
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Natural Investment Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for onward transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.



China Natural Investment Company Limited
中國天然投資有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 8250)

MAJOR TRANSACTION
AND
NOTICE OF EGM

A notice convening an extraordinary general meeting of the Company to be held at 3/F, Nexxus Building, 77 Des Voeux Road Central, Hong Kong on Friday, 19 July 2013 at 2:30 p.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least seven (7) days from the date of its publication and is available for reference on the website of the Company at <http://www.chinanatural.com.hk>.

28 June 2013

CONTENTS

	<i>Page</i>
Characteristics of GEM	1
Definitions	2
Letter from the Board	6
Appendices	
I. Financial Information of the Group	I-1
II. Accountant’s Report on the Target Company	II-1
III. Accountant’s Report on Mongolia Co	III-1
IV. Management Discussion and Analysis of the Target Group	IV-1
V. Unaudited Pro Forma Financial Information of the Enlarged Group	V-1
VI. Valuation Report	VI-1
VII. General Information	VII-1
Notice of EGM	EGM-1

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares and Sale Loan by the Purchaser pursuant to the Acquisition Agreement
“Acquisition Agreement”	the acquisition agreement dated 7 May 2012 entered into between the Company and the Vendors in relation to the Acquisition as varied from time to time
“Announcement”	the Company’s announcement dated 15 May 2012 in relation to, amongst other things, the Acquisition and the transactions contemplated thereunder
“associate(s)”	the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day(s) on which banks are open for business in Hong Kong (excluding Saturdays and Sundays)
“BVI”	the British Virgin Islands
“CaF ₂ ”	Calcium fluoride, a water insoluble calcium source for use in oxygen sensitive applications and synthetic organic chemistry as further detailed under the heading “Products and Usages” herein
“Company”	China Natural Investment Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	the completion of the Acquisition, which shall take place on the date which is the tenth Business Day after the date of satisfaction (or, if applicable, waiver by the Purchaser) of the conditions precedent in the Acquisition Agreement
“connected person(s)”	the meaning ascribed thereto in the GEM Listing Rules
“Consideration”	the consideration for the Acquisition pursuant to the Acquisition Agreement
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting(s) of the Company to be convened for the purpose of considering and, if thought fit, approving the Acquisition and the transactions contemplated thereunder

DEFINITIONS

“Enlarged Group”	the Group immediately after Completion
“Factory”	the factory owned by the Target Group as detailed herein under the section headed “Background of the Factory”
“First Post Completion Payment”	HK\$31,000,000 in cash (subject to adjustments), being part payment of the Consideration payable within 30 days after the satisfaction of the First Guaranteed Profit, pursuant to the Acquisition Agreement
“First Relevant Period”	the period commencing on 1 July 2012 and ending on 30 June 2013
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons within the meaning of the GEM Listing Rules
“Last Trading Day”	3 May 2012, being the last full trading day on which the Shares were traded on GEM prior to the publication of the Announcement
“Latest Practicable Date”	27 June 2013, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Mine 1”	the mine located at Bayankhagan County, Middle Gobi Province, Mongolia, and the mining licence to exploit fluorites there is held by Mongolia Co
“Mine 2”	the mine located at Airag County, East Gobi Province, Mongolia, and the mining licence to exploit fluorites there is held by Mongolia Co
“Mines”	collectively Mine 1 and Mine 2
“Mining Licence 1”	the mining licence granted by the Mineral Resources and Petroleum Administrative Department in Mongolia to Mongolia Co, on 29 January 2007 in respect of mining of fluorites at Mine 1

DEFINITIONS

“Mining Licence 2”	the mining licence granted by the Mineral Resources and Petroleum Administrative Department in Mongolia to Mongolia Co, on 1 August 2007 in respect of mining of fluorites at Mine 2
“Mongolia Co”	MCTT Company Limited, a wholly-owned subsidiary of the Target Company established in Mongolia
“PRC”	the People's Republic of China
“Profit”	means the audited consolidated net profit after taxation of the Target Group including non-recurring items such as exchange rate difference but excluding extraordinary items, any amounts received or written back for debt or any other provisions and, such profit shall be calculated by reference to the prevailing generally accepted accounting principles, standards and practices in Hong Kong adopted by the Company and determined by the auditors of the Company
“Purchaser”	Huge Discovery Limited, a company incorporated in BVI and being an indirect wholly-owned subsidiary of the Company
“Sale Loan”	means all amounts owed by any member of the Target Group to the Vendors (excluding the amount of the Deposit made as shareholders’ loan as contemplated in the section headed “Consideration” in this circular) at the time of Completion
“Sale Shares”	means 100 issued and fully paid shares of US\$1 each in the capital of the Target Company representing 100% of the share capital of the Target Company as at the date of the Acquisition Agreement
“Second Post Completion Payment”	HK\$43,000,000 in cash (subject to adjustments), being part payment of the Consideration payable within 30 days after the satisfaction and/or top up of the Second Guaranteed Profit, pursuant to the Acquisition Agreement
“Second Relevant Period”	means the period commencing on 1 July 2013 and ending on 30 June 2014
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Charge”	the charge over the entire issued share capital of the Target Company executed by the Vendors on signing of the Acquisition Agreement to secure the repayment of the Deposit by the Vendors in the event of non-completion of the Acquisition Agreement

