	10.30	4.45	28.73	0.65	35.86
Seam 6L ₁	12.7	21.7	34.4	12.57	4.83	29.03	0.59	36.12
Seam 6L ₂	29.0	66.0	95.1	8.00	4.97	27.55	0.64	38.68
Total/Average	51.4	102.7	154.1	9.91	4.87	28.15	0.63	37.78

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~238.8 kCal/kg

Table 6-4 Dafanpu Coal Project — MMC Estimated JORC Total Coal Reserves — By Seam Total; Classification as at October 2011 (Fines and Lump — Total Product)

Seam	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Seam 5	6.2	10.7	16.9	16.86	4.66	26.98	0.71	38.81
Seam 6U	6.7	9.4	16.1	13.77	4.52	27.28	0.68	36.74
Seam 6L ₁	16.5	28.1	44.7	16.00	4.78	27.37	0.60	35.96
Seam 6L ₂	37.8	85.7	123.5	10.86	4.94	26.76	0.65	38.53
Total/Average	67.2	134.0	201.2	13.05	4.84	26.98	0.64	37.75

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~238.8 kCal/kg

The tables below (**Table 6-5** to **Table 6-8**) report tonnes by Seam and then Product (Lump Coal, and Fines Coal), and Classification; **Table 6-9** is total product coal by Classification.

Table 6-5 Dafanpu Coal Project — MMC Estimated JORC Total Coal Reserves — Seam 5; by Product/Classification as at October 2011 (Total Product)

Seam 5	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Lump Coal	1.7	2.8	4.4	26.94	4.49	21.92	0.71	39.45
Fines Coal	4.6	7.9	12.5	13.28	4.72	28.77	0.71	38.59
Total	6.2	10.7	16.9	16.86	4.66	26.98	0.71	38.81

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~ 238.8 kCal/kg

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table 6-6 Dafanpu Coal Project — MMC Estimated JORC Total Coal Reserves — Seam 6U; by Product/Classification as at October 2011 (Total Product)

	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Seam 6U								
Lump Coal	1.6	2.3	4.0	23.96	4.74	23.01	0.77	39.34
Fines Coal	5.1	7.1	12.1	10.30	4.45	28.73	0.65	35.86
Total	6.7	9.4	16.1	13.77	4.52	27.28	0.68	36.74

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~ 238.8 kCal/kg

Table 6-7 Dafanpu Coal Project — MMC Estimated JORC Total Coal Reserves — Seam 6L₁; by Product/Classification as at October 2011 (Total Product)

	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Seam 6L₁								
Lump Coal	3.8	6.5	10.3	27.46	4.61	21.83	0.63	35.45
Fines Coal	12.7	21.7	34.4	12.57	4.83	29.03	0.59	36.12
Total	16.5	28.1	44.7	16.00	4.78	27.37	0.60	35.96

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~ 238.8 kCal/kg

Table 6-8 Dafanpu Coal Project — MMC Estimated JORC Total Coal Reserves — Seam 6L₂; by Product/Classification as at October 2011 (Total Product)

	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Seam 6L₂								
Lump Coal	8.7	19.7	28.4	20.44	4.86	24.12	0.67	38.04
Fines Coal	29.0	66.0	95.1	8.00	4.97	27.55	0.64	38.68
Total	37.8	85.7	123.5	10.86	4.94	26.76	0.65	38.53

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~ 238.8 kCal/kg

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table 6-9 Dafanpu Coal Project — MMC Estimated JORC Total Coal Reserves — All Seams; Product/Classification as at October 2011 (Total Product)

All Seams	JORC Proven Reserves (Mt)	JORC Probable Reserves (Mt)	JORC Total Tonnes (Mt)	Ash Content (%) ad	Moisture (%) ad	Specific Energy (MJ/kg) ad	Total Sulphur (%) ad	Volatile Matter (%) daf
Lump Coal	15.8	31.3	47.1	23.28	4.74	23.19	0.68	37.67
Fines Coal	51.4	102.7	154.1	9.91	4.87	28.15	0.63	37.78
Total	67.2	134.0	201.2	13.05	4.84	26.98	0.64	37.75

N.B. Seam 6L₁ is ply 6D, Seam 6L₂ is made up of plies 6C, 6B, 6A

All tonnes reported at 7% product moisture

1 MJ/kg = ~ 238.8 kCal/kg

Table 6-10 Dafanpu Coal Project — Product Yields by Seam per ROM tonne recovered

Seam	Lump Coal Yield per ROM t	Fine Coal Yield per ROM t	Average Estimated Yield per ROM t
Seam 5	20%	57%	77%
Seam 6U	20%	61%	81%
Seam 6L ¹	20%	67%	87%
Seam 6L ² LTCC	20%	67%	87%
Weighted Average	20%	65%	85%

The above table provides a breakdown of estimated yields per ROM tonne as recovered by each seam. Yields fluctuate from the prescribed average of 79% (as outlined in section 8.1 Process Selection) due to selective mining within the seam and the weighting of quality variance within each individual seam. The mine plans have been optimised to target the greatest recovery of the highest quality sections of each seam wherever possible.

Figure 6-2, Figure 6-3 and Figure 6-4 illustrate Seam Thickness, Total Sulphur and Raw Ash. **Figure 6-5** illustrates the JORC Reserve Areas and JORC Reserve Exclusion Areas superimposed over each mine plan.

Figure 6-2 Dafanpu Coal Project — Seam Thickness

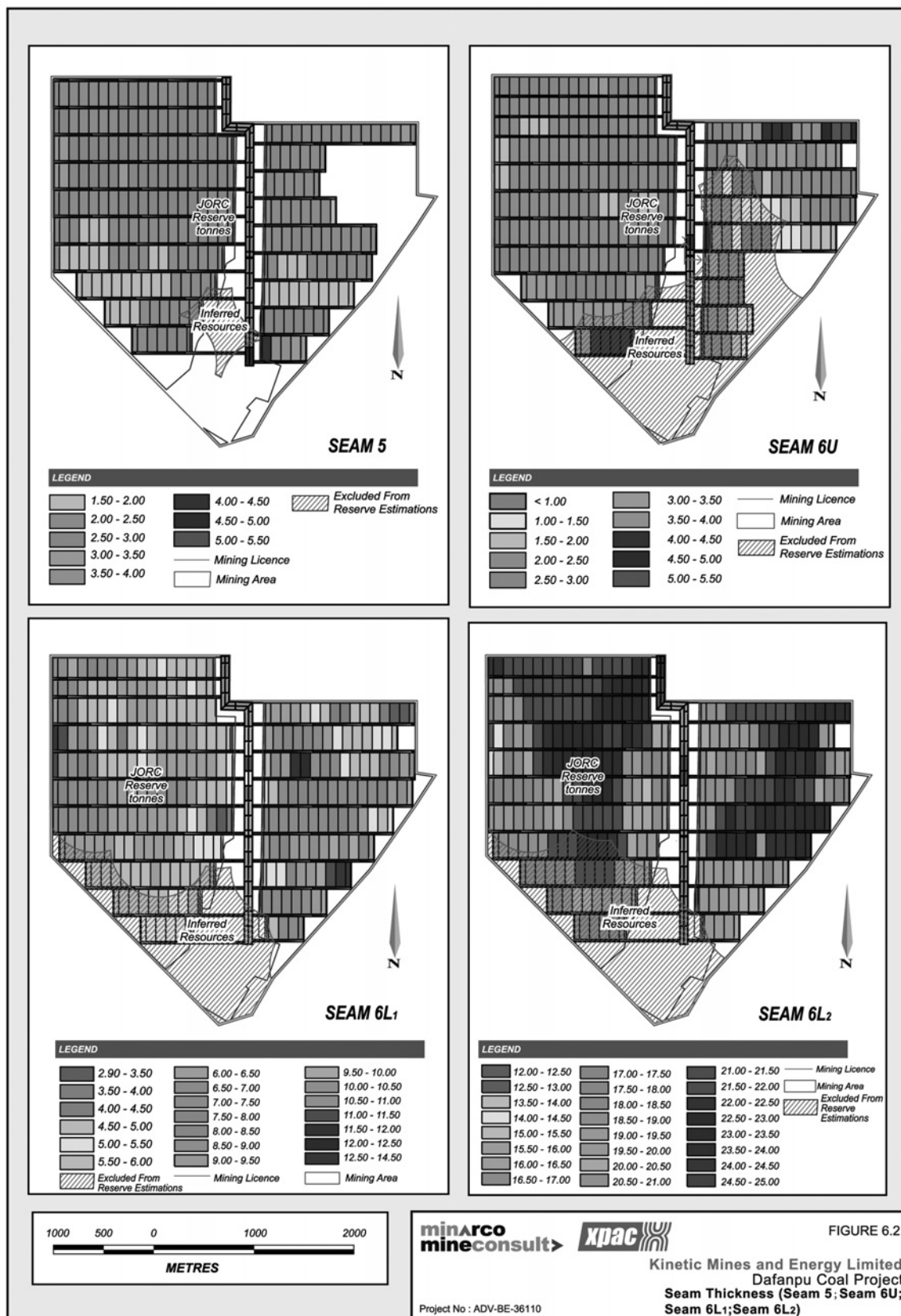


Figure 6-3 Dafanpu Coal Project — Total Sulphur

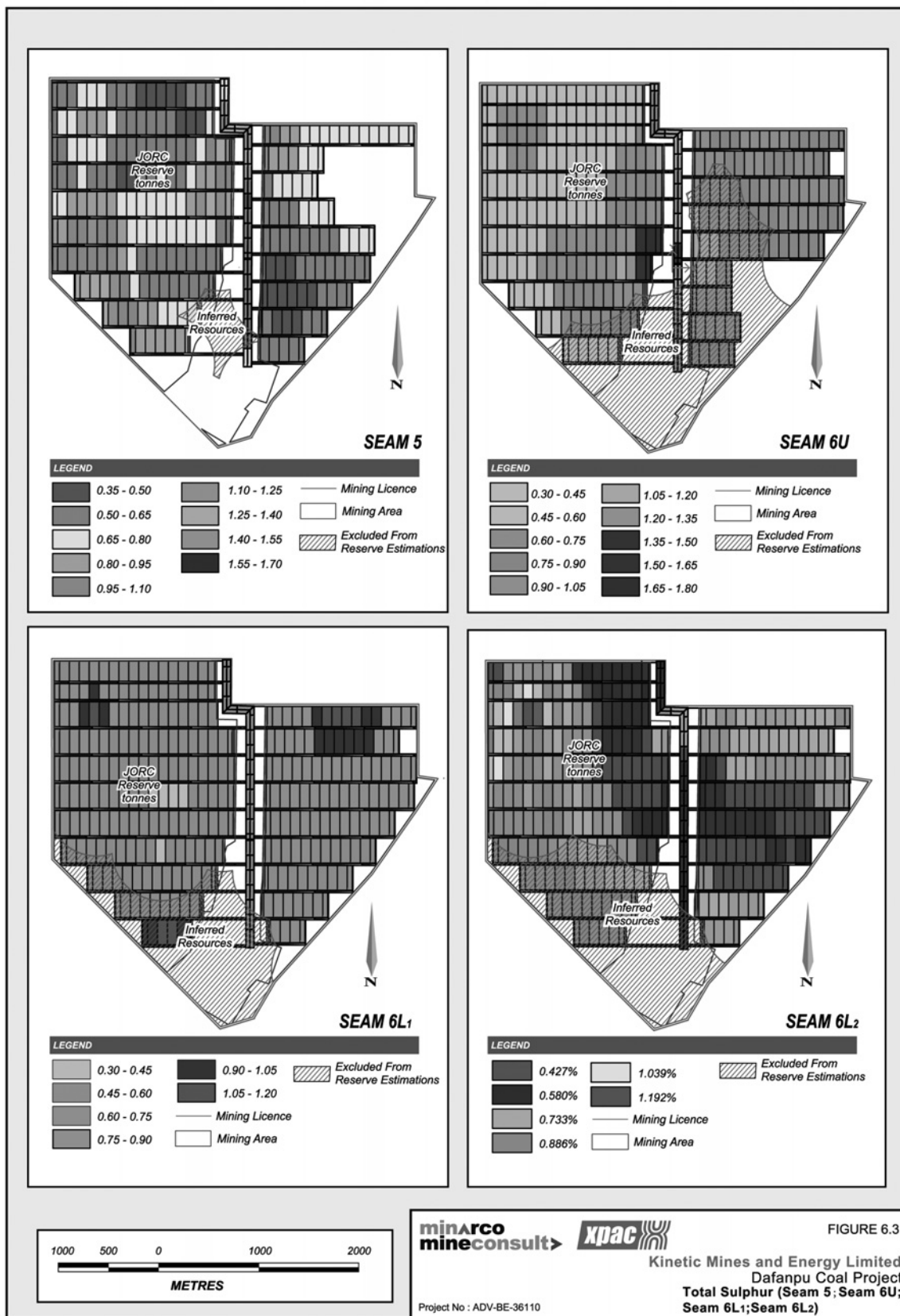


Figure 6-4 Dafanpu Coal Project — Raw Ash

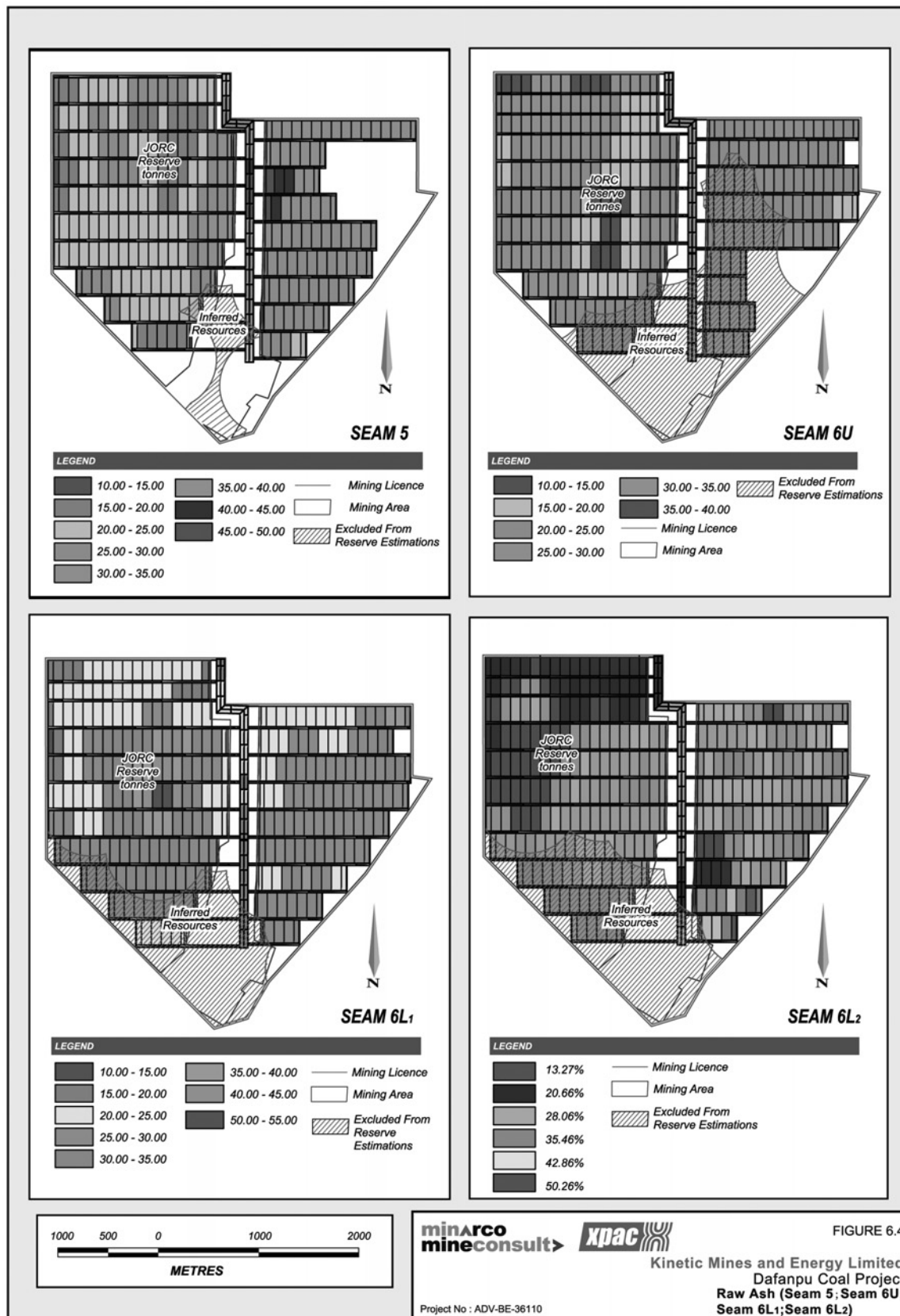
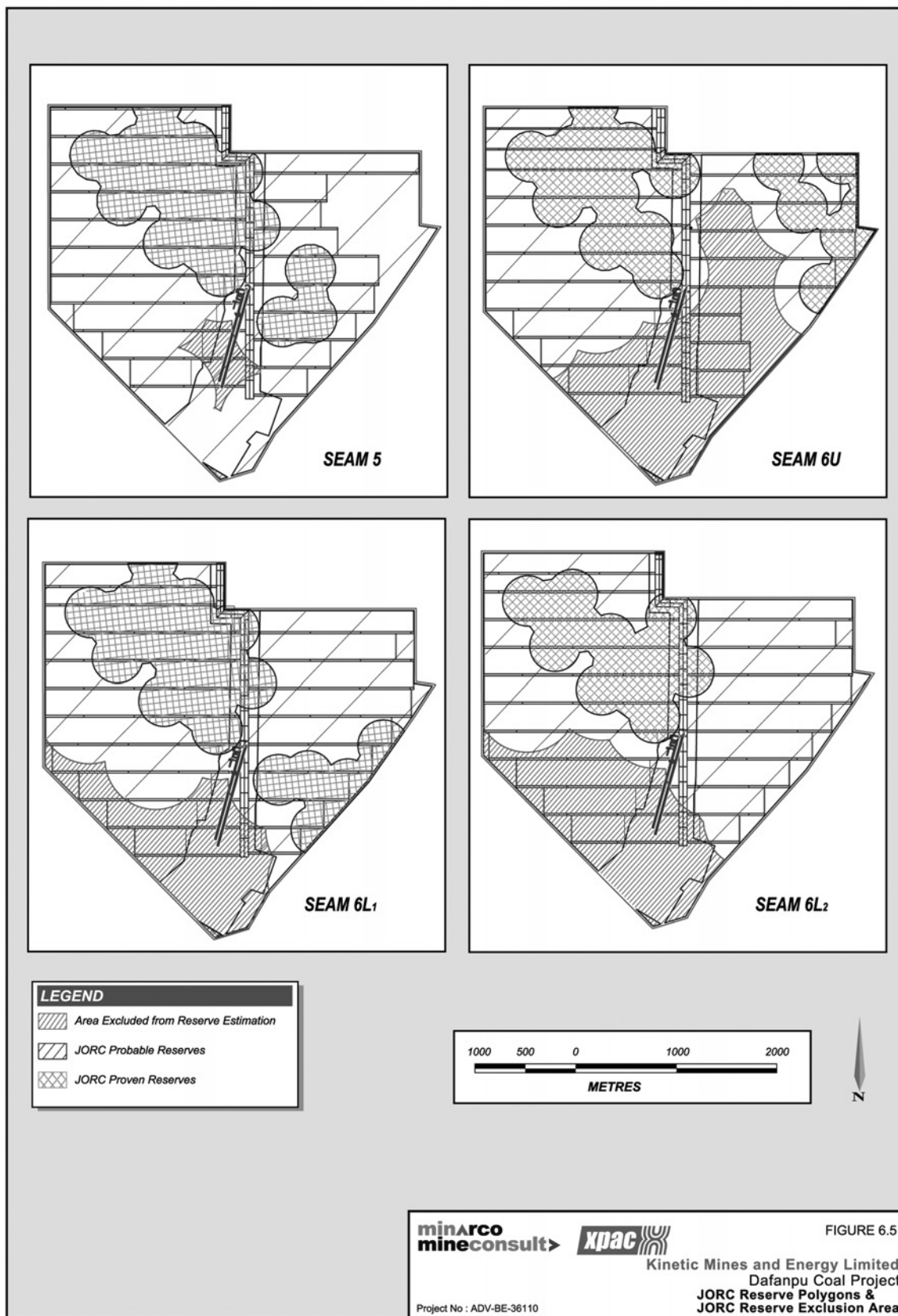


Figure 6-5 Dafanpu Coal Project — JORC Reserve Polygons and JORC Reserve Exclusion Areas



7 MINING

7.1 Description of Operations

The Feasibility Study and Preliminary Design Reports and other associated reports describe the proposed mining methods, mine development strategy, mine scheduling and the management of safety issues.

The proposed mining operations described in the Feasibility Study Report involve:

- Two primary underground coal mining methods to be employed: standard longwall mining method and a longwall top coal caving method ("LTCC");
- Underground coal development (carried out by "Roadheaders") such as gate roads and main headings will mainly occur in coal to minimise the excavation of waste rock;
- The mining coal seams will be accessed by a development system comprising a main inclined drift, an auxiliary inclined drift and a ventilation shaft;
- A conveyor system will be installed to transport coal from the underground production faces to the basement mining level of Seam 6_{lower}, via belts and shafts and will then be transported to the surface via belt conveyors;
- At the surface the coal will be screened and split into a lump product (transported directly to a ROM stockpile) and a fine product which will be conveyed to a coal handling plant for washing, before being stored in silo's to await loading onto trains, and
- Lump coal can reportedly be sold directly to market whilst the fine coal can either be sold directly or washed.