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholders”	the holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Company”	Sino-Mongolia Fluorspar Mining Co., Ltd., a company incorporated in BVI with limited liability
“Target Group”	the Target Company and Mongolia Co
“Vendors”	collectively Ms. Chen Yejun and Mr. Huang Tianhua
“%”	percentage

LETTER FROM THE BOARD



China Natural Investment Company Limited 中國天然投資有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 8250)

Executive Directors:

Mr. LI Wai Hung
Mr. CAI Da
Mr. CHEN Liang
Mr. CHEN Youhua
Ms. XIONG Yun Huan

Registered Office:

PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Independent non-executive Directors:

Mr. TAM B Ray, Billy
Mr. CHI Chi Hung, Kenneth
Mr. YAN Shengxian

*Head office and principal place of
business in Hong Kong:*

Unit 1903, 19th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

28 June 2013

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND NOTICE OF EGM

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Acquisition. On 7 May 2012, the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendors entered into the Acquisition Agreement (as amended pursuant to deeds of variation dated 13 September 2012, 30 October 2012, 31 December 2012, 30 April 2013 and 7 May 2013 respectively), pursuant to which, among other things, the Purchaser has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the Sale Shares and the Sale Loan at a total consideration of HK\$148,000,000 (subject to adjustments), which will be satisfied in cash according to the terms and conditions of the Acquisition Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, further information regarding (i) details of the Acquisition; (ii) financial information of the Target Group and the Enlarged Group; (iii) a valuation report and (iv) a notice of the EGM.

THE ACQUISITION AGREEMENT

Date

7 May 2012

Parties

Vendors: Ms. Chen Yejun and Mr. Huang Tianhua (holders of 60 Sale Shares and 40 Sale Shares respectively).

Purchaser: Huge Discovery Limited, an indirect wholly-owned subsidiary of the Company

Ms. Chen Yejun and Mr. Huang Tianhua are the legal and beneficial owners of the entire issued share capital of the Target Company (as to 60% and 40% respectively) and, to the best of the Directors' knowledge, information and belief having made reasonable enquiries to ascertain the same, are Independent Third Parties. The Vendors previously either personally or through their connected parties held a proportional interest in the ex-shareholders of Mongolia Co with such percentage shareholding (since August 2010 until January 2012) the same as that is currently held by them in the Target Company.

The Acquisition was introduced to the Company by Mr. Chen Liang, the executive Director and the Chief Executive Officer of the Company, who became acquainted with Mr. Huang Tianhua through his social networks in the mineral industry. There is no prior business relationship or other relationship between the Vendors and the Group and its connected persons.

Assets to be Acquired

The Sale Shares, representing the entire issued share capital of the Target Company and, the Sale Loan.

The Target Company is the indirect beneficial owner of the Mines and the Factory through Mongolia Co. The businesses of the Target Group include mining, exploration, processing and trading of fluorites. As at the Latest Practicable Date, the principal business of the Target Group is processing of fluorites (since the processing of fluorite powders at the Factory commenced in July 2012). Further information on the Target Company, Mongolia Co, the Mines and the Factory are set out in the paragraph headed "INFORMATION OF THE TARGET GROUP" below.

LETTER FROM THE BOARD

The Consideration

The Consideration for the Acquisition is HK\$148,000,000 (subject to adjustments) of which:-

- (i) a refundable deposit of HK\$32,500,000 (the "Deposit") was placed with the Vendors following the signing of the Acquisition Agreement, subject to the execution of the Share Charge;
- (ii) HK\$41,500,000 will be paid to the Vendors in cash (in the proportion as to their shareholding interest in the Target Company) on Completion;
- (iii) HK\$31,000,000 (or part hereof) will be paid to the Vendors in cash (in the proportion as to their shareholding interest in the Target Company) within 30 days after and subject to the satisfaction of the First Guaranteed Profit; and
- (iv) HK\$43,000,000 (or part hereof) will be paid to the Vendors in cash (in the proportion as to their shareholding interest in the Target Company) within 30 days after and subject to the satisfaction and/or top-up of the Second Guaranteed Profit.

The Vendors shall, upon having received the Deposit, place such amount in the form of interest-free shareholders' loan with the Target Company as general working capital of the Target Group. On Completion, the Company shall repay or procure the repayment of the shareholders' loan made by the Vendors to the Target Company in the amount of the Deposit.

The Consideration was determined after arm's length negotiations between the Company and the Vendors with reference to various factors, including: (i) the unaudited consolidated book value of total assets of approximately HK\$40,600,000 of the Target Group as at 29 February 2012, which was largely contributed by the Factory; (ii) the adjustment provisions to the Consideration that any shortfall, which is limited to the maximum guaranteed amounts from the First Guaranteed Profit and the Second Guaranteed Profit, shall be deducted from the Consideration. If the Target Group fulfills the First Guaranteed Profit and the Second Guaranteed Profit, the average profit of the Target Group for the two guaranteed periods will be at least HK\$37,000,000, and the resultant price earning (P/E) ratio will be 4 times, which is considered reasonable and fair by the Directors after making reference to the relevant P/E ratio of companies engaged in the mining and processing business listed in Hong Kong. On the other hand, if the performance of the Target Group breaks even only, the Consideration will be automatically adjusted to HK\$74,000,000, which means the Consideration will be paid for the net assets acquired from the Target Group. According to note 1.5 on page V-4 in Appendix V "Unaudited Pro Forma Financial Information of the Enlarged Group", the fair value of net assets acquired amounts to approximately HK\$61,794,000, a premium of HK\$12,206,000 will arise, such premium represents the prospect of running the fluorite processing business. As further elaborated on the analysis of future prospect of the fluorite business of the Target Group on page 32, under the section heading "REASONS FOR THE ACQUISITION" and the competitive advantages of the Factory in the region on page 20 under the section heading "BUSINESS AND REVENUE MODELS OF THE TARGET GROUP", the Directors consider the premium for the Consideration to be justifiable. The profit guarantees were determined primarily with reference to the estimated profit contributed from the processing of fluorites at the Factory and the trading of fluorite ores. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no profit/loss in respect of the Mines was taken into account at all in formulating the profit guarantees.

LETTER FROM THE BOARD

Based on all the factors set out above, and taking into consideration that Completion is subject to, amongst other things, the Purchaser having received a valuation report on the fair value of the total equity interest of the Target Group prepared by an independent valuer to its satisfaction, of which the content and result are satisfactory to the Purchaser in its absolute discretion, the Directors consider that the Consideration is fair and reasonable. The valuation report is set out in Appendix VI to this circular. In assessing the fairness and reasonableness of the consideration with respect to inter alia, the valuation report, the Directors have taken into account of the reputation, assumptions and methodology used by the valuer in coming to their conclusion.

In respect of financing the Acquisition, the Board considers it is not appropriate to use the net proceeds from the open offer conducted by the Company on 28 February 2012 to settle the Consideration as the portion of the proceeds raised which is intended to be used for future investment is not enough to satisfy the Consideration. In addition, the Group would still require working capital throughout the current period and following Completion and accordingly, the open offer proceeds have been reserved for its initial purpose and not used for the Acquisition. As such, the Directors intended to apply the aggregate amount raised from the Share Placing and the CN Placing (each as defined in the Announcement) to satisfy the Consideration and any remaining amount, if any, for general working capital of the Enlarged Group. Both the Share Placing and the CN Placing have been completed and net amounts of approximately HK\$48.2 million and HK\$96.5 million were raised there from respectively. Up to the Latest Practicable Date, HK\$9.5 million has been utilised for payment of the 2nd refundable deposit pursuant to the supplemental agreement entered on 7 May 2013 in relation to the Acquisition; HK\$11 million advanced to an Independent Third Party as interest-bearing short-term loan; approximate HK\$3 million for the set-up of the new office in Shenzhen, PRC and approximately HK\$4.5 million for overhead of the headquarters of the Company. As the proceeds of CN Placing and the Share Placing were disclosed to be used for the Acquisition with any remaining balance to be used for general working capital of the Enlarged Group, the majority of the net proceeds of the CN Placing and the Share Placing have been utilized as intended. As at the Latest Practicable Date, no future investment opportunities other than the Acquisition have been identified by the Group.

Conditions Precedent

Completion is conditional upon the following conditions being fulfilled and remaining fulfilled or waived by the Purchaser as at Completion:–

- (i) the passing by the Shareholders of a resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at a general meeting of Company in accordance with the GEM Listing Rules;
- (ii) Mongolia Co having legally and validly obtained Mining Licence 1 and Mining Licence 2 to exploit fluorites from the Mines;