The two sets of longwall mining equipment proposed for the operation have variable height ranges dependent on the supports; the thin seam supports have a height range of 1.6 to 3.4 m, and the thick seam supports have a range from 1.8 - 3.4 m. When in thin seams, the standard longwall equipment will be used, whilst the thick seams, the LTCC will be utilised. When seams thicknesses are in excess of 3.4 m, the longwall will operate in LTCC mode, with the longwall face operating within the lower (basal) section of the seam, and coal above the height constraints of the shearer and shields will be extracted using the rear chain conveyor. The equipment is not ideally suited to thin seams, and is limited by the lower operating height range of the shields.

7.2 Coal Mining Processes

Mining operations planned for the Project can be broken into the following key areas:

- Mine Development;
- Longwall Mining;

- Top Coal Caving;
- Coal Handling and Stockpiling;
- Washing, and
- Transport.

Each of these areas is described below.

7.2.1 Mine Development Process

Mine development includes the development of inclines, main headings and gate roads. These developments are known as primary extraction, as they represent the first stage of mining.

Inclines

Inclines provide access to and from the surface and the mining level of the mine for transport, conveyors, and mine services. They may be developed in stone (rock) or coal. The incline is designed to last for the life of the mine, or the life of the district they are required to service.

Main Headings

Main headings are a network of roads that support all the mines services. They connect coal conveyors from the mining production faces to the main conveyor for transport to the surface. The various roadways are used for storage of consumables. Main mine services such as underground power, and pumping stations are all managed from the main headings. They may be driven in stone (rock) or coal. The life of the main headings matches that of the mine, or as long as it is required to supply services to the working faces they are connected to.

Both inclines and main headings also provide supplies and services (such as fresh air, water, and compressed air) for mining activities as well as return air roadways, waste water management (pumping lines and systems).

Gate Roads

Gate roads are developed on either side of a planned longwall panel. The gate roads are connected to each other by a “face” road (or installation road/chamber). The gate roads supply services to the longwall, such as conveyors, fresh air, water, consumables, power, compressed air and transport, and also provide an escape way for the ‘return’ air (fresh air that has been contaminated by dust and gas as part of the mining process) to pass. The installation road/chamber serves as the start of a longwall panel where the longwall equipment is installed prior to the commencement of “longwall mining”.

The life of the gate road is for as long as it is required by the longwall panel it is servicing.

Inclines, main headings and gate roads may be developed either in stone or coal. Development in stone is performed by drill and blast techniques which are commonly used throughout China. Development in coal will be performed with the aid of machines known as 'Road Headers'. The use of Road Headers is an effective method of extracting the coal.

7.2.2 Longwall Processes

A longwall mining system is a high production mining method which utilises a shearer to cut coal across a mining face. Mining faces can vary from 30 to 400 m in width and generally 1 to 5 m in height. Coal extracted from a longwall face is conveyed along the face and transported to the surface via a system of belt conveyors.

The average longwall face to be employed at Dafanpu is 250 m.

7.2.3 Top Coal Caving

Top Coal Caving ("TCC") is utilised in thick seams, to enable the recovery of coal above the upper height range of the longwall shearer. TCC utilises a trailing conveyor to capture coal as it caves. The caving process is a result of longwall mining of the bottom section of coal.

There are a number of different designs of TCC systems. These systems utilise similar mining processes, although the operations may vary slightly.

7.2.4 Pit Bottom

The pit bottom area is located at the base of the inclined shafts and contains the underground coal storage bin, the pumping station, substations and other associated infrastructure and services.

7.2.5 Coal Handling and Stockpiling

Coal will be transported underground via a network of conveyors, eventually being loaded into an underground storage bin. A conveyor will then be used to transport coal to the surface, where it will be loaded into storage bin.

7.2.6 Washing

A coal preparation plant ("CHPP") has been constructed on site and should be in operation in March 2012.

7.2.7 Transportation to Market

Product stockpiles will be located adjacent to a railway spur and coal loaded into rail wagons for transport to markets.

7.3 Coal Mining Methods

The coal deposit is well-suited to an underground longwall mining method as the coal seams are of adequate thickness and there is little variability of the strata along the direction of strike and dip, including minimal faulting and no magmatic intrusions. Underground mining will sequentially progress from the No.5 Seam at the top, down to the 6^{upper} Seam, then 6 Seam in two passes, (6L1, and 6L2). Of the mineable seams, the primary target will be the No.6 Seam which occurs throughout the mineable area and has the largest volume of coal.

The underground coal production target is 5 Mtpa of ROM coal. To achieve this level of production, it is proposed that two longwall systems operate along with six development units.

The mine plan classifies the seams to be mined into two thickness categories: moderate and thick. The moderate seams are No.5, No.6^{upper}, and No.9 and have an average thickness of approximately 2 m. The “thick” seam is No.6 seam with an average mineable thickness of 23 m. No.9 has not been classified as a JORC Reserves due to its unstable nature and small mineable volume coal.

The mine design is based on the Chinese design code, Code for Mine Design of Coal Industry (GB50215-2005) (the “Chinese Design Code”). In applying this code, the following methods are proposed to extract the coal:

- LW mining method is to be applied in the No.5, and a large majority of 6^{upper}, seams, (where possible some parts of 6^{upper} seam maybe LTCC); and
- The LTCC mining method is to be employed in the No.6 seam. For an ideal mining height, the seam is divided into two sub-seams. In each of sub-seams, a LTCC unit will be deployed, with the top LTCC unit mining the top section using a coal floor, and the second unit mining the lower section.

These mining methods have been implemented successfully in China. MMC consider that these methods are appropriate for extraction of coal at the Project.

7.4 Production Schedule and Mining Capacity

The Feasibility Study report outlines a 42.8 year mining plan. The coal production schedule is based on longwall production of 4.92 Mtpa, with an additional 0.20 Mt of mine development coal to produce approximately ~5.1 Mtpa of ROM coal. The project is currently licensed to produce 2.4 Mtpa of ROM coal; the licensed capacity will need statutory approval to be increased to 5 Mtpa before full production rate being achieved.

The mine planning which has been completed in the Feasibility Study aligns with Chinese requirements and provides a long term operating plan. However, MMC considers that the completion of more detailed mine planning may provide further benefits to the project. These benefits may potentially include optimisation of mining equipment, increased equipment efficiency and utilisation, decreased operating costs and identification of operating bottlenecks. Detailed schedules reduce risk by increasing predictability of operation and by identifying future potential issues so that an operating solution may be engineered.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

MMC considers that there may be some upside potential at the mine due to the relatively simple geological mining conditions, low gas levels, controllable water conditions and moderate to thick coal seams. Therefore, with careful management, in view of similar mining in practices in China, the production capacity could potentially be higher than 5 Mtpa.

7.4.1 Estimated Productivity

The work roster and design parameters used to estimate coal production as specified in the 5 Mtpa Feasibility Study Report is summarised in **Table 7-1** and **Table 7-2**. A full list of mining equipment for the operation is provided in **Annexure D**.

Table 7-1 Dafanpu Coal Project — No.5 seam Longwall Unit Operating Design Parameters

Design Parameters	Units	Values
Shifts per day (1 Maintenance Shift)	No.	4
Hours per shift	Hours	6
Operating days per year	Days	330
Panel width	m	250
Mining height	m	2.07
Retreat rate per shift	m/shift	3.47
Retreat rate per day	m/day	10.4
Annual retreat rate	m/year	3,432
Mining recovery	%	93
ARD	t/cu.m	1.50
Output per shift	t	2,505
Output per day	t	7,515
Output per year	Mt	2.48

Source: 2011 Feasibility Study (5 Mtpa)

Table 7-2 Dafanpu Coal Project — No.6 seam Longwall Unit Operating Design Parameters

Design Parameters	Units	Values
Shifts per day (1 Maintenance Shift)	No.	4
Hours per shift	Hours	6
Operating days per year	Days	330
Panel width	m	250
Mining height	m	3.2
TCC height	m	8
Retreat rate per Shift	m/shift	2.4
Annual retreat rate	m/year	792
Mining recovery (longwall face & TTC)	%	75
ARD	t/cu.m	1.47
Output per shift	t	2,470
Output per day	t	7,409
Output per year	Mt	2.44

Source: 2011 Feasibility Study (5 Mtpa)

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Based on the equipment, design, schedule and parameters outlined in the 5 Mtpa Feasibility Study and the assumption that all applicable legal and regulatory requirement are satisfied (including the obtaining of all relevant licences and permits) legislative requirements are met, MMC envisages that the Project is capable of achieving an annualised production capacity of 2.5 Mtpa of ROM Coal during the trial production period.

7.5 Underground Mine Development

The 5 Mtpa Feasibility Study Report outlined three possible options for underground mine development

- Option 1: Main Inclined drift, auxiliary inclined drift and ventilation shaft;
- Option 2: Main Inclined drift, auxiliary shaft and ventilation shaft, and
- Option 3: Main shaft, auxiliary shaft and ventilation shaft.

A technical and economic analysis of the options concluded that the preferred approach was the construction of a main inclined drift, an auxiliary inclined drift and a ventilation shaft (Option 1). The main and auxiliary inclined drifts would be orientated from south to north, with a collar elevation of +1,155 m elevation. The collar elevation of the ventilation shaft would be +1,160 m elevation. The proposed base of the inclined drifts and shaft would be to meet the main target seam, No.6, at an elevation of +850 m elevation.

7.5.1 Main (Belt Conveying) Inclined Drift

The main inclined drift is intended to serve as the sole means of conveying coal to the surface and will also serve as an air intake. As the underground production capacity is 5.0 Mtpa, the conveying rate will be at least 5.75 Mtpa (Chinese code) to prevent the conveying system from restricting underground production capacity.

The relevant design parameters of this inclined drift are given in **Table 7-3**.

Table 7-3 Dafanpu Coal Project — Main Inclined Drift Design Parameters

Design Parameters	Units	Values
Roadway Width	m	5.2
Finished Section	sq.m	18.15
Length	m	1,107
Inclined Angle	degrees	16
Support	—	Reinforced Concrete Lining/Bolt & Concrete Spray
Drift Equipment	—	Fire-resistance Belt, Width = 1.4 m.

Source: 2011 Feasibility Study (5 Mtpa)

7.5.2 Auxiliary Inclined Drift

The auxiliary drift will be utilised for the hoisting of underground personnel, mine materials and equipment. The hoist servicing the auxiliary drift is required to be of sufficient size and capacity to hoist mining equipment parts into the underground operations area. The auxiliary drift will service all the mineable coal seams.

The relevant design parameters of the auxiliary drift are given in **Table 7-4**.

Table 7-4 Dafanpu Coal Project - Auxiliary Drift Design Parameters

Design Parameters	Units	Values
Roadway Width	m	5
Finished Section	sq.m	17.82
Length	m	780.5
Inclined Angle	degrees	23
Supporting	—	Reinforced Concrete Lining/Bolt & Concrete Spray
Hoist	—	30 kg/m, 900 mm Dual Track Railway

Source: 2011 Feasibility Study (5 Mtpa)

7.5.3 Ventilation Shaft

This shaft is intended to serve as the return air shaft for the mine. The auxiliary and main drifts will serve as intakes. The shaft must have sufficient cross-sectional area to ventilate the mine while maintaining a ventilation velocity of less than 15 m/sec (Chinese code), and provide a minimum of surface resistance to minimise turbulence and thus reduce power costs. The ventilation shaft will service all mineable seams.

The relevant design parameters of this shaft are given in **Table 7-5**.

Table 7-5 Dafanpu Coal Project — Ventilation Shaft Design Parameters

Design Parameters	Units	Values
Shaft Diameter	m	5.5
Finished Section	sq.m	23.7
Depth	m	306
Supporting	—	Reinforced Concrete Lining/Concrete Lining

Source: 2011 Feasibility Study (5 Mtpa)

7.5.4 Mining Areas

The proposed underground layout involves one main mining level located at elevation +850 m elevation to coincide with the No.6 Seam. The underground mining area will be divided into a northern and southern mining district as defined by a dividing line through the underground bin of the main roadway. The area to the north will be referred to as the No.1 Mining District and the area to the south the No.2 Mining District.

From a pit bottom facility a system of three main headings will be developed to provide access to the longwall gate roads, the coal haulage conveyor, men and materials, and for ventilation. The belt, rail, and ventilation headings are separately deployed in No.6, No.6^{upper} and No.5 coal seam. The set of three main headings are planned to access all areas of No.1 Mining District. Longwall panels will run off the main headings through link roadways to access all coal seams. A schematic of longwall top coal caving is shown in **Figure 7-1**, and the mine surface infrastructure and layout is shown in **Figure 7-2**.

Figure 7-1 Dafanpu Coal Project — Longwall Top Coal Caving Schematic

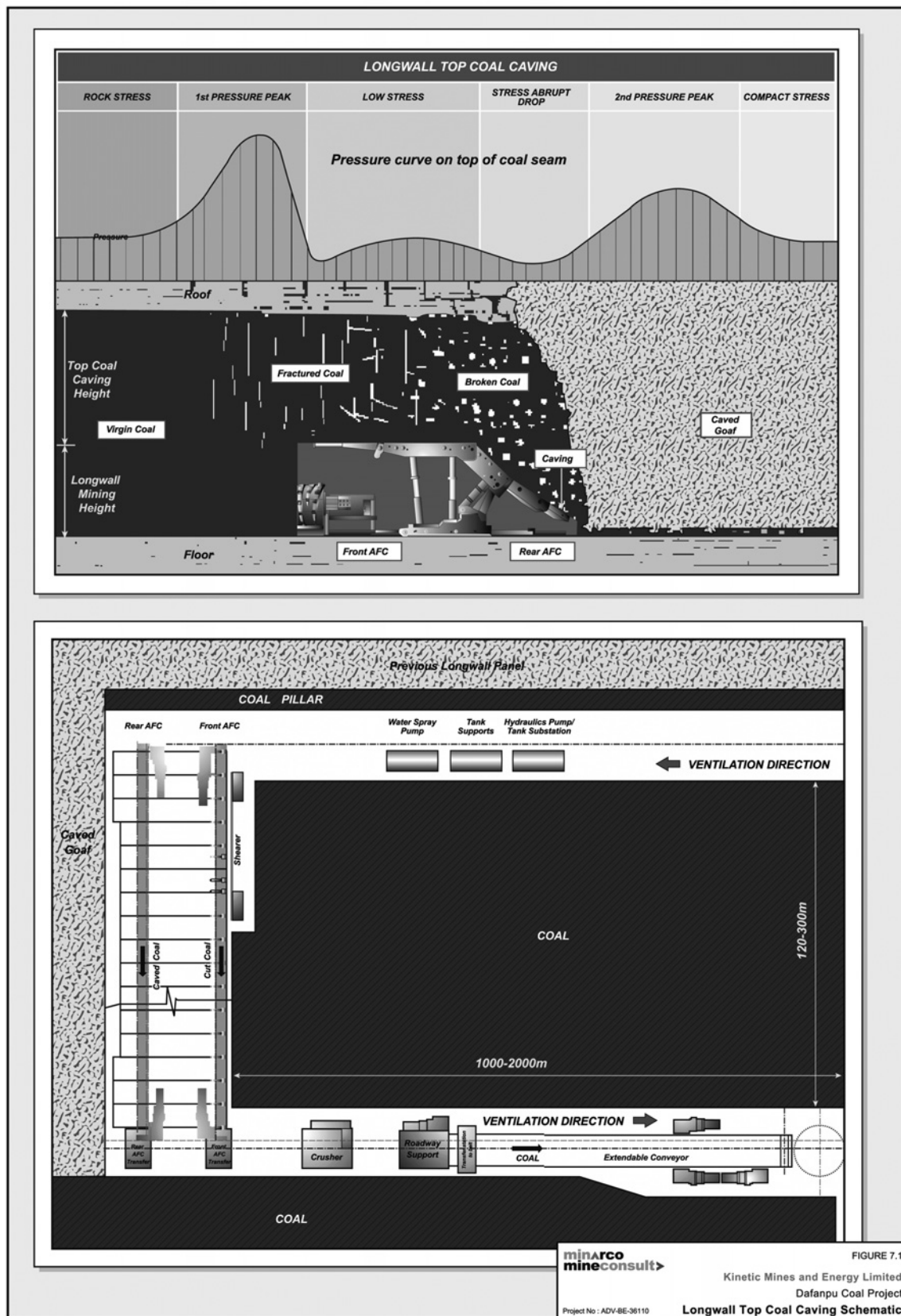
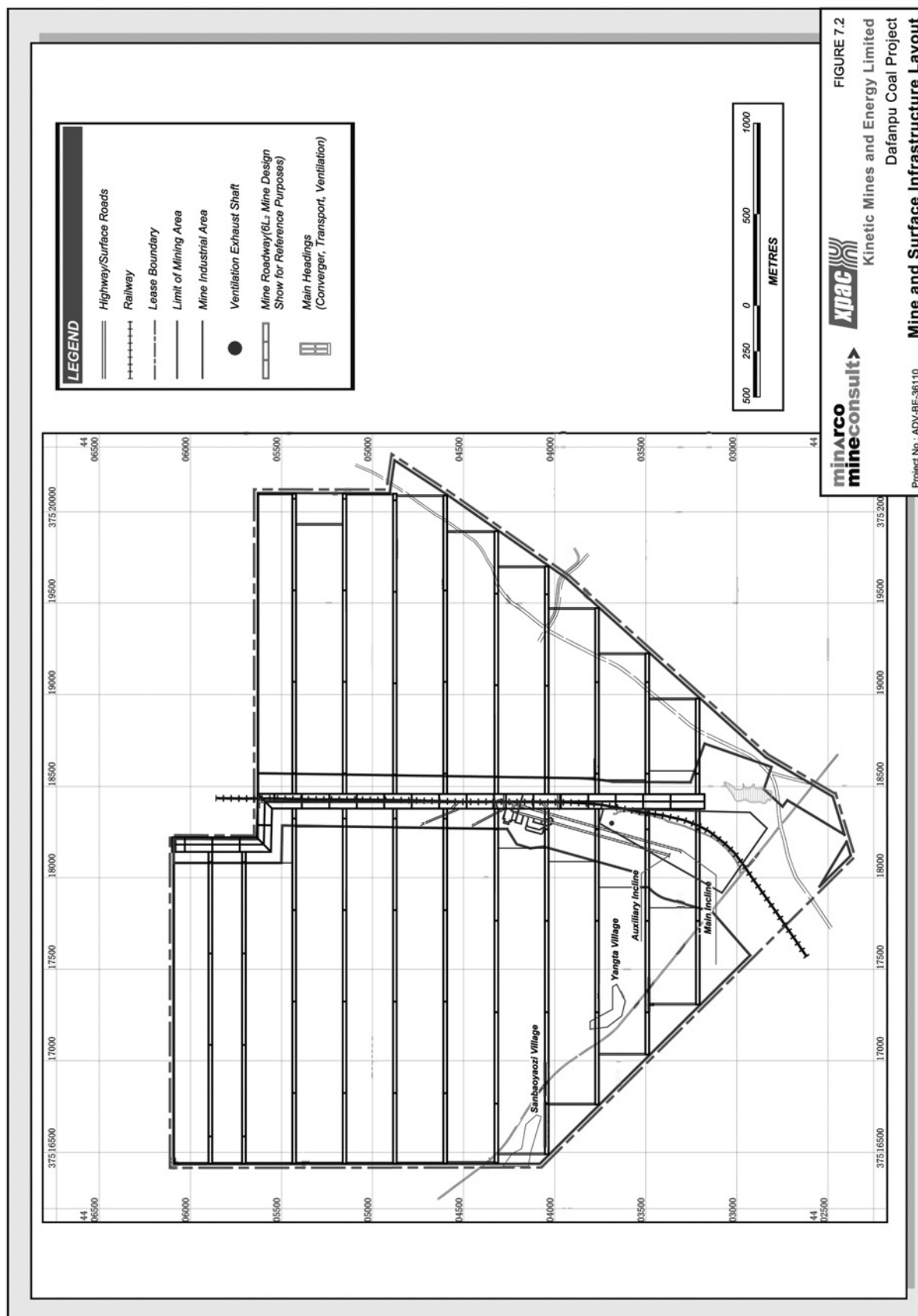


Figure 7-2 Dafanpu Coal Project — Mine and Surface Infrastructure Layout



7.6 Subsidence Control

A railway line and high-voltage (110 kV) power line (Kaibisuo-Hazhan) passes from north to south through the centre of the Mining Licence. The preliminary underground design has located a three-roadway heading system and safety pillar below this corridor to prevent ground subsidence and damage to this surface infrastructure.

Also located within the Mining Licence are an additional four high-voltage (220 kV, 110 kV and 35 kV) power lines. One power line follows the railway line and is not expected to be affected by subsidence. Three other power lines may be affected by subsidence and will be monitored. Measures will be taken in the future if subsidence does in fact affect these power lines.

Six villages have the potential to be affected by subsidence. In China it is common for villages and power lines to be relocated in such situations and the Company has stated that this is its intention. MMC has been informed by the Client that a confidential "Letter of Intent" for the relocation of all the villages has been negotiated with and approved by the local government. A copy of the Letter of Intent has not been sighted by MMC.

7.7 Mine Characteristics

7.7.1 Gas

A gas composition test hole has been completed. It is located in the southern area of the Mining Licence. The basis of this test work was 21 gas samples from 8 holes. The tests show that the seams in the proposed mine area contain very low residual gas comprising mainly nitrogen, carbon dioxide, and some methane gas. The result classifies the proposed underground mine as a "Category I low gas mine" as defined by the Chinese Standard.