LETTER FROM THE BOARD

- (iii) the due diligence investigation on the Target Group to be carried out pursuant to the Acquisition Agreement having been completed to the satisfaction of the Purchaser in its sole discretion including but not limited to the issue of a legal opinion in form and substance satisfactory to the Purchaser by a practising lawyer in Mongolia, appointed by the Purchaser confirming, inter alia, the following:–
 - (a) the due incorporation, valid and continued existence of Mongolia Co (including payment of its registered capital in accordance with Mongolian laws and its articles of association, to the extent required);
 - (b) the validity of Mining Licence 1 and Mining Licence 2 obtained for Mine 1 and Mine 2 respectively;
 - (c) that Mining Licence 1 and Mining Licence 2 give the Target Group valid, unconditional, unrestricted and irrevocable rights to exploit fluorites at the Mines;
 - (d) the legality and effectiveness of the Share Charge under BVI and Mongolian laws, if any; and
 - (e) the legal ownership of the Factory.
- (iv) all consents of the Stock Exchange and the Securities and Futures Commission (if necessary) and all filings with any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, Cayman Islands, BVI or elsewhere which are required or appropriate for the entering into and the implementation of the Acquisition Agreement having been given or made; all waiting periods required under the laws of Hong Kong, Cayman Islands, BVI or any other relevant jurisdictions having expired or terminated; and all applicable statutory or other legal obligations having been complied with;
- (v) receipt by the Purchaser to its satisfaction and in its sole discretion of a valuation report on the fair value of the total equity interest of the Target Group issued by an independent professional valuer appointed by the Purchaser;
- (vi) written evidence of the registration of the Target Company as holder of the entire registered capital of Mongolia Co by the relevant Mongolian government authority;
- (vii) since the date of the Acquisition Agreement and up until the date of Completion, there is no occurrence of any event which would lead to or its result would lead to material adverse change to the financial, business, assets, intellectual properties, employees, operational results or prospects of the Target Group;
- (viii) the warranties as given by the Vendors in the Acquisition Agreement remaining true, accurate and correct in all material respects; and
- (ix) the Purchaser or its holding company having successfully conducted a fund raising exercise of raising not less than HK\$150 million.

LETTER FROM THE BOARD

If the above conditions precedent have not been fulfilled or waived on or before 5:00 p.m. on 31 July 2013 (or such later date as the Vendors and the Purchaser may agree in writing) and the non defaulting party may give notice to the other party to terminate the Acquisition Agreement, whereupon the Acquisition Agreement shall thereupon terminate. On termination of the Acquisition Agreement, the parties hereto shall have no further claims against the other under the Acquisition Agreement for costs, damages compensation or otherwise, save for antecedent breaches. Conditions (i) and (iv) cannot be waived.

As at the Latest Practicable Date, conditions (ii), (iii), (v), (vi) and (ix) have been fulfilled and there is currently no intention to waive conditions (vii) and (viii):

Profit Guarantee, Share Charge and Liabilities

- (i) The Vendors have jointly and severally, irrevocably and unconditionally guaranteed to the Purchaser that the Profit for the First Relevant Period shall not be less than HK\$31,000,000 (the “**First Guaranteed Profit**”). In the event the Profit for the First Relevant Period shall be less than HK\$31,000,000, the Vendors agree that the shortfall shall be deducted from the First Post Completion Payment on a dollar for dollar basis. The maximum amount of deduction is the sum equal to the amounts guaranteed.

To the extent that the actual Profit for the First Relevant Period exceeds the First Guaranteed Profit, the excess of the Profit over the First Guaranteed Profit may be carried forward in calculating the Profit for the Second Relevant Period.

- (ii) The Vendors have jointly and severally, irrevocably and unconditionally guaranteed to the Purchaser that the Profit for the Second Relevant Period shall not be less than HK\$43,000,000 (the “**Second Guaranteed Profit**”). In the event the Profit for the Second Relevant Period, together with the excess of the Profit over the First Guaranteed Profit (if any), shall be less than HK\$43,000,000, the Vendors agree that the shortfall shall be deducted from the Second Post Completion Payment on a dollar for dollar basis. The maximum amount of deduction is the sum equal to the amounts guaranteed.
- (iii) The Vendors have entered into a share charge on the entire issued share capital of Target Company, in favour of the Purchaser, as security for the return and repayment of the Deposit in the event of non-Completion.
- (iv) On Completion, the Vendors have jointly and severally warranted to the Purchaser that any debts (except for the Deposit) owed by the Target Group to the Vendors shall be transferred from the Vendors to the Purchaser at nil consideration.
- (v) The Vendors have jointly and severally warranted to the Purchaser that the Target Group shall have no liabilities and/or debts due to any third parties (other than the Vendors) on Completion. To the extent that the accounts prepared post Completion show that the Target Group has liabilities owed to any third parties (other than the Vendors) as at the date of Completion, the Vendors have agreed to jointly and severally indemnify the Purchaser on a dollar-for-dollar basis of any such liabilities.

LETTER FROM THE BOARD

The profit estimation for the First Guaranteed Profit and the Second Guaranteed Profit was made by the Vendors purely based on their experience and assumptions in relation to the trend of the selling prices of fluorite products and the operating costs of trading and processing of fluorite. The profit guarantees are also based on the estimated profit contribution from the processing of fluorite from the Factory and the trading of fluorite.

Completion

Completion shall take place on the 10th Business Day (or such other date as may be agreed in writing by the Purchaser and the Vendors) after all the conditions precedent to the Acquisition Agreement have been fulfilled (or, if applicable, waived by the Purchaser).

On Completion, the Purchaser shall repay or procure the repayment of the shareholders' loan made by the Vendors to the Target Company in the amount of the Deposit.

Pursuant to the Acquisition Agreement, on Completion, the Vendors are obligated to procure, among other things, the retaining of the key management of the Mongolia Co as agreed by the Purchaser and the Vendors for not less than 3 years. Following Completion, Mr. Huang Tianhua, one of the Vendors, will continue in his current role as the general manager of the Mongolia Co but will not become a director or chief executive or controlling shareholder of any member of the Company or the Target Group. The profiles of the key management are set out in the section headed "Management of the Target Group" on page 33 to this circular.

Neither the Purchaser nor the Vendors shall be obliged to complete the Acquisition Agreement or perform any obligation thereunder unless both of them complies fully with the requirements of the Acquisition Agreement. Without prejudice to any other remedies which may be available to the non-defaulting party thereunder, if any provision of the Acquisition Agreement is not complied with on the date of Completion, the non-defaulting party may:

- (i) defer Completion to a date falling not more than 28 days after the original date of Completion (so that the provisions of the Acquisition Agreement shall apply to the deferred Completion) provided that, time shall be of the essence as regards the deferred Completion and if Completion is not effected on such deferred date, the non-defaulting party may rescind the Acquisition Agreement and claim damages from the other; or
- (ii) proceed to Completion so far as practicable (but without prejudice to the non-defaulting party's right thereunder) insofar as the defaulting party shall not have complied with its obligations thereunder; or
- (iii) treat the Acquisition Agreement as terminated for breach by the defaulting party of a condition of the Acquisition Agreement.

Following Completion, the Target Company will become a wholly-owned subsidiary of the Company and its financial results will be consolidated into that of the Group.

LETTER FROM THE BOARD

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company for the purpose of holding the 100% equity interest in Mongolia Co. Mongolia Co is a company established in Mongolia in August 2005 and holds the legal titles to Factory and the mining licences at the Mines. The businesses of the Target Group include mining, exploration processing and trading of fluorites. As at the Latest Practicable Date, the principal business of the Target Group is trading of fluorite ores and processing and sales of fluorite particles (the processing of fluorite at the Factory has commenced since July 2012). In carrying out its fluorite trading business, the Target Group historically sourced most of its supplies from Independent Third Parties and a minor portion by small scale mining from the Mines.

Since the incorporation of Mongolia Co in 2005, Mongolia Co had been engaged primarily in the trading of fluorite ores for the period prior to July 2012. For period prior to 2009, Mongolia Co sourced most of the fluorite ores from outside suppliers for its fluorite ores trading business. In 2009, the management of Mongolia Co decided to invest most of its resources to establish a fluorite processing factory in light of the lack of fluorite particles processing factory in Mongolia, especially in the region where the Mines are located. Mongolia Co thereby started the construction of the Factory in 2010 and the Factory was established and began its operation in July 2012. Because of the reason mentioned above, during the years prior to 2012, Mongolia Co's turnover, arising from the sales of fluorite ores, demonstrated a decreasing trend which can be shown from the audited financial information of Mongolia Co as set out Appendix III to this circular.

Since the operation of the Factory in July 2012, the turnover of Mongolia Co for the year ended 31 December 2012 arose mainly from the sales of fluorite particles with contents of CaF_2 up to 97%. Ever since its incorporation, Mongolia Co has only one customer, Tianjin Fluorspar International Trading Co., Ltd (天津瑩石國際貿易有限公司) ("Tianjin Fluorspar"), a company established in PRC and owned by parties which are connected with the shareholders of Mongolia Co. Tianjin Fluorspar sells the fluorite ores and particles to PRC customers. Subsequent to the completion of the Acquisition, instead of selling to Tianjin Fluorspar, the fluorite products of Mongolia Co will be sold directly to the Enlarged Group's PRC and overseas customers, who are engaged in the fluorite chemical industry.

The maximum fluorite ores processing capacity of the Factory is up to 65,000 tonnes of fluorite ores per year. The major raw materials of the Factory are fluorite ores with lower CaF_2 content and chemicals to extract CaF_2 from the fluorites ores. For reasons of (i) the small scale mining operations in Mine 1; and (ii) no substantive exploration works has yet been performed in Mine 2, Mongolia Co will source certain of the fluorite ores from other mine owners in the nearby region for the coming year. As mentioned above in this section, the reserve of fluorite ores in the nearby region is comparably high as compared to the annual maximum processing capacity of the Factory, as a result, the Board and the management of the Mongolia Co are confident in the supplies of fluorites ores for the Factory.