Table 7-6 Dafanpu Coal Project — Gas Composition Test Results Table

Seam	Gas Content (ml/g)	CH ₄ (%)	CO ₂ (%)	N ₂ (%)	Gas Grades
		Max.-Min. Mean (Points)	Max.-Min. Mean (Points)	Max.-Min. Mean (Points)	
6 ^{upper}	0.51-0.20	23.29-0	20.36-8.29	91.72-46.71	I (Low)
	0.31(3)	7.76(3)	15.58(3)	73.44(3)	
6	0.62-0.21	—	27.97-1.48	89.28-68.05	I (Low)
	0.38(4)		17.79(4)	78.15(4)	
8	0.63	—	21.31	75.18	I (Low)
9	0.65-0.15	22.14-0	17.35-7.40	92.58-56.00	I (Low)
	0.29(4)	6.99(4)	13.38(4)	78.51(4)	

Source: 2010 Geological Report and 2011 Feasibility Study (5 Mtpa)

Notation: Minimum : Maximum

Mean (No. of Holes)

Methane gas represents the single highest risk for Chinese coal mining operations in both high and low gas content mines (particularly as methane explosions often propagate more serious coal dust explosions). Effective management of the gas risk is imperative for the mine safety.

7.7.2 Spontaneous Combustion

Previous test work indicates the coal does have the propensity for spontaneous combustion with ΔT index (spontaneous combustion initial point of oxidation) being 91°C. This level shows a moderate propensity for spontaneous combustion. However, incidences of spontaneous combustion have not been identified occurring in adjacent mines. Coal types found in the mining area are not known for their propensity to spontaneously combust, however, the risk remains and ongoing management of this risk will be required. Vigilance should be placed on monitoring of all gas detection sites, ventilation monitoring points and structural integrity of the mines roadways and pillars for cracks and deterioration, particularly in areas of high velocity ventilation. Housekeeping around the mine should be a high priority; this means keeping roadways, particularly conveyor roads and the mine floors clear of loose or built up coal.

7.7.3 Coal Dust

Previous testing of the coal dust from the coal mine displays explosive properties. According to testing results the flame length is 45 - 50 mm. The minimum quantity of rock powder (incombustible content) mitigating the potential for a coal dust explosion is 60% of the total content on the ribs (walls) and roofs of all roadways. This is typical for many underground coal mines, careful management to ensure that the associated risks will be required.

It is likely that the low gas content of the seam decreases the likelihood of methane explosions, which in turn will decrease the likelihood of coal dust explosions. Despite this, mitigation measures such as stone-dusting will need to be adopted to reduce the risk of coal dust explosions.

7.7.4 Hydrogeology

The hydrogeological setting of the proposed mine suggests in-flows will be primarily from water seeping through cracks within the hard sandstone rock or coal seams. The rate of water flow is considered low as the proposed workings are over 100 m below the surface in an area where the rock is less permeable. According to borehole pumping test results, the unit discharge is estimated Q of <0.1 L/m per second.

7.7.5 Seismicity

Seismic activity in Inner Mongolia is variable but has been extensively measured. The Chinese construction code for earthquake resistance (*Seismic Ground Motion Parameter Zonation Map of China* GB18306-2001) specifies a ground acceleration coefficient of 0.10 g and an earthquake intensity of VII. Such a zoning by the Chinese authorities suggests a medium to low risk of an earthquake that is likely to cause structural damage.

7.8 Site Infrastructure

7.8.1 Industrial Yard

The preferred location of the industrial yard is the Majiata Area. Three potential sites were explored in the Feasibility Study Report. The Majiata Area is located in the southern coal field. It has the following features as an industry yard:

- Relatively flat site topography;
- Good geological conditions;
- Adjacent to power supply;
- Adjacent to highway road, and
- Adjacent to the proposed rail spur and railway line.

A narrow-gauge railway and an auxiliary road will be the main method of transport inside the industrial yard. A railway spur will be built for the transportation of product coal from the mine. The railway spur will connect to the railway line that already runs through the mine site.

7.8.2 Coal Handling

It is planned to transport coal underground via a 1.2 m wide (1,500 t/h) conveyor to an underground bin of 2,000 t capacity. A 1.4 m wide (4.5 m/s) enforced conveyor will then be used to convey coal to the surface. Once on the surface, coal will be conveyed to the crushing, screening and preparation plant.

7.8.3 Men and Materials Transport

Men and materials transport underground will be via a rail heading system located in both mining districts. Rail haulage within the inclined shaft will be used for transporting personnel, materials, equipment, large equipment, waste rock and other items between the surface and the main underground level.

7.8.4 Water Supply

There are several possible sources of water for the mine:

- Water from the mine underground aquifers, and
- Chenjiagou and Tanggongta water resource for domestic water supply system.

Mine water is to predominately be used for dust management and the fire-fighting system will be sourced from the mine waste water treatment plant. Additional water suitable for domestic applications will be sourced from the Chenjiagou and Tanggongta water resource located approximately two kilometres north of the industrial yard.

MMC are of the opinion that the proposed water supplies should be sufficient to satisfy the needs of the Project.

7.8.5 Power supply

The region has a well-developed power industry with multiple coal fired plants and a hydroelectric power station. A 35 kV substation has been built in the proposed industrial yard. Chinese regulations dictate that two independent power supplies are required on site to ensure security of supply. A 3.5 km power supply connection was constructed to the Haizita 110 kV substation and another 18 km line was constructed to the Dalu 220 kV Substation. For use onsite, the voltage will be reduced, as necessary via 10 kV substations, for supply to the mine facilities and the underground operation.

7.8.6 Underground Mine Water Drainage System and Pumping

The average and maximum water discharge was calculated in the Feasibility Study Report. The water drainage pipe from the underground operation to the surface will be placed in the auxiliary inclined drift. Likely sources of mine water include the coal seam itself, encountered fault zones, overlying aquifers drained by the longwall goaf areas, and the heavy use of dust-suppression water sprays. The mine water collection systems will comprise a mix of ditches, sumps, local (mobile) pumps, and stationary pumping facilities. The typical water discharge from the underground mine is estimated to be 120 cu.m/hr (~33.3 L/s); and the maximum water discharge is estimated at 300 cu.m/hr (~83.3 L/s).

Three mine pumps are planned to be installed. During a typical operating period, it is anticipated that one pump will be operational, one pump on standby, and one pump undergoing maintenance. During a period requiring maximum water discharge, all three pumps will become available, should they be required.

MMC consider that the proposed system is consistent with Chinese standards and is appropriate for the Project.

7.8.7 Ventilation

In order to ensure a high rate of productivity, the longwall mining area will need a face air velocity of approximately 1.4 m/sec to effectively control the face methane emissions and minimise dust exposure to the personnel operating at the coal face. It is expected that the underground mine will need a total of three gate road roadway faces to maintain adequate flow allowing for the planned rate of longwall retreat. Combining the requirement of ventilation for the underground, explosives magazine, transformer stations, shops, etc., the total ventilation requirements for outbye use is estimated to be 120 cu.m/sec (7,200 cu.m/min).

The Feasibility Study Report recommends a centralised parallel exhaust ventilation system with the main and auxiliary inclined shafts as air intakes and the ventilation inclined shaft as an air return. As previously mentioned the shaft diameter of the air-return shaft is planned to be 5.5 m. The preliminary planned ventilation capacity is 120 cu.m/sec (7,200 cu.m/min) subject to the results of a ventilation

simulation study. Chinese regulations require the installation of a standby or backup ventilation fan, hence the Feasibility Study Report further recommends the use of two axial flow fans (BDK-8-No. 24) each with a capacity exceeding 120 cu.m/sec. The ventilation fans will be located on the surface at the ventilation shaft exit.

For fire fighting, the axial flow unit enables the ventilation system to be reversed in the direction of air flow in 10 minutes with 40% of the primary airflow. This approach meets the "Coal Mine Safety Regulations" provisions.

MMC is of the opinion that the proposed ventilation system appears sufficient to satisfy the needs of the Project.

7.8.8 Monitoring system

The Feasibility Study Report has planned the installation of environmental monitoring sensors at strategic locations throughout the proposed mine. All monitored data is to be transmitted to the surface for monitoring by site personnel. Finally, all mine monitoring systems are required to incorporate the capability of transmitting data to the city or autonomous region safety bureau.

The mine monitoring system includes 15 sub-monitoring systems that are to be designed for monitoring airflows of carbon monoxide (CO), carbon dioxide (CO₂) and methane (CH₄) in the mine atmosphere at multiple (and often remote) locations throughout the underground mine. Preset alarms are to be programmed into the system to warn designated personnel for immediate response purposed and to automatically de-energise (trip) power when gas concentrations exceed the statutory limits. In addition, the mine monitoring system is to monitor the performance of numerous pieces of equipment and assemblies of components of the mine via a fibre-optic interface.

MMC considers that the proposed monitoring system is consistent with Chinese standards and is appropriate for the Project.

8 COAL PROCESSING

The Company supplied MMC with the Inner Mongolia Zhunge'er Qi Power Coal Industry Co., Ltd Dafanpu Mine Coal Washing Plant Feasibility Study ("Wash Plant Feasibility Study") which was prepared by the Zhengzhou Design and Research Institute of Coal Industry Co., Ltd ("Zhengzhou Design Institute") in June 2010.

The Wash Plant Feasibility Study details describes a 5 Mtpa plant which will separate coal from stone. The coal handling and washing plants have commenced construction. The basic structures and foundations have been completed along with the majority of works associated with the two 10,000 t raw coal silos.

The project appears to be robust with low investment risk providing the actual coal quality and quantity are as per the assumptions made. These assumptions can be confirmed by sampling and analysis.

The Zhengzhou Design Institute created the detailed design and construction schedule for the wash plant inclusive of raw coal and product coal handling systems. Construction for the wash plant began in September 2010. Construction was halted during Winter due to climatic reasons, and recommenced in early Summer. The wash plant was completed in December 2011.

Table 8-1 Dafanpu Coal Project — Washing Plant

Status	Feasibility study
Product	Will be identified with final determination of the process. Likely to be lump coal, fine coal, slimes and 'rejects'.
Designated Production	16 hours per day 330 days per year or 5,280 hours per year.
Capacity	5 Mtpa or 947 tph
Estimated Processing Operating Cost	12.91 RMB/feed t, 16.34 RMB/washed t
Capital Costs	RMB 239 M

Source: Inner Mongolia Zhunge'er Qi Power Coal Industry Co., Ltd Dafanpu Mine Coal Washing Plant Feasibility Study

8.1 Process Selection

MMC has not been provided with coal washability data for the Project's raw coals. It is understood that the Zhengzhou Design Institute responsible for the Project's wash plant design is highly experienced in the region and has used reference coal types from the surrounding coal mines (principally the Heidaigou coal mine) in the design process.

A Coal Sink Float Test conducted by the Zhengzhou Design Institute on the 13 mm to 1 mm fraction indicated that a 13.5% product ash coal can be washed at an overall theoretical yield of 83%. For an 11% ash product the overall theoretical yield reduces to 80%. There is some sensitivity to this analysis as the raw data presented by the Zhengzhou Design Institute is for a reference coal type and not the Project's coals. The washability data was also limited to the minus 13 mm plus 1 mm size fraction, and not the entire size range.

The Project intends to produce a Lump Coal fraction that is typically 200 mm to 13 mm. Washability of this fraction is considered excellent with high yields and low product coal moistures. Lump Coal shall be transported to customers by train.

Other analysis for coals in the 1 mm to 0.25 mm fraction and the 0.5 mm to 0 mm fraction suggests theoretical yields will not vary greatly from those obtained for the 13 mm to 1 mm size fraction as per **Table 8-2** below. **Table 8-2** shows ash and yield results for the distribution of set cut off values (separation densities) for each of the size fractions tested. The results are summarised as a total weighed percentage encompassing all size fractions (200-0.25 mm).

Table 8-2 Dafanpu Coal Project - Washability Summary by Size Fraction

Size Fraction(mm)	Separation density	Ash in cleaned coal (%)	Cleaned coal		Classification of Washability by Design Institute
			Theoretical yield (%)	Separation density ± 0.1 content	
200-13	1.90	14.00	85.00	7.60	Excellent
13-1.0	1.80	13.00	85.00	13.50	Moderate
1.0-0.25	1.80	12.00	85.00	10.98	Moderate
200-0.25	1.80	13.00	84.00	11.37	Moderate

A typical correction for theoretical coal yields to practical (achievable) yields is 5% for thermal coals. This would reduce the theoretical coal yield from 84% (from example in **Table 8-2**) to 79% for a 13.0% ash product. At a practical yield of 79% the Project's proposed 5 Mtpa coal wash plant would produce approximately 3.95 Mtpa of product coals at an average energy value of 5,400 kCal/kg (NAR Qnet, ar).

The minus 0.25 mm fraction is discarded to slimes (waste) and the coarse rejects are proposed to be sold locally as a low grade (refuse) power station feed stock. Transport of the coarse rejects shall be by road truck.

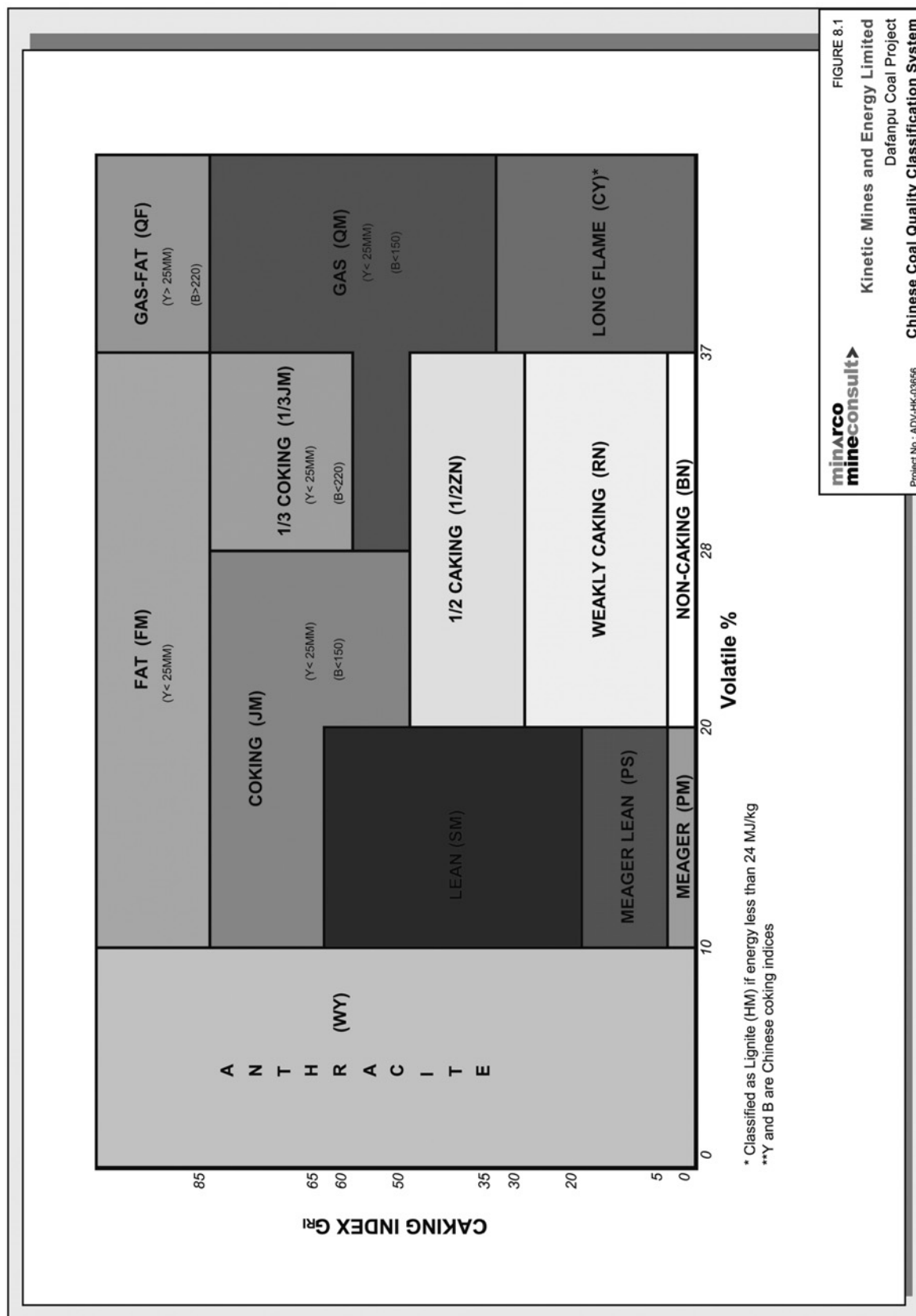
The Zhengzhou Design Institute has proposed modern technology and processes for the wash plant. Specifically the Zhengzhou Design Institute has recommended the following processes:

- 200 mm to 13 mm size fraction — heavy medium “shallow slot” size separation;
- 13 mm to 1 mm — de-sliming then heavy medium cyclone separation;
- 1 mm to 0.25 mm — teeter bed separation (TBS), and
- 0.25 mm to 0 mm — slimes reject.

These processes are considered appropriate for the Project's raw coal types. They are also the most likely processes to increase yield and coal recoveries.

Product coal sizes can be produced in a 200 mm to 13 mm fraction and a 50 mm to 0 mm fraction. When lump coal (200 mm to 13 mm fraction) is not required the +50 mm fraction can be crushed to 100% passing 50 mm. Some customers may also require a 30 mm to 0 mm sized product coal. The proposed coal crushing and sizing plant will be able to produce all of the required product size classifications.

Figure 8-1 Dafanpu Coal Project - Chinese Coal Quality Classification System



9 TRANSPORTATION

The Company provided MMC with a technical report titled “Xiaojia Centralised Transport Station - Feasibility Study” (“Transport Feasibility Study”), dated August 2010. The report author is the “Third Railway Survey & Design Institute Group Corporation” (“Railway Design Institute”) located in Tianjin. This chapter derives most of its information from this Feasibility Study and from a site visit conducted on the 23 February 2011.

The Project is located adjacent to significant rail infrastructure owned and operated by Shenhua Zhunge'er Resources Company Limited, a Chinese State owned enterprise. The Project requires a rail spur line off the main Shenhua rail line and a train loadout facility in order to bring its thermal coal products to market. MMC understands that an agreement has been reached between Inner Mongolia Junger Banner Liliang Coal Industry Co., Ltd and Shenhua for access to the main railway line and that a preliminary rail spur design has been completed. The new railway siding (station) will be called Xiaojia Station. This station will be fitted with a train loadout facility to load coal wagons.

Xiaojia Station and the 2.7 km long rail spur line (which consists of three lines with a total track length of 6.088 km) appear to have been designed in full compliance with the required Chinese standards.

The total capital cost estimate of RMB 95.944 M is considered appropriate for the scope of works, location, and functionality required.

9.1 Rail Facility Location

The rail spur line proposed by the Project will be designed to the Stephenson rail gauge (otherwise known internationally as Standard) of 1,435 mm (4 ft 8 1/2 in), to match the existing network. The rail beam specified is 50 kg/m for both the receiving and departure tracks off the main line. This beam is a lower rating than the main line (60 kg/m).

The line will comprise a single track with a minimum curvature of 450 m and will be fitted with electrification to enable fully electrified locomotives (SS4 type or equivalent) to access the train loadout system. The rail system that dissects the Project is classified as a Special Railway Line in China as it was designed to service the Haerwusu open cut coal mine. The section of railway that passes the Project is called the “Diandaigou-Nanping Special Railway Line”. This section of the rail line runs from Diandaigou Station to Nanping Industrial Square.

The new Xiaojia Station is a pre-planned or reserved station on the Diandaigou railway line. It is therefore likely that the new spur line and train loadout facility will be incorporated into the CTC control system, and approaching and departing coal trains will have access to the regional network.

9.2 Rail Network Capacity

The Company has advised MMC they have entered into an agreement with Shenhua Zhunge'er Resources to use certain capacity of the Nanping Rail Line, to which Shenhua Zhunge'er Resources has the exclusive right of use, because the Nanping Rail Line runs across the Company's licence area. The Nanping Rail Line connects to the Datong-Qinhuangdao Rail Line, a major national railway to Qinhuangdao Port.

To enable the Company to utilise the capacity of the Nanping Rail Line, a joint venture company with ownership of 55% by Shenhua Zhunge'er Resources and 45% by the Company has been formed to construct and operate the Xiaojia Station. The Company has reportedly received assurances from Shenhua Zhunge'er Resources that they will allocate sufficient rail capacity, at a total of 5.0 million tonnes per annum of coal, either produced from the Dafanpu Coal Mine or purchased from third parties, for the transportation from the Xiaojia Station, through the associated rail spur lines connecting to the Nanping Rail Line to Qinhuangdao, however, a binding agreement has reportedly not been entered into supporting this rail capacity.

9.2.1 Train Formations and Train Loadout

The Transport Feasibility Study also notes that 5,000 t train consists (formations) will need to be built into 10,000 t train consists after loading at Xiaojia Station. The 10,000 t trains need to be built on the main line at Yanzhuang Station and not on the Project's rail spur. This is because the rail spur is not capable of coupling two 5,000 t trains. Equally Xiaojia Station at the Project will not be able to receive empty 10,000 t trains.

MMC understands the product coal handling plant designed for the Project will use 1,800 mm wide conveyor belts to dual load wagons at 5,000 tph at Xiaojia Station. Such conveyor belts and load out rates will be achieved with low technical risk as the technology is well understood. Train loadout rates of 2,000 tph to 3,000 tph are common in Inner Mongolia and Shanxi Provinces. 5,000 tph loadout rates are not as common but quickly becoming a design standard loadout rate in China to improve train cycle times between mines, power stations, and ports. If 10,000 t trains are used the Project will require an average of 1.6 trains per day to support a 5 Mtpa operation. It is assumed train loadout operations will occur over 300 days per year and 5,000 t trains will be loaded at Xiaojia Station in less than 2 hours per train. The addition of four 5,000 t trains per day (equivalent to two 10,000 t trains on the network) to the local rail system is considered a low risk to the Project.

9.3 Rail Spur Design

The Transport Feasibility Study indicated a requirement for 1,700 m of departure track and 1,050 m of receiving track. MMC was also provided with four design drawings of the proposed rail spur which indicate 1,726 m of departure track and 1,050 m of receiving track with another 50 m of track for safety. It would therefore appear that the design drawings are consistent with the Transport Feasibility Study recommendations.

The rail spur approach and departure is suitable for 5,000 t train consists where those trains comprise 60 to 65 wagons in the Chinese C80 configuration. The C80 wagons hold 80 t of coal and weigh 20 t empty. Gross weight is therefore 100 t. For 5 Mtpa, the Project would require approximately 4 trains at the loadout but only 2 paths in either direction each day, once reconfigured into 10,000 t train consists. The Transport Feasibility Study report provided for review contains an analysis of the available train paths on the main rail network between Xiaojia Station (the Project) and either Nanping Station or Diandaigou. The analysis indicates that the Project has rail paths for the two 10,000 t trains required per day.

The rail spur line is to be constructed on ground that contains some rock outcrops but is predominantly loess. The Chinese railway design codes cover construction techniques, standards, and methods for such terrain. In addition there are a number of rail lines in use currently that have been constructed on similar terrain nearby. The technical risks are therefore considered low and manageable.

Seismic activity in Inner Mongolia is variable but has been extensively measured. The Chinese construction code for earthquake resistance (*Seismic Ground Motion Parameter Zonation Map of China* GB18306-2001) specifies a ground acceleration coefficient of 0.10 g and an earthquake intensity of VII. Such a zoning by the Chinese authorities suggests a medium to low risk of an earthquake that is likely to cause structural damage.

The design used by the Railway Design Institute for the 2.7 km long spur line was based on the Chinese Rail design code. The code is typical for this type of application and therefore will meet the requirements of the Project.

9.4 Rail Spur Station

The Transport Feasibility Study locates the train loadout station at chainage +850 m, 6.03 km from Diandaigou Station and 6.65 km from Nanping Station. The central location of the Xiaojia Station should assist the Project to schedule trains on and off the rail spur, without impacting neighbouring stations.

The train loadout station appears to be located on the side of a small hill and will therefore be partly founded on cut and fill. Proper analysis of differential settlement will be important for safe construction.

A site inspection of the facilities on 23 February 2011 enabled the site layout to be reviewed. Although construction works were limited to concrete structures and footings for coal handling and coal washing facilities, it would appear that connection of pit top to crushing and screening facilities, raw coal storage silos, coal wash plant, product coal storage silos, and train loadout facilities have been constructed to the approved design and will therefore meet the Company's production objectives.

9.5 Rail Spur and Loading Station Construction Schedule

The Transport Feasibility Study report schedule suggests a 10 month construction timeframe commencing in March 2011 for the spur line and the Xiaojia Station. This schedule appears reasonable although somewhat challenging given part of the construction activities will fall into periods of extreme cold weather. A site inspection by MMC confirmed no construction work had occurred as at 23 February 2011. The Company believes that progress to date (March to July) and an updated production schedule should see these works completed by the end of June 2012. MMC have not sighted this updated schedule.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

The report mentions that some difficulties may occur if land needs to be acquired and if dwellings or residences need to be removed. Acquisition and re-zoning delays have not been included in the 10 month schedule forecast in the feasibility study.

10 OPERATING AND CAPITAL COSTS

10.1 Mining Operating Cost

The total direct and indirect mining (not including processing) costs of 101.79 RMB/ROM t was estimated in the Feasibility Study (August 2011).

The operating cost estimate was completed by the Design Institute based on a number of operating assumptions outlined in the Feasibility Study as well as benchmarking the costs against near-by underground coal mining operations.

The estimated unit operating costs from the revised August 2011 Feasibility Study are shown in **Table 10-1**.

Table 10-1 Dafanpu Coal Project - Forecast Operating Cost - Mining

	RMB/ROM t	USD/ROM t	%
Direct Operating Cost	57.23	8.8	71.77
<i>Materials</i>	<i>15.90</i>	<i>2.45</i>	<i>22.00</i>
<i>Power</i>	<i>10.35</i>	<i>1.59</i>	<i>14.00</i>
<i>Labour Cost</i>	<i>11.30</i>	<i>1.74</i>	<i>16.00</i>
<i>Equipment Maintenance Expenses</i>	<i>2.24</i>	<i>0.34</i>	<i>3.00</i>
<i>Subsidence Compensation</i>	<i>0.50</i>	<i>0.08</i>	<i>1.00</i>
<i>Safety Cost</i>	<i>5.00</i>	<i>0.77</i>	<i>7.00</i>
<i>Maintenance Fund (50%)</i>	<i>1.50</i>	<i>0.23</i>	<i>17.00</i>
<i>Others</i>	<i>40.79</i>	<i>6.28</i>	<i>80.00</i>
Depreciation	6.40	0.98	9.00
Underground Roadway Development Fund	2.50	0.38	3.00
Maintenance Fund (50%)	1.50	0.23	2.00
Amortisation*	0.13	0.02	0.00
Loan Interest	3.68	0.57	5.00
<i>Liquidity Loan Interest</i>	<i>0.73</i>	<i>0.11</i>	<i>1.00</i>
<i>Long Term Loan Interest</i>	<i>2.95</i>	<i>0.45</i>	<i>4.00</i>
Total Operating Cost per ROM t	101.79	15.66	100.00

Source: 2011 Feasibility Study (5 Mtpa)

NB: Assumed exchange rate of RMB 6.5: USD 1

* Amortisation has taken into account the mines initial tangible assets and deferred assets by 10 years in relation to those listed in the feasibility study and estimated as per the date of the report

The Design Institute have estimated the operating costs associated with the Safety Cost and Maintenance Fund line items based on the anticipated expenditure. This approach is based on a recent document issued from the State Administration of Taxation "No. 26, State administration of Taxation on Coal Mine Enterprise Maintenance Fund and High Risk Industry Enterprise Safety Production Expenses Deduction before Income-Tax Bulletin", 2011.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

The operating costs included in “Others” includes mining royalties, mineral resource taxes, local government fund and other general and administration expenses such as office expenses, consulting and legal fees.

Overall, MMC considers the aggregate operating cost to be reasonable for steady state production; however, the costs are in the lower range of those typically anticipated for this style of operation. Actual operating costs for mining projects may vary significantly from estimates due to geological and operating conditions encountered over the project life.

Based on the level of study completed, MMC estimates to be within an accuracy of 25% which is typical for operations at the equivalent level of development. MMC recommends that upon commencement of production, operating budgets be revised to reflect actual operating costs.

Operating costs will be higher in the earlier years of a mine plan, prior to the longwall units achieving maximum production. This is a result of lower production rates and higher levels of development.

10.2 Coal Washing Plant

The Dafanpu Mine Coal Washing Plant Feasibility Study estimated the total processing cost to be 12.91 RMB per tonne of feed. This cost is within the range of industry average and appears reasonable. The operating cost per tonne of washed Fine Coal based on an average Fine Coal product yield of 79% is estimated at 16.34 RMB per tonne of product. This cost will fluctuate depending on the actual washery yield.

Table 10-2 Dafanpu Coal Project — Coal Washing Plant Operating Expenditure

Cost Item	RMB/Feed t	US\$/Feed t
Auxiliary material	5.00	0.77
Electric power	2.72	0.42
Salaries	0.81	0.12
Welfare expense	0.11	0.02
Maintenance cost	1.10	0.17
Other	0.56	0.09
Depreciation	2.17	0.33
Amortisation	0.08	0.01
Interest	0.36	0.06
Total Washery Operating Cost per Feed Tonne	12.91	1.99

Source: Inner Mongolia Zhunge'er Qi Power Coal Industry Co., Ltd Dafanpu Mine Coal Washing Plant Feasibility Study

NB: Assumed exchange rate of RMB6.5:US\$1

10.3 Capital Costs

In the 5 Mtpa Feasibility Study, the mining construction capital investment is RMB 978 M (**Table 10-3**). This includes the capital expense of the underground project, surface project, equipment and installation, other capital expense, and preparation costs items, and contingency. Additional capital of RMB 72.66 M is required for loan interest and working capital.

The proposed coal washing plant was estimated to cost RMB 239 M (**Table 10-4**), slightly higher than average for the size, type and location.

The rail spur and station have been estimated to cost RMB 96 M, which is within expectations. The cost may rise if extended periods of inclement weather occur during the installation and erection program. The total capital cost is RMB 95.944 M. The 'per kilometre capital cost estimate is US\$ 2.42 M which is within the expected range.

The total estimated direct capital costs for the project, including mine development, wash plant and rail is approximately RMB 1,295 M.

Table 10-3 Dafanpu Coal Project — Mining Development Capital Costs

Development Project	Budget (RMB in millions)	Budget (US\$ in millions)	%
Underground Engineering Works	194.09	29.86	18.47
Civil Engineering Works	91.83	14.13	8.74
Equipment	403.32	62.05	38.38
Installation	81.92	12.60	7.79
Other Capital Costs	94.61	14.56	9.00
Contingency	112.55	17.32	10.71
Direct Capital Costs	978.32	150.51	93.09
Capital Loan Interest	47.90	7.37	4.56
Working Capital	24.76	3.81	2.36

NB: Assumed exchange rate of RMB6.5:US\$1

Source: 2011 Feasibility Study (5 Mtpa)

Table 10-4 Dafanpu Coal Project — Coal Washing Plant Capital Costs

Cost Item	Budget (RMB in millions)	Budget (US\$ in millions)	%
Civil works	86.3	13.28	36.15%
Equipment	85.3	13.12	35.71%
Installation	32.1	4.94	13.45%
Other & Indirects	16.9	2.6	7.08%
Direct Capital Costs	220.6	33.94	92.38%
Contingency	13.2	2.03	5.53%
Interest	4.9	0.75	2.04%
Total Washing Plant Capital Cost	238.8	36.74	100.00%

NB: Assumed exchange rate of RMB6.5:US\$1

Source: Inner Mongolia Zhunge'er Qi Power Coal Industry Co., Ltd Dafanpu Mine Coal Washing Plant Feasibility Study

11 MINE SAFETY

11.1 Safety Special Chapter

The Chinese government mandates that the Preliminary Design for a new mine must establish a Special Safety Chapter, which must be independently reviewed by an expert group organised by the governmental regulator agency. The Safety Special Chapter of Preliminary Design (2.4 Mtpa) for Inner Mongolia Zhunge'er Banner Liliang Coal Industry Co., Ltd Dafanpu Coal Mine was finished by Beijing Yuanzhihan Coal Project Design Co., Ltd on December 2008.

The Coal Mine Safety Supervision Bureau of Inner Mongolia Autonomous Region organised an expert group to comment on the Safety Special Chapter for the 2.4 Mtpa Preliminary Design Report. With the basis of the comment, the safety special chapter was approved by the means of a formal governmental approval document named “Approval Reply for Safety Special Chapter of Preliminary Design (2.4 Mtpa) for Inner Mongolia Zhunge'er Banner Liliang Coal Industry Co., Ltd Dafanpu Coal Mine” on 10 April 2009. A Safety Chapter has not yet been completed for the 5 Mtpa mine plan. A new safety chapter will need to be completed for the proposed 5 Mtpa production rate.

The Safety Special Chapter (2.4 Mtpa Preliminary Design) includes the key points as described as following:

11.1.1 Ventilation

This section gives a detailed description on ventilation requirements as described in the Preliminary Design.

Ventilation mode and system: The Project uses a mechanical exhaust ventilation mode with the central parallel ventilation system. The longwall face will be ventilated by the fresh air entering through air-intake gateway and returning through the air-return gateway with “U”-type form of ventilation.

Ventilation shafts: The main and auxiliary inclined drifts will act as fresh air intakes, and the ventilation shaft will act as the return air exhaust. The collars of the inclined drifts are situated in the industrial yard, and the ventilation shaft is located at the northern ventilation shaft square yard. The main and auxiliary inclined drifts along with the return air shaft will service the mine for its entire life.

Development mining face ventilation: The development roadways will be developed individually in a single driven roadway face. A ventilation fan will be installed in the intake roadway. The developing face will be ventilated by means of an auxiliary fan and ventilation duct deeding air under positive pressure to the development. The return air travels along the roadway to the return roadway.

Chamber ventilation: The chambers for magazine, locomotive maintenance and charging, and mining district substation are planned to be ventilated independently. The return air from these chambers will flow into the return air roadway which connects to the ventilation shaft.

Underground ventilation facilities and structures: Underground ventilation installation and structure include ventilation doors, regulator, seal, overcast structures, and wind measurement stations. These facilities and structures ensure reliable air flow along the required roadway routes. Careful management and maintenance of these items is needed to ensure safety and production.

Ventilation equipment and reversed wind: For fire fighting, the axial flow fans enable the ventilation flow to the reversed within 10 minutes while retaining 40% of the normal airflow.

11.1.2 Dust Control

Dust is a variety of coal, rock or mineral particles generated by the mining process. Coal mines usually produce coal dust and rock dust. The two key dust hazards are coal dust explosions and long-term inhalation of dust by the underground workers. It can cause various diseases such as silicosis lung, coal and silicosis lung and coal lung diseases. Meanwhile, previous testing of the coal dust from the coal mine displays explosive properties. The safety special chapter requires implementation of a series of measures for controlling coal mine dust as follows:

- Ventilation is a common way of diluting dust. The minimum wind speed required for diluting dust is 0.25 ~ 0.5 m/s, and the best speed is 1.5 ~ 2.0 m/s. Wind speeds must be kept below 15 m/s to avoid generation of additional dust;
- Water injecting into coal seam is a common way to reduce coal dust at the working face. By drilling, the water is pressured into the coal seam for coal seam pre-wetting to increase coal moisture, and as to reduce dust output during coal mining;
- Clean up spilled coal underground, and clean and wash the roof and rib of roadways regularly. Establish underground sprinkler water systems, and the spray, sprinkling, and dust removal equipment should be put in the charge of a specially appointed person;
- Coal dust explosion-proof facilities will be installed between places with explosive danger. These include suspended water bags;

- Sprays will be installed for air-cleaning in the main roadway and at development and mining faces. The sprays should form a sufficient water curtain over the whole section of roadway;
- Regularly inspect coal dust concentrations;
- Personal protective measures are taken for those who contact with dust;
- Mine dust control measures and systems should be compiled by the chief manager of the mine. Also, the manager will be in charge of their implementation, and
- Establish dust-proofing in the mine surface production systems.

11.1.3 Gas Disaster Prevention

The mine is defined as a low gas mine in the Preliminary Design. The gas relative and absolute emission is 3.50 cu.m/t and 17.68 cu.m/t respectively. However, significant amounts of gas will still be released during the mining process so rigorous measures of gas control will be taken, including:

- Prevent accumulation of excessive amounts of gas developing in the longwall face;
- Establish a methane degasification system;
- Improve the ventilation system and strengthen the ventilation management of the developing and mining faces;
- Equip with a safety monitoring system;
- Strict control of flammables, explosives and detonators. Design the underground magazine chamber, locomotive maintenance charging chamber, and other special chamber in Chinese design code, and
- Prevent from electrical sparks and friction caused by static electricity.

11.1.4 Fire Prevent and Extinguishment

The coal at the Project has a medium propensity to spontaneously combust. To prevent spontaneous combustion the special safety chapter lists the following controls:

- Where possible, extraction of the full seam in one mining pass. The longwall retreat mining method with top coal caving allows a high percentage of the coal seam to be extracted in a single mining pass, this effectively reduces the remaining coal that would be otherwise left in the goaf oxidising and potentially spontaneously combusting;
- Use preventative techniques to limit the likelihood of spontaneous combustion, including preventative injection of mud and an inert gas (Nitrogen) into the goaf to prevent oxidation;

- Three phase foam fire-fighting and injection of foam filling agents if spontaneous combustion is detected;
- Improve mining recovery and use a high speed recovery rate such as LTCC. This limits the time that coal is exposed to the atmosphere, reducing coal heating;
- Enhance ventilation management, reduce the amount of air leakage and make it easier to isolate sections of the ventilation network from each other, and
- Continuous monitoring.

11.1.5 Mine Water Control

The normal water and maximum water discharge has been calculated in the Preliminary Design as 200 cu.m/hr and 300 cu.m/hr respectively. The following controls will be deployed:

- Roadways are generally “driven” (constructed) in the coal seams. Although the roadways are not in the aquifer strata, they would be threatened with aquifer water while crossing a fault or a fracture zone;
- Coal pillars will be left on both sides of faults with hydraulic conductivity;
- Established an underground drainage system including the pump station, water storage sumps, ditches, drains and other drainage facilities;
- Ensure adequate pumping capacity, with redundancy for maintenance/breakdown;
- Advanced drilling for water in the roadway that may encounter faults, and
- Prevent water inflow from the fractured sandstone roof. Dewater the old mining goafs (if present), and surface water.

11.1.6 Mine Safety Testing Equipment

The installation of the following mine monitoring and safety equipment is required:

- Instruments for mine ventilation measurement;
- Mine methane and other gas detection instruments and equipment;
- Mine total dust and respirable dust inspection testing instrument;

- Mine pressure and geological survey instruments and equipment;
- Mine fire detection and fire extinguishing equipment, and
- Mine Rescue Equipment.

11.1.7 Mine Rescue Team

The Project does not plan to establish a mine rescue team, but will provide the necessary equipment onsite. A rescue team from Zhunge'er Shagedu will be available for mine rescue at the Project. The rescue team is 50 km away from the Project. Meanwhile, a building containing a health care and first aid station will be erected in the industrial yard.

11.1.8 Mine Safety

MMC are not aware of any major safety breaches at the mine, and the mine has cooperated with the region wide Provincial Government sanctions that were recently imposed to halt all mining operations within the district due to a safety incident at another mine within the region. The underground construction process recommenced work on the 12 March 2011. No surface activities were halted during this stop-halt order.

12 ENVIRONMENT, HEALTH AND SAFETY

12.1 Environmental Setting

The Project is located in the east portion of the Erdos plateau. Terrain of the region is generally high in the north and low in the south, which shows the typical characteristics of erosional hilly topography. The region of the site has a dry continental climate, with extreme differences in temperature between summer and winter. Temperatures range from a low of -36.3°C in winter to a high of 38°C in summer. The average annual precipitation is 408 mm, while the evaporation is 5-8 times the precipitation. Due to historical grazing, there is a trend of desertification in this area. Currently, the average vegetation coverage is 25%.

Heidai Gully and Dahaolai Gully lie across the mine area in the southwest portion and east portion, respectively. Both gullies are channeling seasonal surface water bodies, which may form flood in rainy seasons and finally flow into the Yellow River in the east. Shenhua Group built a dam on the Dahaolai Gully to protect the downstream slag disposal site. At the time of the site visit, the construction mine water was being discharged into the Dahaolai Gully and thus formed a reservoir.

Adjacent to the Project, there are two Shenhua Group open pit mining operations. The Haerwusu Open Pit (20 Mtpa) and the Heidaigou Open Pit (12 Mtpa) are located to the south and southeast from the Project, both of which commenced operation in 2006.

No national reserves or national protected species were reported within the mine area.

12.2 Social Setting

The Project is under the jurisdiction of Hadaigaole Town, Zhunge'er Banner. Zhunge'er Banner has a population of approximately 270,500 inhabitants, among which 77.97% live off agriculture and animal husbandry.

According to the EIA Report, a total of 6 villages with 664 people will be affected by the development of this Project. Basic information of these villages is listed in **Table 12.1**

Table 12-1 Dafanpu Coal Project — Basic Information of Villages within a 500m radius of the Mine Area

Village	Direction (to the industrial yard)	Distance (m)	Household	Population
Xiaojiagedan ¹	N	150	5	18
Yangjiawan ¹	SW	200	6	20
Hashila ¹	W	1,500	8	26
Sanbaoyaozi	SW	2,000	20	75
Yangta ¹	SWS	2,200	8	25
Majiata ²	S	2,600	120	500

Source: EIA Report of Dafanpu Coal Mine, China Research Academy of Environmental Sciences, October 2007.

NB1: Xiaojiagedan, Yangjiawan, Hashila and Yangta are all Groups subject to Sanbaoyaozi Village.

NB 2: According to the site representative, Majiata Village has already been relocated by Shenhua Group before the construction of this Project. During the site visit, this village was not observed.

Based on the subsidence impact assessment conducted in the EIA (Section 7.6), except Majiata Village (which will be partially impacted), all the villages are expected to suffer from subsidence. Therefore, they will need to be relocated prior to mining activities being conducted below their plots.

No cultural heritage sites were reported within the mine area.

The local population is familiar with coal mining projects as several mines are operating in the area. The consultation conducted in the scope of the Environmental Impact Assessment report indicates a 100% support of the project.

12.3 EHSS Performance Assessment

According to the EIA, a designated environmental management organisation should be established for the Project. The environmental management organisation should be responsible for the development and implementation of environmental procedures, maintenance of pollution abatement equipment, arrangement of monitoring, etc.

Environmental management observed during the construction period appears to be weak when compared to the project engineering management. There does not appear to be any specific environmental supervision procedures in place during construction to prevent potential environmental

issues such as soil and groundwater contamination, or to minimise and mitigate the ecological impacts and pre-emptively address rehabilitation issues. Environmental protection measures for implementation during construction such as management and treatment of effluents and prevention of contamination do not appear to be fully implemented.

The Dafanpu management appears to be generally aware of relevant environmental and safety risks, and committed to implementing environmental and safety measures to ensure its compliance with requirements applicable during its upcoming operating phase. Principal environmental and safety risk mitigation measures observed at the time of site visit were the construction of coal storage silos, a water treatment and recycling unit and an air extraction and ventilation system. Furthermore, the proposed shipping of coal by rail would address the environmental impacts generally associated with trucking of coal such as dust and coal particulates dispersion.

Concerns and grievance from local communities were not properly addressed. The Company stated that the local authorities were handling community relations, however no structure appeared to be in place.

12.3.1 Environmental Permitting

An Environmental Impact Assessment (EIA) Report was prepared for the Project by the China Research Academy of Environmental Sciences (CRAES), a leading national level Class A EIA Institute, in 2007. The EIA Report was submitted to the Inner Mongolia Environmental Protection Bureau ("EPB") and obtained a '*Notice Regarding the Filing of the Report*' (Neihuanhan [2007] No 218) dated 1 November 2007.