Background of the Mines

The mining licences of the Mines are granted to Mongolia Co by the Mineral Resources Authority of Mongolia. No substantive exploration works and evaluation of mineral reserves/resources in respect of the Mines have been conducted up to the Latest Practicable Date. The Company has no current intention to

LETTER FROM THE BOARD

develop the Mines. In the event that following Completion, the Group intends to pursue to carry on the business of mining at the Mines, it will comply with the requirements of Chapter 18A of the GEM Listing Rules, if applicable.

Mine 1

Mine 1 is located at Bayankhagan County, Middle Gobi Province, Mongolia. It is about 250km from the Ulaanbaatar City, Mongolia and 75 km from the Factory, covering a total area of approximately 50 hectares. Small scale mining has been conducted currently.

Mine 2

Mine 2 is located at Airag County, East Gobi Province, Mongolia. It is about 360km from the Ulaanbaatar City, Mongolia, 90km from the Factory and 28km from the railway stations of Airag County, covering a total area of approximately 314 hectares. No production has been commenced to date for Mine 2.

The Mining Licences

	Mine 1	Mine 2
Mining licence no.	12162A	12605A
Terms of licence	29 January 2007 to 28 January 2037	1 August 2007 to 30 July 2037

Background of the Factory

The processing factory is located at the Qiaoyier City, Gobi Sumubeier Province, Mongolia. The public infra-structures over the location were well developed. The Factory is only 10km from the Mongolia National Railway. The gross floor area of the Factory is approximately 53,000 m² with estimated annual production capacity of up to 65,000 tonnes of fluorite ores. Processing of fluorite particles at the Factory commenced in July 2012.

Products and Usages

The fluorite products of the Factory are categorized into the following three grades, according to the contents of CaF₂ in the fluorite powders.

(1) Metallurgical-grade fluorite

The content of CaF₂ for this grade of fluorite ranges from approximately 60% to approximately 85%, being the lowest grade of fluorite products. This grading of fluorite products has traditionally been used as a flux to lower the melting point of raw materials in steel production to aid the removal of impurities, and in the production of aluminium.

LETTER FROM THE BOARD

(2) *Ceramic-grade fluorite*

The content of CaF₂ for this grade of fluorite ranges from approximately 85% to approximately 95%. This grading of fluorite products is used in the manufacture of opalescent glass, enamels and cooking utensils.

(3) *Acid-grade fluorite*

The content of CaF₂ for this grade of fluorite is approximately 97% or more, being the highest grade of fluorite products. This grading of fluorite products accounts for over 50% of fluorite consumption in the world and is used to make hydrogen fluoride and hydrofluoric acid, which are the major raw materials in the production of a variety of key ingredients of organic and inorganic fluoride and fluorine. In the medical industry, fluoro-organic compounds can be used in the manufacture of fluorine containing anti-cancer drugs, fluorine-containing cortisone, fluorocarbon-containing artificial blood.

In chemical industry, inorganic fluorine can be used in the manufacture of insecticides, preservatives, additives, flux and antioxidants. In the aluminium industry, hydrofluoric acid is used for the production of aluminium fluoride, cryolite, magnesium fluoride and sodium fluoride. In aviation and aerospace industry, hydrofluoric acid is mainly used to produce jets of liquid propellants and missile air-jet fuel rich propellant.

DUE DILIGENCE, ASSESSMENT AND FINDINGS

The Directors have discussed with the Vendors on the business plan of the Target Group and as at the Latest Practicable Date, have conducted appropriate due diligence work and assessment on the Target Group which include, inter alia,;

- 1 engaging Mongolian legal advisers to conduct a legal due diligence exercise on the Target Company and Mongolia Co including but not limited to the followings:
 - i on the due incorporation, valid and continued existence of Mongolia Co (including payment of its registered capital in accordance with Mongolian laws and its articles of association, to the extent required);
 - ii on the legality and effectiveness of the Share Charge under BVI and Mongolian laws;
 - iii on the legal ownership of the Factory;
- 2 engaging an independent valuer to prepare the relevant valuation report. The Directors have reviewed the basis and assumptions adopted in the valuation report and consider them to be fair and reasonable. The Directors have also assessed the independence and qualifications of the valuer and are satisfied that the valuer is an Independent Third Party and possesses the necessary qualifications to carry out the valuation;
- 3 reviewing written evidence of the registration of the Target Company as holder of the entire registered capital of Mongolia Co by the relevant Mongolian government authority;
- 4 engaging reporting accountant to conduct an audit on the Target Group's financial position. The Directors have reviewed the accountant' report on the Target Group and consider their opinion to be fair and reasonable;