12.3.2 Water and Wastewater Management

As required in the EIA, a 2,000 cu.m water storage pond should have been built in advance to collect the construction mine water, and the water should be reused during construction. If the mine water is to be discharged to the environment, it needs to be treated to meet the Discharge Standard for Coal Industry (GB 20426-2006). Furthermore, as per the EIA Report and its Filing Notice issued by the Inner Mongolia EPB, domestic wastewater produced during construction period should either be disposed of off-site or be reused on-site after treatment. The water should not be discharged without treatment.

At the time of the site visit, the construction mine water was being discharged to Dahaolai Gully, which is adjacent to the eastern boundary of the industrial yard. There is a flood control dam constructed on the gully by the neighbouring open pit coal mine to protect its tailing storage site located further downstream. Currently, the mine water and the untreated domestic wastewater discharged from Dafanpu have formed a reservoir behind the dam. Reportedly, the water is just temporarily stored and will be either reused after the coal mine is put into operation or will be discharged. Since no monitoring has been conducted to verify the quality of the mine water, the discharge of untreated mine water should be avoided and where possible the water should be reused for coal washing after commissioning of the facility.

It was predicted in the EIA that, during operation, 2,880 cu.m/d of mine water will be generated from mining. In order to maximise the utilisation of water resources, it is required that the mine water should be reused for coal washing, fire fighting, site/road cleaning and domestic purpose after treatment. In addition, a domestic wastewater treatment facility (400 cu.m/d) will be installed, and the treated effluent will also be reused for coal washing with no discharge to the environment.

12.3.3 Emissions to Air

Air pollutants generated during the construction phase mainly consist of fugitive dust from site levelling, excavation/back-filling, road transportation, material storage, etc. According to the EIA, the construction area and access roads should be sprayed four to five times per day, and the bare ground should either be compacted or covered to control the dust dispersion distance to 20-50 m. The cement mixing activities should be conducted as far as possible from the residential area and located in the downwind direction. In addition, the temporarily occupied land should be re-vegetated in a timely manner.

Dust and particulates were generated from sand/coal stockpiles and vehicle movement at the construction site, which may result in contamination down to the neighbouring communities. No preventative measures (e.g. water spray, stockpile coverage, vehicle speed control) are in place.

Air emissions to be generated during operations mainly include the exhaust from boilers and the coal dust. As required in the EIA, air pollution treatment equipment should be installed on each boiler to achieve a dust removal rate of 96% and a sulphur removal rate of 60%. Coal storage silos and conveyor belts should be enclosed to reduce fugitive emissions to the environment.

12.3.4 Waste Disposal

According to the EIA, the domestic waste generated by the construction workforce is to be collected and transported to the local domestic waste disposal site. During the site visit, domestic waste was observed discarded both onsite and at the Dahaolai Gully.

Based on an estimation during the EIA, wastes to be generated during operation include 240,000 tpa of tailings, 4,786.7 tpa of boiler slag, 148.4 tpa of wastewater treatment sludge and 220 tpa of domestic waste. Tailings will be temporarily stored and reused as backfilling material in the mined area. Boiler slag will be recycled to produce construction material. Sludge will be composted and used as fertiliser in the landscaping areas on-site. Domestic waste should be transferred to local landfill site for disposal.

12.3.5 Soil and Groundwater Contamination

As required in the EIA, a groundwater monitoring well should be installed at the vicinal area of the tailings storage facility (TSF). A baseline groundwater monitoring should be conducted before operation to test parameters such as pH, sulphate, chloride, arsenic, cadmium, chromium, etc. In addition, the EIA requires that oil contaminated wastewater should be treated in an oil and water separator tank, while direct discharge is prohibited.

At the time of the site visit, groundwater monitoring has not yet been conducted. The storage of hydrocarbons in several locations around the construction site without containment devices, and the spillages and leakages' traces around several of these storages indicate potential limited soil and groundwater contamination.

12.3.6 Ecological Rehabilitation

The permanent and temporary land occupations of this project are 38.41 ha and 8.07 ha, respectively. Based on the prediction in the EIA, the land use will result in an irreversible vegetation loss of approximately 45,100 kgpa. Therefore, it is required that within one year upon the completion of construction, the temporarily occupied land should be rehabilitated and achieve a vegetation coverage rate of 35%.

It is predicted that after mining, the total area of land subsidence will be 8.35 sq.km, of which approximately 44% are forest/shrub and 30% are farmland. Furthermore, the subsidence may have potential impact to the transmission poles in the mine area. Therefore, the EIA requires that, backfilling, rehabilitation and compensation should be conducted for the land subsidence during operation; regular inspections of the transmission poles should be undertaken and upgrade the poles where necessary. In addition, a ground movement monitoring station should be established at the commencement of operation to understand the land subsidence and ground deformation status.

12.3.7 Occupational Health and Safety

An Occupational Disease Hazard Pre-Assessment (ODHA) report has not been prepared for Dafanpu Mine.

According to the Safety Chapter in the Preliminary Design, occupational health and safety hazards identified mainly include coal dust from the mine shaft, coal bed methane, mine shaft fire and flooding by mine water. Following mitigation measures should be in place during operation:

- Air ventilation system and emergency exits;
- Water spray equipment to reduce dust;
- Fire fighting system;
- Coal bed methane monitoring system;
- Mine water drainage system, and
- Provision of personal protection equipment (PPE).

12.3.8 Social Management Plan

ERM interviewed two households of Yangta Group, Sanbaozhai Village. The villagers reported that they had been affected by mining activities in the region including:

- Disturbance by the noise and vibration of underground blasting;
- Walls of clay houses and in-ground water tanks cracked due to underground blasting, and
- The villagers suffered from both sand dust released during coal truck movement and the dispersion of coal dust.

Although there is no evidence linking these impacts to the Project (large-scale open pit coal mines are already operating in this area), the villagers consider the Project responsible as it is the closest mine to the village. Dafanpu Mine has not established a social management plan or a community grievance procedure to properly address the complaints/concerns from communities.

According to the EIA, there are six villages located within the mine area, including 167 households and a total population of 664. In order to mitigate the impacts to the villagers, it is required that either the households be relocated in advance or the coal underneath the villages be retained. In addition, compensation should be made to the project affected people for the loss of crops and other land attachments.

13 PROJECT RISK AND OPPORTUNITY ASSESSMENT

13.1 Risk Summary

Mining is a relatively high risk business when compared to other industrial and commercial operations. Each coal mine has unique quality characteristic and response to mining and processing, which can never be fully predicted. MMC’s review of the assets indicate project risk profiles typical of mining projects at similar levels of resource estimation, mine planning and project development. During its review, MMC did not discover any critical or “fatal” project flaws.

MMC has classified Risks for the projects based on the general mining industry definition listed below. MMC notes that in most instances it is likely that through provision of further documentation and additional technical studies, these risks will be mitigated.

Table 13-1 Dafanpu Coal Project — Overall Risk Assessment

Likelihood of Risk (within 7 years)	Consequence of Risk		
	Minor	Moderate	Major
Likely	Moderate	High	High
Possible	Low	Moderate	High
Unlikely	Low	Low	Moderate

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

H — High Risk: This implies that there are key project parameters as presented in the current documentation, which if uncorrected, will have a material effect (for example >15% to 20%) on the project cash flow and performance, and could possibly lead to project failure.

M — Moderate Risk: This implies that there is a danger of failure of a critical project parameter as presented in the current documentation, which if uncorrected, may have a material effect (for example 10% to 15%) on the project cash flow and performance unless mitigated by some corrective action.

L — Low Risk: Implies that if some factors are uncorrected, they will have little or no effect (<10%) on project production rates or project economic performance.

Table 13-2 Dafanpu Coal Project — Project Risk Summary

Risk			
Risk Ranking	Risk Description and Suggested Further Review	Mitigant	Area of Impact
M	Estimated Operating Costs: The estimated operating costs are in the lower range of those typically anticipated for this style of operation. Actual operating costs for mining projects may vary significantly from estimates due to geological and operating conditions encountered over the project life.	Complete reconciliation of the forecast operating vs actual operating costs once the project is in a steady state of production.	Operating costs.
M	Rail Capacity: The Project may not have sufficient rail capacity to match its forecast coal production rate.	Enter into a binding agreement with Shenhua Zhunge'er Resources for the rail capacity to be made available to the Company.	Operating costs, production rate, revenue
M	Licensed Production Capacity: The Project currently has a licensed capacity of 2.4 Mtpa of ROM coal production. Updated licences and approvals will be required prior to attaining a production rate of 5 Mtpa ROM coal.	Complete relevant mine studies and submit for approval.	Production rate, operating cost.
M	Spontaneous Combustion: Previous test work indicates the coal has a propensity for spontaneously combustion.	Careful monitoring and management.	All.
M	Incendive Sparking Potential: A number of stone splits have been identified within the coal seams. If these splits have high concentrations of silica, there is a potential for sparking to occur as they are mined. This can potentially ignite pockets of gas which may rapidly escalate.	Complete appropriate testing to determine the level of risk, and develop monitoring and management plans to manage the risk.	Mining and development area, as well as abandoned roadways.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Risk			
Ranking	Risk Description and Suggested Further Review	Mitigant	Area of Impact
M	Coal dust/gas explosion: Even though the mine is relatively low gas, a build-up of explosive gasses creates the potential for a gas explosion. This may disturb coal dust and lead to further coal dust explosions.	Adequate ventilation, ongoing monitoring of gas levels, limiting coal dust build-up, hanging water bags, stone dusting.	Underground mining and development area.
M	Coal Seam Caving Potential: The LTCC methods require the upper levels of the coal to cave to enable recovery of the coal. If the coal caving properties are not favourable it may affect coal production rates and overall coal recovery.	Better understanding of lithological condition of the overburden, carefully control top coal caving procedures.	LTCC face.
M	Roof Hang-ups: As the longwall units progress in the coal seam, the coal roof should regularly cave behind the advancing unit. If the coal roof does not regularly cave, it may slow the longwall advance due to the stresses applied to the longwall supports.	Better understanding of lithological condition of the floor, careful management of LW shields.	LW and LTCC Faces.
M	Costs: The Preliminary Design provided is not a detailed mine planning document according to western standards and only considers costs on a life of mine basis. Increases in operating costs will most likely come from unforeseen complexities in mining of the coal seams.	Completion of a detailed mine planning, scheduling and costings studies will increase the confidence in all aspects of this project.	All.
M	Mining recovery of LTCC would appear to be the primary processing risk with recovery estimated at 85%. Based on MMC experience recoveries range from 60% to 85%. This will only be confirmed during trial production.	Careful management and technical study on the production procedure during trial mining.	LTCC mining face.
M	High Gas Concentrations: Explosive gas has been identified as a characteristic of the mines. Even in a low gas mine, concentrations of gas in a mine's local atmosphere may result in an explosive atmosphere.	Adequate ventilation (particularly developing faces) and ongoing management will be required.	All.
M	Surface Subsidence: A mine pillar has been designed to prevent subsidence on areas where surface infrastructure, including a railway, may be affected. If the pillar is not maintained, the surface infrastructure may be materially impacted.	Adequate safety pillars and ongoing management will be required. Villages may need to be relocated.	All.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Risk			
Risk Ranking	Risk Description and Suggested Further Review	Mitigant	Area of Impact
L	Geological and Geotechnical issues: Unfavourable strata control conditions may cause mine development complexity, multiple mining methods to be applied, investment capital and operating cost increase, production delays, sterilisation of resource, loss of life, and loss of machinery.	Further study required for ongoing management as the mine is developed.	All.
L	Mining Schedule: The schedule is based on broad planning assumptions without detailed analysis on mining block characteristics.	Prepare a detailed mining plan.	Underground mining.
L	Development Schedule: The development schedule provided does not allow for unforeseen delays. A delay in mine development, especially early in the mine development schedule, may result in delay in the mine achieving full production.	Generate a detailed material mine development schedule.	All process of project development.
L	Location: Area is located in dry cold climate zone and seismically active area.	Better understanding of the operating conditions and construction of suitable infrastructure to meet those conditions.	All.
L	Construction of rail infrastructure: cannot proceed because legal tenure is not held over required land.	Acquisition of required land.	Transportation.
L	Several non-compliances with requirements stated in the Environmental Impact Assessment (EIA) report may include later liabilities.	Improve environmental management.	All.

13.2 Opportunity Summary

MMC has identified various opportunities which warrant further investigation in future studies:

- Project is located close to established infrastructure and close to populated areas, which will be beneficial to overall project development;
- The project area has a developed coal mining industry which will be beneficial in sourcing a skilled workforce;

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

- The mine has good geological conditions, low gas levels, no underground water flowing, and relatively stable coal seams, with careful planning this may allow uninhibited production, which therefore means a constant flow of reliable product output;
- Modern equipment and mining techniques are planned for the project, and
- The mine layout and mine characteristics make the mine amenable to an increase in the mining rate.

14 ANNEXURE A — QUALIFICATIONS AND EXPERIENCE**Philippe Baudry — General Manager — China and Mongolia, Bsc. Mineral Exploration and Mining Geology, Assoc Dip Geo science, Grad Cert Geostatistics, MAIG**

Philippe is a geologist with over 14 years of experience. He has worked as a consultant geologist for over 6 years first with Resource Evaluations and subsequently with Runge after they acquired the ResEval group in 2008. During this time Philippe has worked extensively in Russia assisting with the development of two large scale copper porphyry projects from exploration to feasibility level, as well as carrying out due diligence studies on metalliferous projects throughout Russia. His work in Australia has included resource estimates for BHPB, St Barbara Mines and many other clients both in Australia and overseas on most styles of mineralisation and metals. Philippe furthered his modelling and geostatistic skills in 2008 by completing a Post Graduate Certificate in Geostatistics at Edith Cowan University. Philippe relocated to China in 2008 and has since project managed numerous Due Diligences and Independent Technical Reviews for private acquisitions and IPO listings purpose mostly in China and Mongolia.

Prior to working as a consultant Philippe spent 7 years working in the Western Australian Goldfields in various positions from mine geologist in a large scale open cut gold mine through to Senior Underground Geologist. Before this time Philippe worked as a contractor on early stage gold and metal exploration projects in central and northern Australia.

With relevant experience in a wide range of commodity and deposit types, Philippe meets the requirements for Qualified Person for 43-101 reporting, and Competent Person ("CP") for JORC reporting for most metalliferous Mineral Resources. Philippe is a member of the Australian Institute of Geoscientists.

Dan Peel — Operations Manager — Beijing, Bachelor of Engineering, Mining — University of New South Wales, Unrestricted Quarry Manager (WA), Grad. Cert. Applied Finance — Kaplan, Diploma (Bus), Member of Australasian Institute of Mining and Metallurgy

Dan has worked as a mining engineering consultant with MMC for three years. Since joining MMC, Dan has completed a range of projects including technical valuations, life-of-mine designs and scheduling, pit optimisation, development of economic models, mine reserves estimation and reporting.

Prior to joining MMC, Dan worked with an open cut mining contracting firm for five years where he gained significant open cut metal mining experience. During this period, Dan developed operational, engineering and project management expertise. Dan's roles included Quarry Manager of the BHPB Jimblebar iron ore mine and Quarry Manager/Mining Superintendent of the Mt Gibson Koolan Island iron ore mine. Dan also worked at the Plutonic and Cuddingwarra gold mines and the Wodgina tantalum mine.

With relevant experience in a wide range of commodity and deposit types, Dan meets the requirements for Competent Person ("CP") for JORC reporting for both metalliferous and coal open cut Reserves. Dan is a member of the Australian Institute of Mining and Metallurgy.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Kevin Qu — Senior Mining Engineer — B.E. Hebei Mining College, Handan City, China

Kevin is a senior coal mining engineer with more than 25 years of experience on mining technology, project development and project management. He received his undergraduate B.E. degree in Mining Engineering from Hebei Mining Institute, Handan City, Hebei Province, PRC. With more than 25 years of coal industrial experience, Kevin is very knowledgeable of the regulations and policies in coal mining industry of China.

Kevin recently participated in business development and management for several projects in the Chinese provinces of Shanxi, Henan, Guizhou, Inner Mongolia, and Xinjiang Uygur Autonomous Region etc. Specifically, he has worked as senior mining engineer and project manager in Gaohe Coal Mine, Chief Mining Engineer in Dengjiazhuang Coal Mine, as well as Mining Engineer of mining system designer in Jialequan Coal mine.

Michael Johnson — Senior Mining Consultant - Beijing, Runge Ltd, BAppSci (geology), Grad Dip (Mining Engineering), Member of the Australian Institute of Mining and Metallurgy

Michael has over 12 years of experience working in the mining industry particularly in underground coal operations. He has held positions of Mine Geologist, Strata Control Engineer, Mine Planning Engineer and Mining Consultant. Michael has experience in longwall production optimisation, strata control, coal quality, reserve/resource reports, mine planning, mine design, mine scheduling, feasibility studies, due diligence, resource evaluation and optimisation for mine expansions programmes. He has worked on numerous underground coal projects in Australia, China, New Zealand, Indonesia, Philippines, Russia and Norwegian Territories.

With relevant experience in coal geology and underground engineering, Michael meets the requirements for Competent Person ("CP") for JORC reporting for Coal Resources and underground Coal Reserves. Michael is a member of the Australian Institute of Mining and Metallurgy.

Andrew Shepherd — Project Manager, Senior Mining Engineer — Bachelor of Engineering, Mining — Curtin University WASM, Graduate Diploma of Finance and Banking — Curtin University, MBA — Curtin University

Andrew is a mining engineer with over 14 years of experience in the Australian mining industry. With a strong in economic evaluation, Andrew gained post graduate qualifications in finance and business administration, leading to a specialisation in prefeasibility studies management.

In recent years Andrew has lead teams which were performing commercial and Government approvals negotiations, business analysis, and strategic and long term mine planning. These roles included participation in several large mining and processing prefeasibility studies in the iron ore, nickel and uranium industries.

APPENDIX IV COMPETENT PERSON’S INDEPENDENT TECHNICAL REPORT

Gary Harradine — Bachelor of Chemical Engineering (hons 1), Grad. Dip. in Management (Distinction), Master of Business Administration (part). Fellow APESMA, Member IPA, Member AIPM

Gary has 28 years of experience in Australia and internationally in project development & management in the mining, quarrying, bulk materials handling, minerals processing, infrastructure, and manufacturing. He has been Project director for more than US\$5 billion worth of projects since 2000. Gary has conducted due diligence, feasibility & scoping studies, and strategic analysis for major projects in Australia and internationally, developed major project systems for owner, contractor, and consultancy organisations, and conducted bid and commercial negotiations for large mining & infrastructure projects in Australia, Asia, South America, Russia and Africa. He has provided Strategic advice to mining and mineral companies on a range of management, technical, commercial, and financing issues as well as conducting forensic project and construction management and Project recovery strategies for mining and mineral projects. Gary has extensive experience in major infrastructure projects within Australia, China, Mongolia, Kalimantan, Russia, Mauritania, Mozambique, Uganda, and Pakistan.

Andrew Banks — Principal Consultant Coal Geology — Bsc. Geology. Member of Australasian Institute of Mining and Metallurgy

Andrew has over 11 years of experience working in the mining industry. During this time he has been responsible for the planning, implementation and supervision of various open pit and underground production duties, the creation and auditing of geological models and reporting these results to JORC standards and auditing the geological processes used in exploration and resource generation. Andrew’s wide range of experience within various mining operations in Australia and south east Asia gives him an excellent practical and theoretical basis for resource estimation.

With relevant experience in a wide range of commodity and deposit types, Andrew meets the requirements for Competent Person (“CP”) for JORC reporting for most metalliferous and coal Mineral Resources. Andrew is a Registered Chartered Professional Geologist with the AusIMM.

Company's Relevant Experience

Minarco-MineConsult, part of Runge Ltd, is a premier international consulting and engineering firm. It provides a full range of services from pure technical consulting through to strategic corporate advice. And undertake assignments on mining projects covering a range of commodities and countries, serving clients in most of the countries around the West Pacific Rim region.

Minarco-MineConsult maintains a full time staff of qualified specialists in the fields of mining engineering, geology, process and metallurgical engineering, environmental and geotechnical engineering, and environmental economics.

Minarco-MineConsult typically completes over 200 assignments per year and has over 300 professionals (through its parent Runge Group) available in disciplines including:

- Mining Engineering;
- Minerals Processing;
- Coal Handling and Preparation;
- Power Generation;
- Environmental Management;
- Geology;
- Contracts Management;
- Project Management;
- Finance, and
- Commercial Negotiations.

The roots of Minarco-MineConsult were established in the Australian mining industry. Minarco-MineConsult is committed to compliance with the codes which regulate Australian corporations and consultants and has established an International business which has continued to give its clients and those that rely on its work the confidence that can be associated by the use of the relevant Australian codes.

These codes include:

- The Australian Corporation Law;
- The Australian Institute of Company Directors Code of Conduct;

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

- The Securities Institute of Australia Code of Ethics;
- The Australasian Institute of Mining and Metallurgy Code of Ethics, and
- The Australasian Code for Reporting of Exploration Results, Mined Resources and Ore Reserves (The JORC Code).

Minarco-MineConsult has conducted numerous mining technical due diligence programs and reporting for IPO's and capital raisings over the past six years, with involvement in projects raising a total of over US\$10 billion of capital. This and other work are summarised in **Table A1**.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table A1 — Mining Related IPO and Capital Raising Due Diligence Experience

2011 China Precious Metals Resources Holdings Co., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support the acquisition of multiple underground gold mining assets in Henan Province, China.

2011 Hao Tian Resources Group Ltd; Competent Persons Report of Coal Resources and Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support acquisition of an underground coal mine in Xinjiang Autonomous Region, China.

2011 King Stone Energy Group., Ltd; Competent Persons Report of Coal Resources and Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support acquisition of 2 underground coal mines in Shanxi Province, China.

2010 China Precious Metals Holdings Co., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support the acquisition of multiple underground gold mining assets in Henan Province, China.

2010 Century Sunshine Group Holdings Limited; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support the acquisition of a serpentinite mining asset in Jiangsu Province, China.

2010 Doxen Energy Group Limited; Independent Technical Review and estimation of Coal Resources under JORC for inclusion in a HKEx Circular to support the acquisition of a coal mining asset in Xinjiang Autonomous Region, China.

2010 Kwong Hing International Holdings (Bermuda) Limited; Independent Technical Review for inclusion in a HKEx Circular to support a Very Substantial Acquisition.

2009 Metallurgical Corporation Of China Ltd (“MCC”); Independent Technical Review for inclusion in a Prospectus to support a stock exchange listing on the HKEx.

2009 Nubrand Group Holdings Limited, Guyi Coal Mine; Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2008 China Blue Chemical Limited, Wangji and Dayukou Phosphate Mines; Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine; Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Railway Company Limited, African Copper/Cobalt Assets; Capital raising for mining assets on the HKEx. Preparation of CPR for planned IPO on the HKEx.

2007 Ko Yo Ecological Agrotech (Group) Limited, Sichuan Phosphate; Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

2007 Prosperity International Holdings Limited, Guilin Granite Project: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Primary Resources — Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by China Primary Resources.

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Railway Company Limited, African Copper/Cobalt Assets: Capital raising for mining assets on the Hong Kong Stock Exchange. Preparation of CPR for planned IPO on the HKEx.

2007 Gloucester Coal Limited — Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2007 Confidential Hong Kong Private Equity Partners — Independent Technical Review to support private equity capital raising to purchase lead/zinc mining assets in Tibet.

2007 Confidential International Investor — Independent Technical Review to support private equity capital raising to purchase iron ore assets in Hubei. Preparation of ITR.

2007 Whitehaven Coal Limited — Independent Technical Review for Australian Stock Exchange IPO.

2007 Confidential Privately Owned Coke Producer — Capital raising for purchase of Coal Mines and downstream coal washing, coke production and chemical production facilities. Preparation of CPR for planned IPO on the HKEx.

2007 China Molybdenum Group — Capital raising for large scale Molybdenum mine on the Hong Kong Stock Exchange. Preparation of CPR for IPO on the HKEx.

2007 Confidential International Investor — Independent Technical Review to support purchase of Gold Mine In Hubei Province.

2006 Excel Mining — Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2006 Celadon Mining Investment Group (UK) — Capital raising for coal mine purchase in China and planned subsequent listing on AIM.

2005 Yanzhou Coal Mining Company Limited — Independent Technical Review of coal projects to satisfy ongoing listing requirements of the HKEx and NYSE following IPO.

2004 Excel Mining — Independent Technical Review for Australian Stock Exchange IPO (current market capitalisation over US\$1 billion).

2004 Excel Mining — Independent Market Review for Australian Stock Exchange IPO.

2003 New Hope — Independent Market Review for Australian Stock Exchange IPO.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

2003 Confidential — Independent Market Review on 50 Mtpa operation in Kazakhstan for LSE listing (has not proceeded).

2003 Xstrata plc — Competent Person's Report for London Stock Exchange Chapter 19 Report for Acquisition of MIM Assets including mines, rail and port review (US\$2.5 billion).

2002 Xstrata plc — Competent Person's Report for London Stock Exchange IPO (US\$2.3 billion).

2002 Kaltim Prima, Indonesia — Independent Technical Review for advising project financiers to acquisition (US\$445 million).

2001 Enex Resources — Independent Technical Review for Australian Stock Exchange IPO.

15 ANNEXURE B — GLOSSARY OF TERMS

The key terms used in this report include:

- **\$** refers to United States dollar currency;
- **ad** means air dried;
- **AUSIMM** stands for Australasian Institute of Mining and Metallurgy;
- **CV** stands for Caloric Value;
- **Company** means Kinetic Mining and Energy Limited
- **daf** stands for dry ash free;
- **HKEx** stands for Hong Kong Stock Exchange;
- **ITR** stands for Independent Technical Review;
- **JORC** stands for Joint Ore Reserves Committee;
- **JORC Code** refers to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition, which is used to determine resources and reserves, and is published by JORC of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia;
- **km** stands for kilometre;
- **kV** stands for kilovolt;
- **LOM plan** stands for Life of Mine Plan;
- **m** stands for metres;
- **MMC** refers to Minarco-MineConsult;
- **mine production** is the total raw production from any particular mine;
- **mining rights** means the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed;
- **MI** stands for mega litre which is equal to one million litres;
- **MJ/kg** means megajoule per kilogram;

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

- **Mt** stands for million tonnes;
- **PRC** stands for the People's Republic of China;
- **Preliminary Design** a report prepared for each mine in China before a mining licence is issued. It is broadly equivalent to a pre-feasibility study;
- **RMB** stands for Chinese Renminbi Currency Unit;
- **ROM** stands for run-of-mine, being material as mined before beneficiation;
- **t** stands for tonne;
- **The Project** means Dafanpu Coal Mine;
- **tonne** refers to metric tonne;
- **tph** stands for tonnes per hour;
- **tpd** stands for tonnes per day;
- **VALMIN Code** refers to the code and guidelines for technical assessment and or valuation of mineral and petroleum assets and mineral and petroleum securities for independent expert reports, and
- **¥** is the symbol for the Chinese Renminbi Currency Unit.

Note: Where the terms Competent Person, Inferred Resources and Measured and Indicated Resources are used in this report, they have the same meaning as in the JORC Code.

16 ANNEXURE C — CHINESE AND OTHER INTERNATIONAL RESOURCE REPORTING STANDARDS**Chinese Resource Reporting Standards**

In 1999, with a view to creating a standard that was comparable with international resource reporting standards, The Chinese National Land and Resource Department introduced its own national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999).

This code was to replace the previous code (China GB 13908-1992 - General rules for Geological Exploration of Solid Ore Resources) and was based upon the United Nations international code (UN Economic and Society Committee, UN document ENERGY/WP.1/R.70). Some elements of the American resource reporting standards were included and modifications made to suit Chinese conditions. All new resource estimates are reported under this new code and old estimates either re-estimated or converted to the new system.

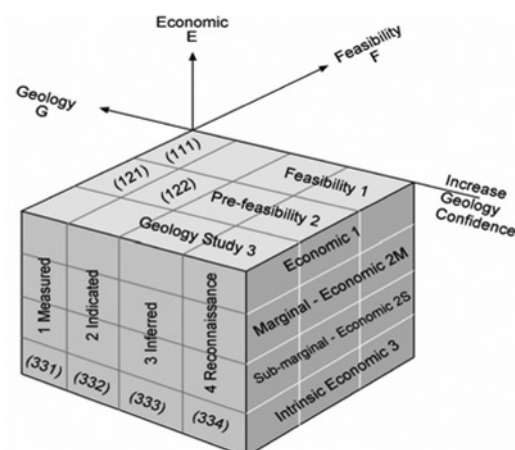
The previous Chinese standard (GB 13908-1992) divided resources into four categories (A, B, C and D) which were loosely comparable to the JORC — (December 2004) classifications of Measured Resource (A-B), Indicated Resource (B-C) and Inferred Resource (D). The old standard was more prescriptive than JORC in that it specified minimum borehole spacings. See **Table C1** for each category, along with implied levels of geological understanding.

Table C1 — Borehole Spacing Comparison (Chinese, UN and JORC Codes)

(Chinese Reserve Code)	Classification (Chinese Reserve Class)	UN Code	JORC (Dec 2004)
A	111 — 121		Measured
B	121 — 122	331	Measured
C	122 — 2 M22	332	Indicated
D	122	333	Inferred

The old code was essentially a geological classification, taking little account of the deposits economics or the level of mining studies that had been carried out on it. The new code (see **Figure C1**) attempts to address this by using a three component system (EFG) that considers the deposit economics (E), the level of mining feasibility studies that have been carried out (F) and the level of geological confidence (G) using a numerical ranking.

Figure C1 — New Chinese Resource/Reserve Classification Matrix (1999)



This system produces a three digit code for a deposit that reflects these three variables. For example a deposit classified as a 121 is economically viable (1), has had pre-feasibility studies carried out (2) and is well understood geologically (1). Various suffixes are used to distinguish Basic Reserves - essentially JORC Resources - (121b) from Extractable Reserves (121) and to identify the assumed economic viability (S or M). Certain categories are not allowed, for example pre-feasibility or feasibility level studies cannot be conducted on Inferred Resources, and so 123 and 113 are invalid classifications. Also Extractable Reserves are not estimated for marginally economic (or lesser) deposits so the (b) suffix is considered redundant. The term Intrinsically Economic indicates that while the deposit may be economic, insufficient studies have been carried out to clearly determine its status.

A tabulation of this concept is shown in **Table C2**.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Table C2 - New Chinese Resource/Reserve Categories (1999)

Economic Viability	Geological Confidence			
	Identified Mineral Resource			Undiscovered Resource
	Measured (1)	Indicated (2)	Inferred (3)	Reconnaissance (4)
Economic (1)	Basic Reserve <i>Resource - 111b</i>			
	Proved Extractable Reserve - 111			
	Basic Reserve <i>Resource 121b</i>	Basic Reserve <i>Resource -122b</i>		
	Probable Extractable Reserve - 121	Probable Extractable Reserve -122		
Marginally Economic (2 M)	Resource 2 M11			
	Resource 2 M21	Resource 2 M22		
Sub-marginally Economic (2S)	Resource 2S11			
	Resource 2S21	Resource 2S22		
Intrinsically Economic (3)	Resource 331	Resource 332	Resource 333	Resource 334

Note: First digit reflects Economic viability; 1=Economic; 2M=Marginally Economic; 2S=Sub-marginally Economic; 3=Intrinsically Economic; 4=Economic interest undefined.

Second digit reflects Feasibility assessment stage, 1=Feasibility; 2=Pre-feasibility; 3=Geological study.

Third digit reflects Geological assurance, 1=Measured, 2=Indicated, 3=Inferred, 4=Reconnaissance.

b=Basic Reserve (prior to recovery factors, mining losses and dilution) — *JORC Resource*.

Unlike the old code, the new code does not specify required borehole spacings for each category. In the case of copper Cobalt and Gold (and other metals), there is an accompanying Chinese Professional Standard (DZ/T 0214-2002) that lays out rules for determining the level of geological confidence.

International Standards and the JORC Code for Resources

Two main styles of resource reporting codes exist internationally. These are the American style (USA and much of South America) and the JORC style (Australia, South Africa, Canada, and UK). This is further complicated by the listing and reporting requirements of different stock exchanges. It is generally true that a resource estimation that complies with the JORC code (or one of its sister codes) will meet the standards of most international investors.

The new Chinese code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, in that it does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasises the principles of transparency, materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australian Guidelines for the Estimation of Coal Resources and Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese code is much more prescriptive but does not include the role of the Competent Person.

An examination of the details of the Chinese code suggests that in terms of broad categorisation, the levels of geological confidence ascribed to Measured and Indicated resources are quite similar in both the codes. The ranges of borehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code.

The JORC Code uses the following definitions for Coal Resources and Coal Reserves:

Measured Coal Resource is that part of Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **high** level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Coal Resource is that part of Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **reasonable** level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Coal Resource is that part of Coal Resource for which tonnage, densities, shape, physical characteristics, 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. 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.

Exploration Target/Results includes data and information generated by exploration programmes that may be of use to investors. The reporting of such information is common in the **early** stages of exploration and is usually based on limited surface chip sampling, geochemical and geophysical surveys. Discussion of target size and type must be expressed so that it cannot be misrepresented as an estimate of Coal Resources or Coal Reserves.

A **'Proven Coal Reserve'** is the economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Proven Coal Reserve represents the highest confidence category of Coal Reserve estimates. This requires detailed exploration and quality data "points of observation" to provide high geological confidence.

A **'Probable Coal Reserve'** is the economically mineable part of an Indicated Resource, and in some circumstances, a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistic ally 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.

A Probable Coal Reserve has a lower level of confidence than a Proven Coal Reserve but has adequate reliability as the basis of mining studies.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

17 ANNEXURE D — MINING EQUIPMENT INCLUDED IN THE FEASIBILITY STUDY REPORT

The table below shows the equipment listed in the Preliminary Design and the Feasibility Study Report for the operation of the Project. Annexure E contains equipment related to the planned washery.

Number	Equipment	Model & Specification	Unit	Quantity
1	Main Rail Roadway			
1.1	Fixed Box Car	MG1.7-9B	Set	108
1.2	25t Special Heavy Flat Car	MP25-9B	Set	22
1.3	5t Flat Car	MP5-9B	Set	44
1.4	Flat Car	MP1.5-9B	Set	22
1.5	Material vehicle	MC1.5-pB	Set	33
1.6	Thermal Water Tanker	BWC1-9	Set	3
1.7	Personnel Vehicle	PR18-9/4	Set	6
1.8	Oil Professional Car	MYC1.5-9-01	Set	2
1.9	Bulk Cement Car		Set	2
1.10	Mining Battery Locomotive	12t	Set	1
2	Mining & Developing Equipment			
2.1	LongWall and Gateway LW & LTCC			
2.1.1	Shearer	MG400,930kW,3300V	Set	2
2.1.2	Shields	ZZ7600/14/35	Set	184
	TCC Shields	ZF7500/18/35	Set	184
2.1.3	AFC	SGZ880/2 × 400	Set	3
2.1.4	Transformer	SZZ800/220	Set	3
2.1.5	Breaker	PCM160	Set	3
2.1.6	Retractable Belt Conveyer	SSJ, W=1.2, Capacity=1800t/h		2
2.1.7	Hydraulic Prop	DZ25-25/100G		250
2.1.8	Metal articulated Beam	HDJA-1200		250
2.1.9	LW Emulsion Pumps	BRW400/31.5	Set	2
2.1.10	Spraying Pump	PB320/6.3	Set	2
2.1.11	Liquid injector	ZD-Q1		6
2.1.12	Long-hole Drilling rig	MYZ-200	Set	4
2.1.13	Water Injection Pump	5D-2/150		12
2.1.14	Recovery Minch	JH2-14		4
2.2	Gateway			
2.2.1	Slow Winch	JM-18.5 18.5kW 660V	Set	2
2.2.2	Equipment Powered Train	SLZ-4.5	Set	1
2.2.3	Pump	BQW32-60-37, Q=32 m ³ /h, H=60m	Set	6
2.2.4	Dual Speed Winch	SDJ-28	Set	3
2.3	+669m Level Air Return Access Road Mechanised Developing Face			
2.3.1	Roadheader	S200 (M), 240 m ³ /h	Set	4
2.3.2	Bridge Transformer	SZQ11/800,11kW, 660V	Set	4
2.3.3	Re-contractible Belt Conveyor	SSJ800/2 × 40 80Kw, 660V	Set	8

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Number	Equipment	Model & Specification	Unit	Quantity
2.3.4	Auxiliary Fan	FBD-8, 540-850m ³ /min, 1500-8600Pa	Set	8
2.3.5	Roadheader Deduster	SCF-7, 42.5kW, 1140V	Set	6
2.3.6	Bolt Machine	MYT-120C	Set	6
2.3.7	Bolt Machine	MYS-50	Set	6
2.3.8	Wire Cutter	QD-25	Set	4
2.3.9	Tension Jack	YDC-180	Set	4
2.3.10	Bolt Tension Meter	ML-20	Set	6
2.3.11	Concrete Sprayer	ZPII	Set	4
2.3.12	Concrete Mixer	MA-IV	Set	2
2.3.13	Sprayed Concrete Hydraulic Manipulator	FS-2 3kW	Set	2
2.3.14	JZB	JZB-1	Set	4
2.3.15	Water Exploration Driller	TXU-75A	Set	4
2.3.16	Rock Driller	EZ2-2.0	Set	3
2.3.17	Coal Driller	MZ-12A	Set	3
2.3.18	Bump	BQW32-60-37	Set	6
2.3.19	Continuous Tractor	SQ-110	Set	2
2.3.20	Pick	FG-8.3	Set	3
2.4	Drill-blasting Developing Face			
2.4.1	Rake Rock Bucket Loading Machine	P-30B	Set	1
	Air Leg Pneumatic Rock Drill	ZY-24	Set	3
	Drill Holes Layout Instrument	TY-A	Set	2
	Auxiliary Fan	FBD-7.1, 410-640 m ³ /min, 1100-5650Pa	Set	2
	Pick	FG-8.3	Set	2
	Wet Deduster	SCF-7, 42.5kW, 1140V	Set	1
	Bolt Machine	MYT-120C	Set	1
	Bolt Machine	MYS-50	Set	1
	Exploder	MFB-150	Set	2
2.4.2	Concrete Sprayer	ZPII	Set	1
2.4.3	Concrete Mixer	AM IV	Set	1
2.4.4	Sprayed Concrete Hydraulic Manipulator	FS-2 3kW	Set	1
2.4.5	Bolt Tension Meter	ML-20	Set	1
2.4.6	Small Water Pump	BQW32-60-37	Set	2
3	Inclined Shaft System			
3.1	Main Inclined Shaft Hoisting Equipment			
3.1.1	Main Inclined Shaft Belt Conveyor ^{*1}	B=1.4m v=3.15m/s α=16° Q=1500t/h L=1110m	Set	1

^{*1} B=1.4m is taken from the Preliminary Design Report and is current with the Mine sites existing infrastructure.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Number	Equipment	Model & Specification	Unit	Quantity
3.1.2	Motor	Y4502-4 N=710kW 6kV	Set	3
3.1.3	Overhead Person Device	RJY30-16/1106 Q=73 person/h	Set	1
3.1.4	Motor	Y225M-6 N=30kW V=660V	Set	1
3.1.5	Wire Rope	6×19S-Φ20	m	2230
3.2	Auxiliary Inclined Shaft Hoisting Equipment			
3.2.1	Winch	2JK—3.5/20E Single Winch D=3.5m B=1.7m	Set	1
	DC Motor	Z500-2A 425kW 550V 450r/min		1
3.2.3	Wire Rope	28NAT6×36WS+FC-1670	m	2000
3.2.5	Sheave	TSG-2500/19	Set	2
4	Main drainage Equipment			
4.1	Multi-stage Centrifugal Pump	MD280-65×6 Q=280 m ³ /min H=390m	Set	3
4.2	Pump Motor	YB500L-4 560kW 10kV	Set	3
5	Ventilation Equipment			
5.1	Rotating Axial Fan	BKD-8-No.26	Set	2
5.2	Main Fan Motor	YBF560M2-8, 355kW, 10kV, 745r/min	Set	4
6	Air Compress System			
6.1	Air Compressor	M160-2S/M 29.6 m ³ /min 0.85MPa	Set	3
6.2	Air Compressor Motor	N=160kW U=380V	Set	3
7	Surface Production System Equipment			
7.1	Belt Vulcanisation Device	DPL-1400×830 N=3×18.29kW	Set	3
7.2	LH Double Girder Overhead Electric Hoist	Q=16/3t, H=14m, N=23.5kW, Lk=16.5m		
7.3	Electromagnetic Iron Separator	RCDD-14	Set	1
7.4	Head Chute	Metal Frame	Set	4
7.5	Support Platform	Metal Frame	Set	1
7.6	Explosion-Proof Axial Flow Fan	BT35-11No4 α=25 n=2900rpm		
7.7	Explosion-Proof Motor	YSF-8022 N=1.1kW	Set	1
7.8	Explosion-proof axial flow fan	BT35-11No4 α=25 n=2900rpm		
7.9	Explosion-proof motor	YSF90-2 N=1.5kW	Set	1
8	Power Distribution System			
8.1	110kV			
8.1.1	Main Transformer	SZ11-20000/110, 110±8×1.25%/10.5kV, Set YNd11, UK=10.5%		2
8.2	10kV			
8.2.1	High-voltage Power Switch Cabinet	KYN28A-12-04	Set	24
8.2.2	High-voltage Power Switch Cabinet	KYN28A-12-08	Set	1
8.2.3	High-voltage Power Switch Cabinet	KYN28A-12-26	Set	2

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Number	Equipment	Model & Specification	Unit	Quantity
8.2.4	High-voltage Power Switch Cabinet	KYN28A-12-57	Set	1
8.2.5	High-voltage Power Switch Cabinet	KYN28A-12-80	Set	1
8.2.6	Arc over voltage protection devices	XHG-10/100	Set	2
8.2.8	High Static Dynamic Reactive Compensation Device	HVC+TSC-10/3600 (900+1200+1500)	Set	2
8.3	Underground Distribution			
8.3.1	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-01D 10kV	Set	4
8.3.2	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-07D 10kV	Set	3
8.3.3	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-08D 10kV	Set	3
8.3.4	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-010D 10kV	Set	1
8.3.5	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-010DG 10kV	Set	1
8.3.6	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-11D 10kV	Set	2
8.3.7	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-13D 10kV	Set	12
8.3.8	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-16D 10kV	Set	2
8.3.9	Mining High-voltage Power Vacuum Switch Cabinet	KGS1-20D 10kV	Set	2
8.3.10	Mining Low-voltage Power Vacuum Switch Cabinet	KDC1(G)-01 660V	Set	1
8.3.11	Mining Low-voltage Power Vacuum Switch Cabinet	KDC1(G)-03 660V	Set	1
8.3.12	Mining Low-voltage Power Vacuum Switch Cabinet	KDC1(G)-06 660V	Set	1
8.3.13	Mining Low-voltage Power Vacuum Switch Cabinet	KDC1(G)-07 660V	Set	6
8.3.14	Mining Low-voltage Power Vacuum Switch Cabinet	KDC1(G)-13 660V	Set	1
8.3.15	Mining Low-voltage Power Vacuum Switch Cabinet	KDC1(G)-13G 660V	Set	1
8.3.16	Mining Low-voltage Power Vacuum Switch Cabinet	KDC1(G)-21 660V	Set	2
8.3.17	Mining Flameproof Dry Type Transformer	KBSG11-400/10 400KVA 10/0.69kV	Set	2