LETTER FROM THE BOARD

- 5 reviewing and studying the technology used in the processing of fluorite particles in relation to the viability of the production methodology adopted by Mongolia Co while visiting other processing factory in the region nearby;
- 6 conducting site visits on Mongolia Co and meeting and discussing with key personnel responsible of Mongolia Co's management and operation and understanding their views on the affairs and prospects of Mongolia Co;
- 7 conducting site visits on the infrastructure and transportation system around the Factory, site visit on the Factory, examining the major operational equipments and the periphery transportation facilities nearby; it is found that the public infra-structure over the area were well developed. The Factory is only 10km from the Mongolia National Railway, which makes it convenient for the transportation of both raw material and finished products for export or delivery;
- 8 reviewing the business plan and business model of Mongolia Co including the revenue source, target customer, cost elements, etc.;
- 9 reviewing all material contracts entered into by the Target Group;
- 10 researching on the fluorite industry in general, and in particular in Mongolia, the Directors are of the view that the prospects of same are promising.

The Company is satisfied with the results of the due diligence review on the Target Group and no material irregularities have been brought to the attention of the Board.

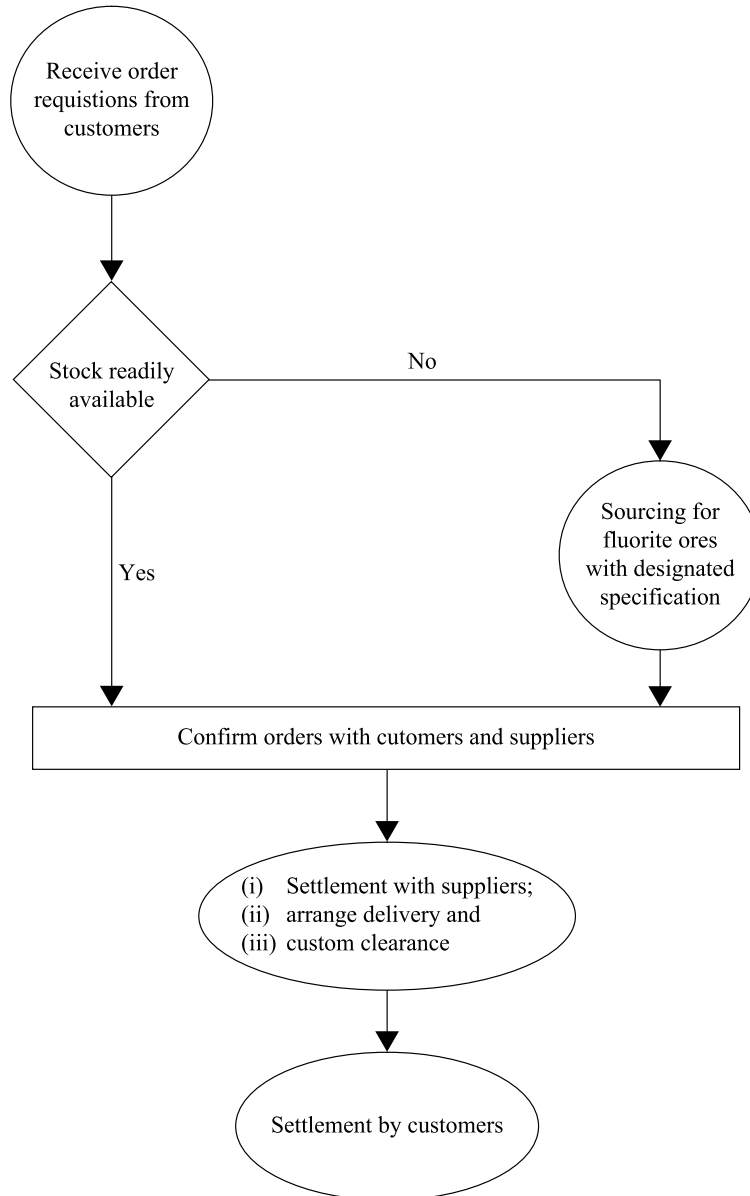
BUSINESS AND REVENUE MODELS OF THE TARGET GROUP

The Target Group is principally engaged in (i) trading of fluorite ores and (ii) processing and sales of fluorite particles.

LETTER FROM THE BOARD

Trading of fluorite ores

Diagram 1: Operation flow on trading of fluorite ores



The Target Group sources most of the fluorite ores from over 10 independent suppliers within radiation of 300 km from the Factory by trucks and maintains a low level of stock. When receiving the customer order requisition, the sales team will review the customer requirements and see if stock is readily available. If the available stock cannot satisfy the customer needs, the purchasing team will source the pricing and availability of fluorite ores from the suppliers. If the customer and suppliers' product specification and the price are matched, the Target Group will confirm orders with customer and suppliers. Under the existing arrangement, the Target Group is responsible for arranging the custom clearance and the customers will be