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

18 ANNEXURE E — WASHERY EQUIPMENT INCLUDED IN THE FEASIBILITY STUDY REPORT

No.	Equipment	Model & Specification	Unit	Quantity
1	Sizing screen of raw coal	3673 single-layer screen, screen aperture 13mm	Set	2
2	Heavy medium shallow slot	Size 1800 × 4500	Set	2
3	Sculping screen of cleaned coal	4061 double-layer banana screen, upper layer aperture 50mm, lower layer is 1.5mm	Set	2
4	Sculping screen of gangue	4061 double-layer banana screen, upper layer aperture 50mm, lower layer is 1.5mm	Set	1
5	Desliming sieve of fine coal	3673 single-layer banana screen, screen aperture is 1.5mm	Set	1
6	Heavy medium cyclone of fine coal	NZX1000	Set	1
7	Centrifuge of final cleaned coal	φ1200 horizontal vibrating centrifuge	Set	2
8	Crusher of lump cleaned coal	2DSKP65100	Set	2
9	Magnetic separator	HMDA-7 48" × 117"(φ1219xL2972)	Set	2
10	Classifying cyclone	φ500mm, 1 group has 6 cyclones	Group	1
11	Teetered bed	φ3.0m	Set	2
12	Slime centrifuge	LLL1200	Set	2
13	Gangue high frequency screen	1.8m × 3.7m high frequency screen, screen aperture is 0.35mm	Set	2
14	Medium feeding magnetic separator	CTB-718, φ750mm L=1800mm	Set	1
15	Thickener	φ20m centre drive, automatic harrow rising, high-efficiency thickener	Set	2
16	Quick-open type pressure filter	KZG450/2000 F=450 m ² , V=9.13 m ³	Set	6
17	High-speed loading station		Set	1

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

19 ANNEXURE F — DAFANPU JORC RESERVE CHECKLIST

Section	Comment
Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons?	The JORC Reserve estimate is derived from a JORC compliant Coal Resource estimate signed by Mr Andrew Banks (Runge Ltd, Senior Geology Consultant).
What is the current project status?	The mine is currently operating. A life of mine plan has been scheduled. The mine has been schedule from current face positions and scheduled to start in 2011 and is planned to produce 2.4 Mtpa.
What cut off parameters and physical limits have been applied in estimating the Reserves?	CAD program was used to estimate the recoveries from the mine plan and layouts, within the known licence boundaries and areas of mining. All mineable seams have been included.
What mining and geotechnical assumptions have been made?	Geotechnical assumptions have been considered in the design of the mine. These account for caving potential and barrier pillars between mining blocks to account for safety factors. Coal quality is as per the geological model combined with loss and dilution adjustments. Reasonable factors have been used for roof and floor loss, dilution and minimum coal parting thickness as well as diluting material properties.
Is there a metallurgical process used and what is suitability to the type of operation?	A washery will separate coal from stone. Reasonable assumptions have been applied to these calculations.
How have the project capital, operating costs and royalties been derived?	These were derived from the Feasibility Study Report as provided by the mine site personnel.
What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon?	Reserve estimate is based on a floating 2 year average price from documented thermal and lump coal sold from mines within the region from June 2009 to June 2011.
Any other factors that may potentially affect the viability of the project and the status of titles and approvals required for the project?	An increase in production rate from 2.4 Mtpa to 5 Mtpa is planned. Approvals are ongoing and require updating.
What is the basis for the classification of the Coal Reserves and proportion of Coal Reserves which have been derived from Measured Coal Resources?	Classification of Coal Reserves has been derived by considering the Measured and Indicated resources and the level of mine planning. Both Proved and Probable Reserves have been reported. Inferred resources have been excluded from the estimate.

APPENDIX IV COMPETENT PERSON'S INDEPENDENT TECHNICAL REPORT

Section	Comment
Results of audits or reviews of Reserves Statements	As per findings in this review, plus internal reconciliation and peer review.
Relative accuracy and confidence of the Reserves Estimate	There is reasonable confidence in the accuracy of the Coal Reserve estimate.

~~~~~ MMC — End of Report ~~~~~

*Set out below is a summary of certain provisions of the Memorandum and the Articles of Association of our Company and of certain aspects of Cayman Islands company law.*

*Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 July 2010 under the Cayman Companies Law. Our Company's constitutional documents consist of the Memorandum and the Articles of Association.*

## **MEMORANDUM OF ASSOCIATION**

The Memorandum provides, *inter alia*, that the liability of members of our Company is limited and that the objects for which our Company is established are unrestricted (and therefore include acting as an investment company), and that our Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

By special resolution our Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

## **ARTICLES OF ASSOCIATION**

The Articles of Association were adopted on 6 March 2012 and effective on the Listing Date. The following is a summary of certain provisions of the Articles of Association:

### **Shares**

#### ***Classes of shares***

The share capital of our Company consists of ordinary shares.

#### ***Share certificates***

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Cayman Companies Law prohibits the issue of bearer shares to any person other than an authorised or recognised custodian defined in the Cayman Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to "know your client" as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

Every certificate for shares, warrants or debentures or representing any other form of securities of our Company shall be issued under the seal of our Company, and shall be signed autographically by one Director and the Secretary, or by two Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of our Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or

affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of our Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. Our Company shall not be bound to register more than 4 persons as joint holders of any share.

### **Directors**

#### ***Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Companies Law, the Memorandum and the Articles of Association and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of our Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and our Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles of Association and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles of Association) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

***Power to dispose of the assets of our Company or any subsidiary***

While there are no specific provisions in the Articles of Association relating to the disposal of the assets of our Company or any of our subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles of Association or the Cayman Companies Law to be exercised or done by our Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

***Compensation or payments for loss of office***

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by our Company in general meeting.

***Loans and provision of security for loans to Directors***

There are provisions in the Articles of Association prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles of Association.

Our Company shall not directly or indirectly make a loan to a Director or a director of any holding company of our Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of our Company or any of their respective associates, or if any one or more of our Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

***Disclosure of interest in contracts with our Company or with any of our subsidiaries***

With the exception of the office of auditor of our Company, a Director may hold any other office or place of profit with our Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member

of any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with our Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to our Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (a) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of our subsidiaries;
- (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (d) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a member or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;
- (e) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of our Company or of any of our subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (f) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

***Remuneration***

Our Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst our Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. Our Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Any Director who, at the request of our Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.



The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of our Company or with which our Company is associated in business), or may make contributions out of our Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

***Appointment, retirement and removal***

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of our Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. There is no shareholding qualification for Directors.

At each annual general meeting, one-third of our Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to our Company may be given must be at least 7 days.

A Director is not required to hold any shares in our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of our Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and our Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (a) if he resigns his office by notice in writing delivered to our Company at the registered office or head office of our Company for the time being or tendered at a meeting of the Board;
- (b) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (c) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (d) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) if he is prohibited from being a director by law;
- (f) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles of Association;
- (g) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles of Association) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (h) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of our Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from

time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

***Borrowing powers***

Pursuant to the Articles of Association, the Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of our Company.

***Register of Directors and officers***

Pursuant to the Cayman Companies Law, our Company is required to maintain at our registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the registrar within 30 days of any change in such directors or officers.

***Proceedings of the Board***

Subject to the Articles of Association, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

***Alterations to the constitutional documents***

To the extent that the same is permissible under Cayman Islands law and subject to the Articles of Association, the Memorandum and the Articles of Association of our Company may only be altered or amended, and the name of our Company may only be changed by our Company by special resolution.

***Variation of rights of existing shares or classes of shares***

Subject to the Cayman Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together

holding (or in the case of a Shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **Alteration of capital**

Our Company may, by an ordinary resolution of our members, (a) increase our share capital by the creation of new shares of such amount as we think expedient; (b) consolidate or divide all or any of our share capital into shares of larger or smaller amount than our existing shares; (c) divide our unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide our shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of our share capital; and (h) reduce our share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

### **Special resolution — majority required**

In accordance with the Articles of Association, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days’ notice has been given and held in accordance with the Articles of Association. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of our Company duly convened and held, and where relevant as a special resolution so passed.

**Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of our Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles of Association, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles of Association) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles of Association). A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in our Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House (as defined in the Articles of Association) or its nominee(s), be a member of our Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where our Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

### **Annual general meetings**

Our Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

### **Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of our Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of our Company's affairs and to show and explain our transactions.

The books of accounts of our Company shall be kept at the head office of our Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of our Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or our Company in general meeting.

The Board shall from time to time cause to be prepared and laid before our Company at our annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of our Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles of Association together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles of Association), our Company may send summarised financial statements to Shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles of Association), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles of Association), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

Our Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by our Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of our Company in accordance with generally accepted accounting principles of Hong Kong, the International Financial Reporting Standards or such other standards as may be permitted by the Stock Exchange.

#### **Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles of Association shall be in writing, and may be served by our Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in our Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify our Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by our Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.



Although a meeting of our Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of the remuneration of our Directors and of the auditors;
- (f) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of our Company representing not more than 20% in nominal value of our existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by our Company since the granting of such mandate; and
- (g) the granting of any mandate or authority to the Board to repurchase securities in our Company.

### **Transfer of shares**

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles of Association) or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.



Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to our Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles of Association), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

#### **Power of our Company to purchase our own shares**

Our Company is empowered by the Cayman Companies Law and the Articles of Association to purchase our own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirement imposed from time to time by the Articles of Association, code, rules or regulations issued from time to time by the Stock Exchange and/or the SFC.

Where our Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

**Power of any subsidiary of our Company to own shares in our Company**

There are no provisions in the Articles of Association relating to the ownership of shares in our Company by a subsidiary.

**Dividends and other methods of distribution**

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (b) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where the Board or our Company in general meeting has resolved that a dividend should be paid or declared on the share capital of our Company, the Board may resolve:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, our Company may by ordinary resolution in respect of any one particular dividend of our Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of our

Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

### **Proxies**

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

### **Calls on shares and forfeiture of shares**

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**Inspection of corporate records**

Members of our Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. However, the members of our Company will have such rights as may be set forth in the Articles of Association. The Articles of Association provide that for so long as any part of the share capital of our Company is listed on the Stock Exchange, any member may inspect any register of members of our Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if our Company were incorporated under and were subject to the Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

**Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles of Association concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of our Company under Cayman Islands law, as summarised in the sub-section headed “Cayman Islands Company Law — Protection of minorities and shareholders’ suits” of this appendix.

**Procedures on liquidation**

Subject to the Cayman Companies Law, a resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (b) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that our Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

#### **Untraceable members**

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles of Association, our Company is entitled to sell any of the shares of a member who is untraceable if:

- (a) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (b) upon the expiry of the 12 years and 3 months period (being the 3 months' notice period referred to in sub-paragraph (iii)), our Company has not during that time received any indication of the existence of the member; and
- (c) our Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles of Association) giving notice of our intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles of Association) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

**Subscription rights reserve**

Pursuant to the Articles of Association, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

**CAYMAN ISLANDS COMPANY LAW**

Our Company was incorporated in the Cayman Islands as an exempted company on 27 July 2010 subject to the Cayman Islands company Law. Certain provisions of Cayman Companies law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**Company operations**

As an exempted company, our Company must conduct our operations mainly outside the Cayman Islands. Moreover, our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of our authorised share capital.

**Share capital**

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Cayman Companies Law;
- (d) writing-off the preliminary expenses of the company; and



- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles of Association include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

#### **Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

#### **Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.



Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Cayman Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **Dividends and distributions**

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph headed "Dividends and other methods of distribution" of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

### **Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (a) an act which is ultra vires the company or illegal;
- (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

- (c) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

### **Disposal of assets**

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **Accounting and auditing requirements**

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

### **Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

### **Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Council:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to our Company or our operations; and

(b) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our Company:

- on or in respect of the shares, debentures or other obligations of our Company; or
- by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for our Company is for a period of twenty years from 24 August 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

### **Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

### **Loans to directors**

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles of Association provide for the prohibition of such loans under specific circumstances.

### **Inspection of corporate records**

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

### **Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as our Company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

### **Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of our Company occurs where our Company so resolves by special resolution that our Company be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**GENERAL**

Appleby, our Company's legal adviser as to Cayman Islands law, has sent to our Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT OUR GROUP****Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 27 July 2010 as Kinetic Mines and Energy Limited.

Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance since 4 November 2011 and our principal place of business in Hong Kong is at Unit 1202, 43 Lyndhurst Terrace, Central, Hong Kong. Mr. Tao Chi Keung, the company secretary of our Company, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws of the Cayman Islands and our constitution, which comprises a memorandum of association and an articles of association. A summary of the relevant aspects of the Cayman Companies Law and certain provisions of our Articles of Association is set out in Appendix V to this prospectus.

**Changes in the share capital of our Company**

As at 27 July 2010, being the date of incorporation of our Company, our authorised share capital was US\$50,000.0 consisting of 500,000 ordinary shares with par value of US\$0.1 each. On the same day, one ordinary share was allotted and issued fully paid at par to Reid Services Limited. On the date of incorporation, that ordinary share was transferred to King Lok, an investment holding company wholly-owned by Mr. Zhang Liang, Johnson at the time, at a consideration of US\$0.1.

On 20 July 2011, each of the 500,000 ordinary shares with par value of US\$0.1 each in the authorised share capital of our Company was subdivided into 100 ordinary shares with par value of US\$0.001 each (the **"Subdivision"**) resulting in an authorised share capital of our Company of US\$50,000 consisting of 50,000,000 Shares. The total number of ordinary shares that was registered under the name of King Lok in our Company's register of members after the Subdivision became 100 fully paid Shares. Immediately following the Subdivision, the authorised share capital of our Company was increased from US\$50,000 consisting of 50,000,000 Shares to US\$500,000,000 consisting of 500,000,000,000 Shares (the **"Share Capital Increase"**).

Immediately after the Share Capital Increase, our Company allotted and issued 7,499,999,900 Shares, credited as fully paid, to King Lok in consideration for the transfer of the entire issued share capital of Blue Gems from King Lok to our Company (the **"Share Swap"**).

Immediately after the Share Swap, King Lok transferred 450,000,000 Shares, 45,000,000 Shares, 448,500,000 Shares, 368,925,000 Shares, 442,500,000 Shares and 437,625,000 Shares to Ms. Cheung Yee Man Elisa, Mr. Lu Jing, Mr. Yeung Hoi Ching, Mr. Zhang Xiaolin, Mr. Luk Ngai Landy and Mr. Chu Ka Lun Simon, respectively, for respective considerations of approximately US\$9.6 million, US\$1.0 million, US\$9.6 million, US\$7.9 million, US\$9.4 million and US\$9.3 million.

Except as disclosed in this appendix, there has been no alteration in the share capital of our Company since our incorporation.

### **Changes in the share capital or registered capital of our subsidiaries**

#### ***Blue Gems***

As at 11 December 2009, being the date of incorporation of Blue Gems, Blue Gems was authorised to issue a maximum of no more than 50,000 shares with a par value of US\$1.00 each.

On 7 January 2010, one share was allotted and issued fully paid at par to King Lok.

On 20 July 2011, the entire issued share capital of Blue Gems was transferred from King Lok to our Company in consideration for our Company's allotment and issuance of 7,499,999,900 Shares, credited as fully paid, to King Lok.

#### ***Kinetic (Asia)***

As at 21 January 2010, being the date of incorporation of Kinetic (Asia), the authorised share capital of Kinetic (Asia) was HK\$10,000 divided into 10,000 shares of HK\$1.00 par value each. On the same day, 10,000 shares were allotted and issued fully paid at par to Blue Gems.

On 19 July 2011, the authorised share capital of Kinetic (Asia) was increased from HK\$10,000 divided into 10,000 shares of HK\$1.00 each to HK\$229,330,000 divided into 229,330,000 shares of HK\$1.00 each by the creation of an additional 229,320,000 new shares of HK\$1.00 each. Immediately after the increase of its authorised share capital, Kinetic (Asia) allotted and issued a total of 229,320,000 new shares of HK\$1.00 each to Blue Gems at par, credited as fully paid by way of capitalisation of an aggregate amount of HK\$229,320,000 of non-interest bearing loans payable by Kinetic (Asia) to Mr. Zhang Liang, Johnson, the then sole ultimate beneficial owner of Kinetic (Asia).

#### ***Kinetic Coal***

On 11 June 2010, upon completion of the relevant registration with the Administration for Industry & Commerce of Inner Mongolia (內蒙古自治區工商行政管理局), Kinetic (Asia) purchased the entire equity interest in Kinetic Coal from Fuliang Coal Mining for RMB200 million, pursuant to an equity transfer agreement dated 5 February 2010. After the above transfer, the registered and paid-up capital of Kinetic Coal was RMB190 million and the total investment amount was RMB570 million.

#### ***Kinetic Qinhuangdao***

On 4 August 2011, being the date of incorporation of Kinetic Qinhuangdao, the registered capital of Kinetic Qinhuangdao was HK\$10 million with Kinetic (Asia) as its sole member.

Except as set out in this appendix, there has been no alteration in the share capital or registered capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.



**Written Resolutions of Shareholders**

Pursuant to written resolutions of the Shareholders passed on 6 March 2012:

- (a) the Global Offering, the allotment and issue of the Offer Shares (or such other number of Shares to be issued in accordance with the terms of this prospectus) under the Global Offering, the Over-allotment Option and the Listing were approved;
- (b) the rules of the share option scheme of the Company were approved and adopted;
- (c) the general mandate to allot shares as further described in the section headed “Share Capital” of this prospectus was approved; and
- (d) the general mandate to repurchase as further described in the section headed “Share Capital” of this prospectus was approved.

**Repurchase of our Shares**

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

**Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

***Shareholders’ approval***

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on 6 March 2012 by all our Shareholders, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following the completion of the Global Offering (without taking into account the exercise of the Over-allotment Option), details of which have been described above in the section headed “Share Capital” to this prospectus.



***Source of funds***

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Memorandum and Articles of Association, the Listing Rules, the Cayman Companies Law and the applicable laws and regulations of the Cayman Islands. We are not permitted to repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

***Shares to be repurchased***

The Listing Rules provide that our Shares which are proposed to be repurchased by us must be fully-paid up.

**Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

**Funding of repurchases**

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with our Memorandum and Articles of Association, the Listing Rules, the Cayman Companies Law and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it may have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

**General**

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, our Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Except as mentioned above, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## **REORGANISATION**

For further details of the Reorganisation, please refer to the section headed "History and Corporate Structure — Pre-Listing Reorganisation" in this prospectus.

## **FURTHER INFORMATION ABOUT OUR BUSINESS**

### **Summary of the material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a purchase option agreement dated 9 March 2012 entered into by our Company, Mr. Zhang Li and Fuliang Coal Mining in relation to an option to purchase from Fuliang Coal Mining an 85% equity interest in Guizhou Fuliang;
- (b) the Deed of Non-competition;
- (c) the Deed of Indemnity;
- (d) a corporate investment agreement dated 9 March 2012 entered into by our Company, Sany Hongkong Group Limited and HSBC, a summary of which is set out in the section headed "Cornerstone Investor" in this prospectus; and
- (e) the Hong Kong Underwriting Agreement.

## Intellectual Property Rights of our Group

(a) *Trademarks*

We have submitted five applications with the Trade Marks Registry of Hong Kong for the registration of the following trademarks:

| Applicant          | Trademark                | Place of application | Classes                     | Application number |
|--------------------|--------------------------|----------------------|-----------------------------|--------------------|
| Our Company. . . . | KINETIC MINES AND ENERGY | Hong Kong            | 1, 4, 7, 19, 37, 39, 40, 42 | 302180665          |

Our Company. . . .



Hong Kong

1, 4, 7, 19, 37, 39, 40, 42

302180682



(in series)

| Applicant          | Trademark                                                                           | Place of application | Classes                     | Application number |
|--------------------|-------------------------------------------------------------------------------------|----------------------|-----------------------------|--------------------|
| Our Company. . . . |    | Hong Kong            | 1, 4, 7, 19, 37, 39, 40, 42 | 302180664          |
| Our Company. . . . |   | Hong Kong            | 1, 4, 7, 19, 37, 39, 40, 42 | 302180718          |
| Our Company. . . . |  | Hong Kong            | 1, 4, 7, 19, 37, 39, 40, 42 | 302180673          |

(b) **Domain Names**

As of the Latest Practicable Date, we have registered the following domain names:

| Domain Name                 | Registration Date | Expiry Date      |
|-----------------------------|-------------------|------------------|
| www.kineticme.com . . . . . | 15 February 2012  | 14 February 2013 |

Except as disclosed in this sub-section headed "Intellectual Property Rights of our Group" in this appendix above, there are no other trade or service marks, patents or other intellectual property rights which are or may be material in relation to our business.

**FURTHER INFORMATION ABOUT OUR SUBSIDIARIES****Kinetic Coal**

|                                       |                                                                          |
|---------------------------------------|--------------------------------------------------------------------------|
| Nature of the company:                | Wholly-foreign owned enterprise                                          |
| Place of incorporation:               | PRC                                                                      |
| Incorporation date:                   | 22 December 2006                                                         |
| Term of business operation:           | 50 years commencing on 22 December 2006 and expiring on 22 December 2056 |
| Registered capital:                   | RMB190,000,000                                                           |
| Paid-up capital:                      | RMB190,000,000                                                           |
| Attributable interest of the Company: | 100%                                                                     |
| Scope of business:                    | Sale of mine products                                                    |

**Kinetic Qinhuangdao**

|                                       |                                                                                                                                                                                                                                                    |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nature of the company:                | Wholly-foreign owned enterprise                                                                                                                                                                                                                    |
| Place of incorporation:               | PRC                                                                                                                                                                                                                                                |
| Incorporation date:                   | 4 August 2011                                                                                                                                                                                                                                      |
| Term of business operation:           | 50 years commencing on 4 August 2011 and expiring on 3 August 2061                                                                                                                                                                                 |
| Registered capital:                   | HK\$10 million                                                                                                                                                                                                                                     |
| Paid-up capital:                      | HK\$10 million                                                                                                                                                                                                                                     |
| Attributable interest of the Company: | 100%                                                                                                                                                                                                                                               |
| Scope of business:                    | Wholesale and retail trade in coking coal, iron ore, iron powder and metal products (in the process of obtaining the relevant sales permit allowing this subsidiary to sell thermal coal produced from our Dafanpu Coal Mine and by third parties) |

**Blue Gems**

|                                       |                      |
|---------------------------------------|----------------------|
| Nature of the company:                | BVI business company |
| Place of incorporation:               | BVI                  |
| Incorporation date:                   | 11 December 2009     |
| Authorised shares:                    | 50,000               |
| Par value:                            | US\$1.00             |
| Attributable interest of our Company: | 100%                 |

**Kinetic (Asia)**

|                                       |                           |
|---------------------------------------|---------------------------|
| Nature of the company:                | Limited liability company |
| Place of incorporation:               | Hong Kong                 |
| Incorporation date:                   | 21 January 2010           |
| Registered capital:                   | HK\$229,330,000           |
| Par value:                            | HK\$1.00                  |
| Attributable interest of our Company: | 100%                      |

**FURTHER INFORMATION ABOUT OUR DIRECTORS****Service contracts and letters of appointment of our Directors**

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue, subject to approval of our Shareholders in our general meetings, until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the respective initial fixed term.

Each of our non-executive and independent non-executive Directors has entered into a letter of appointment with our Company on 6 March 2012. Each letter of appointment is for an initial term of three years commencing from the Listing Date.

The current basic annual fees of our executive Directors, non-executive Director and independent non-executive Directors are as follows:

| <b>Name</b>                        | <b>Annual Amount</b> |
|------------------------------------|----------------------|
|                                    | <b>(RMB)</b>         |
| Mr. Zhang Li . . . . .             | 3,000,000            |
| Mr. Wang Changchun . . . . .       | 700,000              |
| Mr. Zhang Liang, Johnson . . . . . | 3,000,000            |
| Ms. Zhang Lin . . . . .            | 240,000              |
| Mr. Shi Xiaoyu . . . . .           | 240,000              |
| Ms. Liu Peilian . . . . .          | 240,000              |
| Mr. Dai Feng . . . . .             | 240,000              |

Except as disclosed above, none of our Directors have entered or has proposed to enter into any service contract with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**Remuneration of our Directors during the Track Record Period**

During the period from 11 December 2009 to 31 December 2009, and each of the years ended 31 December 2010 and 2011, the aggregate amount of remuneration, including fees, salaries, discretionary bonuses, defined contribution plans (including pension), housing and other allowances, and other benefits in kind, paid to our Directors by any member of our Group were nil, approximately RMB500,000 and approximately RMB1,099,000, respectively.

Except as disclosed above, no other payments have been made, or are payable, in respect of the three years ended 31 December 2011, by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration and benefits in kind, excluding discretionary bonuses, payable by any member of our Group to our Directors for the current financial year ending 31 December 2012 will be approximately RMB7,660,000.

**DISCLOSURE OF INTERESTS****Disclosure of Interests*****Interests and short positions of our Directors and the chief executive in our Shares, underlying Shares and debentures and those of our associated corporations following the Global Offering***

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the share option scheme of our Company or the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive in our Shares, underlying Shares and debentures and those of our associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in our Shares, underlying Shares and debentures and our associated corporations:

*Long positions in our Company*

| <u>Name of Director</u>      | <u>Capacity/Nature of interest</u> | <u>Number of Shares</u> | <u>Approximate percentage of interest in our Company</u> |
|------------------------------|------------------------------------|-------------------------|----------------------------------------------------------|
| Zhang Liang, Johnson . . . . | Interest in controlled corporation | 5,307,450,000           | 63.0%                                                    |

***Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO***

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the share option scheme of our Company or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as our Directors are aware, the following persons (not being a Director or our chief executive) are expected to have interests or short positions in our Shares or underlying Shares which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

***Interests and short positions in our Shares and underlying Shares:***

| <b>Name of substantial Shareholder</b> | <b>Capacity/Nature of interest</b> | <b>Number of Shares</b> | <b>Approximate percentage of interest in our Company</b> |
|----------------------------------------|------------------------------------|-------------------------|----------------------------------------------------------|
| King Lok . . . . .                     | Beneficial interest                | 5,307,450,000           | 63%                                                      |
| Cheung Yee Man Elisa . . . . .         | Beneficial interest                | 450,000,000             | 5.3%                                                     |
| Yeung Hoi Ching . . . . .              | Beneficial interest                | 448,500,000             | 5.3%                                                     |
| Luk Ngai Landy . . . . .               | Beneficial interest                | 442,500,000             | 5.3%                                                     |
| Chu Ka Lun Simon . . . . .             | Beneficial interest                | 437,625,000             | 5.2%                                                     |

**Disclaimers**

Except as disclosed in this appendix to this prospectus:

- (a) none of our Directors nor any of the parties listed in the sub-section headed “Other Information — Consents of experts” of this appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to us or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (b) none of our Directors nor any of the parties listed in the sub-section headed “Other Information — Consents of experts” of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business; and
- (c) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.



**SHARE OPTION SCHEME**

The following is a summary of principal terms of the share option scheme of our Company conditionally approved by a resolution of all Shareholders passed on 6 March 2012 and adopted by a resolution of our Board on 6 March 2012 (the “**Adoption Date**”). The terms of the share option scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

**Purpose**

The purposes of the share option scheme are to provide incentives to participants to contribute to our Company through the grant of option(s) to subscribe for Shares (“**Options**”) and to enable our Company to recruit high calibre employees and attract or retain human resources that are valuable to our Group.

**Conditions of the share option scheme**

The share option scheme of our Company shall come into effect on the date on which the following conditions are fulfilled:

- (a) the passing of the necessary resolution to adopt and approve the share option scheme by our Shareholders in an extraordinary general meeting; and
- (b) the approval of the Stock Exchange for the listing of and permission to deal in our Shares to be allotted and issued pursuant to the exercise of options in accordance with the terms and conditions of the share option scheme.

If any of the above conditions are not satisfied on or before 30 days after the date of this prospectus, the share option scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the share option scheme.

**Maximum number of Shares**

The maximum number of Shares in respect of which Options may be granted under the share option scheme when aggregated with the maximum number of shares in respect of any option to be granted under any other share option scheme established by our Company (if any) is that number which is equal to 10% of the issued share capital of our Company immediately following the commencement of dealings in the shares on the Stock Exchange, provided, however, that:

- (a) the maximum number of Shares may be increased or “refreshed”, with the approval of our Shareholders in a general meeting, up to a maximum of 10% of the issued share capital of our Company at the date of such Shareholders’ approval, inclusive of the maximum number of Shares in respect of which options may be granted under another scheme, if any;

- (b) our Company may obtain a separate approval from our Shareholders in a general meeting to permit the granting of Options which will result in the number of Shares in respect of all the Options granted exceeding the then maximum number of Shares provided that such Options are granted only to share option scheme participants specifically identified by our Company before Shareholders' approval is sought (in which case such Options granted shall not be counted towards the then applicable maximum number of Shares); and
- (c) the total maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the share option scheme and any other options granted and yet to be exercised under another scheme shall not exceed 30% of the issued share capital of our Company from time to time.

#### **Maximum entitlement of each participant**

Unless approved by our Shareholders in a general meeting (with the relevant participant and his associates abstaining from voting), no participant shall be granted an Option if the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted to such Participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of our Company from time to time.

The maximum number of shares referred to above will be adjusted, in such manner as the auditors for the time being of our Company or an independent financial adviser shall confirm in writing to the Board in avoidance with the provisions relating to adjustment, in the event of any alteration in the Capital structure of our Company whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction to which our Company is a party.

#### **Offer and grant of Options and option period**

On and subject to the terms of the share option scheme, the Board shall be entitled from time to time on any day on which the Stock Exchange is open for the business of dealing in securities ("**Trading Day**") within 10 years after the Adoption Date to offer to grant to any participant as the Board may in its absolute discretion select and subject to such conditions (including but not limited to imposition of any performance target(s) and/or vesting scale) as the Board may think fit an Option to subscribe for such number of Shares (being a board lot or an integral multiple thereof) as the Board may determine at the Subscription Price.

An offer of the grant of an Option shall be made to a participant by letter in such form as the Board may from time to time determine specifying the number of Shares, the subscription price, any condition (including but not limited to imposition of any performance target(s) and/or vesting scale), the option period in respect of which the offer is made, the date by which the Option must be applied for being a date not more than 28 days after the offer date and further requiring the participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the share option scheme. Such offer shall be personal to the participant concerned and shall not be transferable.

The option period, which is the period during which a grantee may exercise an Option, in respect of an Option shall be determined by the Board. Such period may commence on a day after the offer date and in any event shall end not later than 10 years from the offer date but subject to the early termination provisions of the share option scheme.

#### **Granting Options to connected persons**

An offer of the grant of an Option to a Director, chief executive or substantial Shareholder (other than a proposed independent non-executive director) of our Company or any of their respective associates must be approved by our independent non-executive Directors. Where any grant of Options to a substantial Shareholder or an independent non-executive Director, or any of their respective associates, would result in our Shares issued and to be issued upon exercise of all options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of our Shares in issue; and (b) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by our Shareholders. All connected persons of our Company must abstain from voting in favour at such general meeting.

#### **Offer period and number accepted**

Any offer of the grant of an Option may be accepted or deemed to have been accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of a board lot or an integral multiple thereof. To the extent that the offer of the grant of an Option is not accepted within 28 days from the date upon which it is made in the manner indicated in this paragraph, it will be deemed to have been irrevocably declined. An Option shall be deemed to have been granted and accepted and to have taken effect on the relevant Offer Date when the duplicate letter comprising acceptance of the offer of the grant of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 (or such equivalent in other currency as the Board may specify) by way of consideration for the grant thereof is received by our Company within the specified time period. Such remittance shall in no circumstances be refundable.

#### **Restriction on the time of grant of Options**

An offer to grant an Option shall be made on a Trading Day.

The Board shall not offer the grant of any Option to any participant after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published or disclosed in accordance with the requirements of the Listing Rules. In particular, no Option may be offered during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

- (b) the deadline for our Company to publish our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement.

#### **Minimum holding period, vesting and performance target**

On and subject to the terms of the share option scheme, the Board may in its absolute discretion grant an Option to any participant subject to such conditions (including but not limited to imposition of any vesting and performance target(s) and/or minimum holding period) as the Board may think fit.

#### **Subscription price**

The subscription price in respect of any Option shall be a price determined by the Board and notified to a share option scheme participant (subject to any adjustments made pursuant to the terms and conditions of the share option scheme) which shall be the higher of:

- (a) the closing price of our Shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the relevant offer date, which must be a Trading Day, in respect of such Option;
- (b) the average closing price of our Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the relevant offer date in respect of such Options or where our Company has been listed for less than five trading days, the new issue price shall be used as the closing price; or
- (c) the nominal value of our Shares.

#### **Exercise of Option**

An Option may be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) in the manner as set out in share option scheme by the grantee (or his or her legal personal representative(s)) giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares to be subscribed. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given. Within 28 days after receipt of the notice and the remittance and, where appropriate, receipt of the auditors' certificate pursuant to share option scheme, our Company shall allot and issue the relevant Shares to the grantee (or his or her legal personal representative(s) or his or her nominee) credited as fully paid and issue to the grantee (or his or her legal personal representative(s) or his or her nominee) a share certificate in respect of our Shares so allotted.

Subject as hereinafter provided in the share option scheme, the Option may be exercised by the grantee, in accordance with the terms of the grant letter at any time or times during the option period provided that:

- (a) in the event of the grantee ceasing to be an employee or director of our Company or any subsidiary for any reason other than his or her death or the termination of his or her employment or office on one or more of the grounds specified in the share option scheme, the grantee may exercise the Option up to his or her entitlement at the date of cessation of his or her employment or office (to the extent not already exercised) within the period of one month following the date of such cessation, which date shall be the last actual working day of his employment or office with our Company or the relevant subsidiary whether payment in lieu of notice is made or not (if applicable);
- (b) in the event that the grantee ceases to be an employee or director of our Company or any subsidiary by reason of death and none of the events which would be a ground for termination of his employment or office under the share option scheme has occurred, the legal personal representative(s) of the grantee shall be entitled within a period of 12 months from the date of death (or such longer period as the Board may determine) to exercise the Option in full (to the extent not already exercised);
- (c) if a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) our Company shall use our best endeavours to procure that such offer is extended to all the grantees (on the same terms *mutatis mutandis*, and assuming that they will become, by the exercise in full of the Options granted to them, Shareholders). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantee (or his or her legal personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional;
- (d) in the event of an effective resolution being passed for the voluntary winding-up of our Company or an order of the court is made for the winding-up of our Company, our Company shall give notice thereof ("**winding-up notice**") to all grantees on the same day as such resolution is passed or order is made. The grantee (or his or her legal personal representative(s)) may by notice in writing to our Company within 21 days after the date of the winding-up notice elect to be treated as if the Option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the grantee's notice, such notice to be accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of our Shares the subject of such election; and

- (e) if, pursuant to the Companies Ordinance or the Cayman Companies Law, a compromise or arrangement between our Company and our Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or our amalgamation with any other company or companies, our Company shall give notice thereof to all grantees (together with a notice of the existence of these provisions) on the same date as we despatch to each member or creditor of our Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee (or where permitted, his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her Options in whole or in part at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that Shares issued as a result of the exercise of Options under these provisions shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court) the rights of grantees to exercise their respective Options shall with effect from the date of the making of the order by the court be restored in full and shall thereupon become exercisable (but subject to the other terms of the share option scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of our officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

### **Ranking of Shares**

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment.

A Share issued upon the exercise of an Option shall not carry voting rights until the registration of the grantee (or any other person) as the holder thereof.

### **Life of share option scheme**

Subject to relevant terms of the share option scheme, the share option scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further Options will be offered but the provisions of the share option scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the share option scheme.

**Administration**

The share option scheme of our Company shall be subject to the administration of the Board whose decision (save as otherwise provided) shall be final and binding on all parties.

**Lapse of Options**

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of any of the periods in relation to the exercise of the Option;
- (c) subject to related terms in the share option scheme, the date of the commencement of the winding-up of our Company (as determined in accordance with the Companies Ordinance or the Cayman Companies Law) or such other applicable law in the jurisdiction in which the winding-up takes place;
- (d) the date on which the grantee ceases to be an employee or director of our Company or any of our subsidiaries by reason of the termination of his or her employment or office on any one or more of the grounds that he or she has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board or the board of directors of the relevant subsidiary) on any other grounds on which an employer or principal would be entitled to terminate his or her employment or office at common law or pursuant to any applicable laws or under the grantee's service contract or terms of office with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the employment or office of a grantee has or has not been terminated on one or more of the grounds specified above shall be conclusive; or
- (e) the date on which the grantee commits a breach of the terms and conditions in relation to transferability.

**Adjustment**

In the event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding adjustments (if any) shall be made to:

- (a) the number or nominal amount of Shares, the subject matter of the Option (insofar as it is unexercised); and/or



- (b) the aggregate number of Shares subject to outstanding Options; and/or
- (c) the subscription price; and/or
- (d) the method of exercise of the Option,

as the auditors or an independent financial adviser shall confirm in writing to the Board that the adjustments satisfy the requirements set out in the note to Rule 17.03(13) of the Listing Rules or otherwise comply with the Listing Rules or other rules, practices, directions, future guidance or interpretation of the Listing Rules of or issued by the Stock Exchange in force from time to time including the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes and the overriding principle that no adjustments to the subscription price or the number of Shares should be to the advantage of a grantee without specific prior Shareholders' approval (other than any adjustment made on a capitalisation issue, in which case such adjustment shall be made as the Board shall consider to be in its opinion fair and reasonable). Subject to the foregoing, any adjustment shall be made on the basis that the proportion of the issued share capital of our Company to which a grantee is entitled after such adjustment shall remain as nearly as possible the same as but not greater than that to which he was entitled before such adjustment, but so that no such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustments. The capacity of the auditors or the independent financial adviser is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the grantees. The costs of the auditors or the independent financial adviser shall be borne by our Company.

### **Share capital**

The exercise of any Option shall be subject to the shareholders of our Company in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, the Board shall make available sufficient authorised but issued share capital of our Company to meet subsisting requirements on the exercise of Options.

### **Cancellation of Options not exercised**

Any cancellation of Options granted but not exercised shall be subject to approval by the Board. Where any Option is cancelled and new Option is intended to be granted to the same share option scheme participant, the share option scheme must have available unissued options (excluding the cancelled Option(s)) within the maximum number of shares as aforementioned.

### **Termination of share option scheme**

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the share option scheme and in such event no further Options will be offered but the provisions of the share option scheme shall remain in force in all other respects. All Options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the share option scheme.



**Transferability of Options**

An Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option (save that, for the avoidance of doubt, the grantee may nominate a nominee to hold our Shares to be issued pursuant to the exercise of Options on trust for the sole benefit of such grantee provided that evidence of such trust arrangement between the grantee and the nominee shall be provided to the satisfaction of our Company). Any breach of the foregoing by the grantee shall entitle our Company to cancel any Option granted to such grantee (to the extent not already exercised).

**Amendment of share option scheme**

The share option scheme may be altered in any respect by resolution of the Board except that the provisions in certain definitions and clauses as identified in the share option scheme shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Shareholders in a general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of our Shareholders for the time being of our Company for a variation of the rights attached to our Shares. Any alterations to the terms and conditions of the share option scheme which are of a material nature or any change to the terms of the Options granted shall be subject to the approval of our Shareholders, save where the alterations take effect automatically under the existing terms of the share option scheme. After any alteration, the amended terms of the share option scheme must comply with the relevant requirements of the Listing Rules. Any change to the authority of the Board in relation to any alteration to the terms of the share option scheme shall be subject to the approval of our Shareholders in a general meeting.

**OTHER INFORMATION****Deed of Indemnity**

Our Controlling Shareholders and Mr. Zhang Li have given joint and several indemnities under the Deed of Indemnity to our Company and our subsidiaries in connection with, among other things, (a) any tax liabilities which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received, or deemed to be earned, accrued or received on or before the Listing Date; and (b) all damages, losses and liabilities arising from or in connection with any property claim and/or any other liability claim to the extent that the events leading to such damages, losses and liabilities occurred prior to the Listing Date. For more information, please refer to the section headed “Risk Factors — Risks Relating to Our Business — We have not obtained formal title certificates to certain properties we occupy” in this prospectus.

**Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any member of our Group in the Cayman Islands, Hong Kong and the PRC, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

**Litigation**

As of the Latest Practicable Date, none of the members of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations, financial condition or our rights to explore or mine.

**Preliminary expenses**

Our estimated preliminary expenses are approximately US\$4,900 (equivalent to approximately HK\$38,000) and have been paid by us.

**Sole Sponsor**

The Sole Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our Shares in issue as mentioned herein and our Shares that may be issued upon the exercise of the Over-allotment Option and, our Shares that may be issued upon the exercise of options that may be granted under the share option scheme of our Company. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

**No material adverse change**

Our Directors confirm that there has been no material adverse change in our Group's financial or trading position or prospects since 31 December 2011, the date to which our latest audited consolidated financial statements were made up.

**Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**Miscellaneous**

Except as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

- (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscribing, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company;
- (f) within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid or is to be paid or given to any promoter of our Company;
- (g) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (h) we have no outstanding convertible debt securities or debentures;
- (i) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (j) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.

**Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| <b>Name</b>                                                              | <b>Qualification</b>              |
|--------------------------------------------------------------------------|-----------------------------------|
| KPMG . . . . .                                                           | Certified Public Accountants      |
| Appleby . . . . .                                                        | Cayman Islands attorneys-at-law   |
| Jingtian & Gongcheng . . . . .                                           | PRC legal advisers to our Company |
| Jones Lang LaSalle Corporate Appraisal<br>and Advisory Limited . . . . . | Property valuer and consultant    |
| Runge Asia Limited . . . . .                                             | Technical expert                  |

**Consents of experts**

Each of KPMG, Appleby, Jingtian & Gongcheng, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Runge Asia Limited has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

**Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provide by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.

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## **APPENDIX VII      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

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### **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the appendix headed “Statutory and General Information — Other information — Consents of experts” to this prospectus; and
- (c) a copy of each of the material contracts referred to in the appendix headed “Statutory and General Information — Further information about our business — Summary of the material contracts” to this prospectus.

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Latham & Watkins at 18th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountants’ Reports prepared by KPMG, the texts of which are set out in Appendices IA and IB to this prospectus;
- (c) the audited financial statements for the period comprising the year ended 31 December 2009 and the six months ended 30 June 2010 of Kinetic Coal and the period from 11 December 2009 to 31 December 2009 and each of the years ended 31 December 2010 and 2011 of the Company;
- (d) the letter relating to the unaudited pro forma financial information of our Company, the text of which is set out in Appendix II to this prospectus;
- (e) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the texts of which are set out in Appendix III to this prospectus;
- (f) the report of the technical expert, Runge Asia Limited, the text of which is set out in Appendix IV to this prospectus;
- (g) the rules of the share option scheme of our Company;
- (h) the letter prepared by Appleby summarising the constitution of our Company and certain aspects of Cayman Islands company law, the text of which is set out in Appendix V to this prospectus;

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**APPENDIX VII      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
AND AVAILABLE FOR INSPECTION**

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- (i) the Cayman Companies Law;
- (j) the material contracts referred to in the appendix headed “Statutory and General Information — Further information about our business — Summary of the material contracts” to this prospectus;
- (k) the written consents referred to in the appendix headed “Statutory and General Information — Other information — Consents of experts” to this prospectus;
- (l) the PRC legal opinions issued by Jingtian & Gongcheng, our legal adviser as to PRC law; and
- (m) the service agreements and letters of appointment referred to in the appendix headed “Statutory and General Information — Further information about our Directors — Service contracts and letters of appointment of our Directors” to this prospectus.



**KINETIC MINES AND ENERGY LIMITED**

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