LETTER FROM THE BOARD

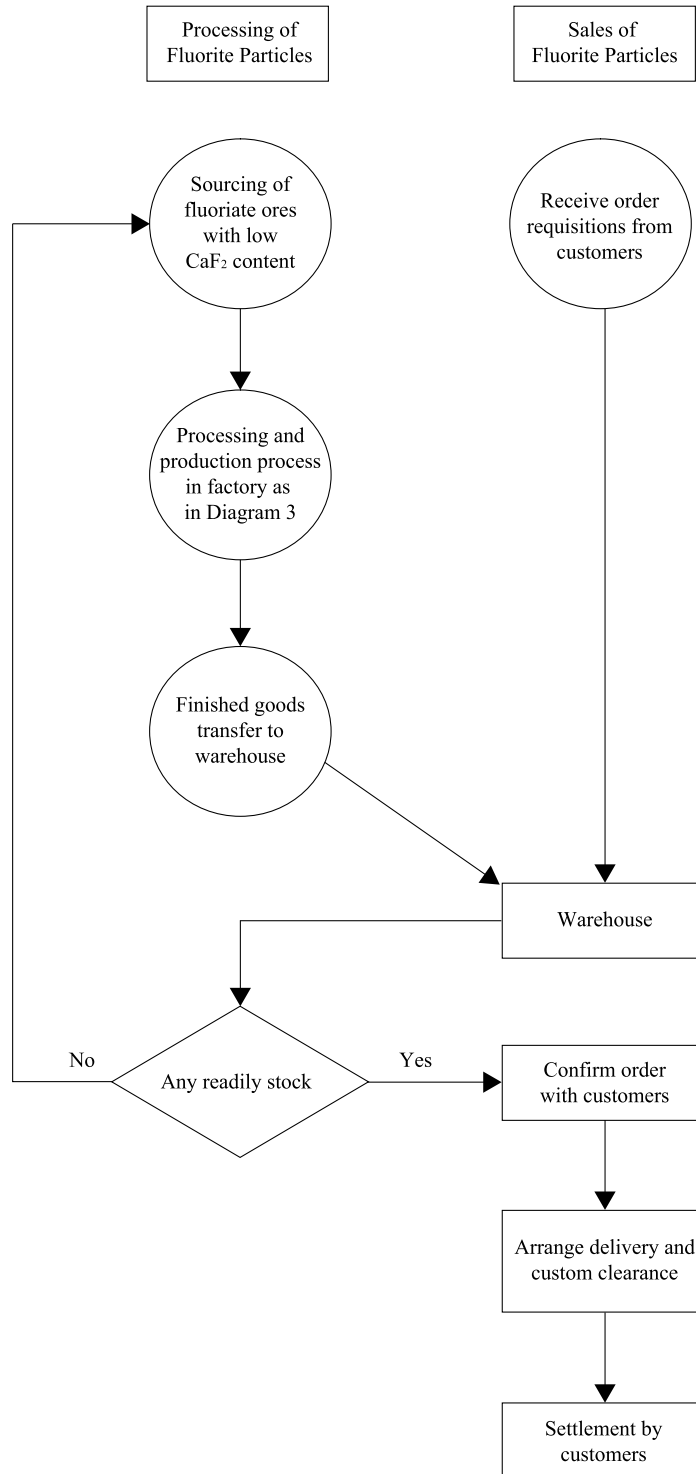
responsible for arranging their own transportation thereafter. Generally, the purchase proceeds to the suppliers are settled by cash on delivery and the sales proceeds from the customer are settled by bank transfer under credit terms to the customer of approximately 60 days.

Since the incorporation of the Mongolia Co, there has been only one customer which is a company incorporated in PRC and owned by parties which are connected with the shareholders of the Mongolia Co. Upon Completion, existing end customers of that single customer will be transferred to Mongolia Co. The Target Group is focusing on independent prospective customers engaging in the fluorite chemical industry in both PRC and overseas and expanding its sales network by direct approach and referral by customers. The selling price of the fluorite ores to customers is determined by market-oriented pricing approach based on the available market information and the quantity ordered by the customers. The major raw material is the fluorite ores with CaF_2 content greater than 60% for trading purpose and lower CaF_2 content for processing, and the Target Group has no specific procurement plan for fluorite ores as the management considers that there are sufficient supplies readily available nearby the Factory and in general, the competitive advantage of the Target Group on the business are the abundant supply of fluorite ores nearby and the well established sales network established by especially Mr. Huang, since the set-up of Mongolia Co in 2005 and the expected extension on the sales network arising from the cooperation of the management of the Target Group and the Company after the Acquisition. The weakness which the Target Group faces is the suspension of trading activities during January to March each year, being the Winter season in Mongolia, when climate is cold and harsh.

LETTER FROM THE BOARD

Processing and sales of fluorite particles

Diagram 2: Operational flow on processing and sales of fluorite particles



LETTER FROM THE BOARD

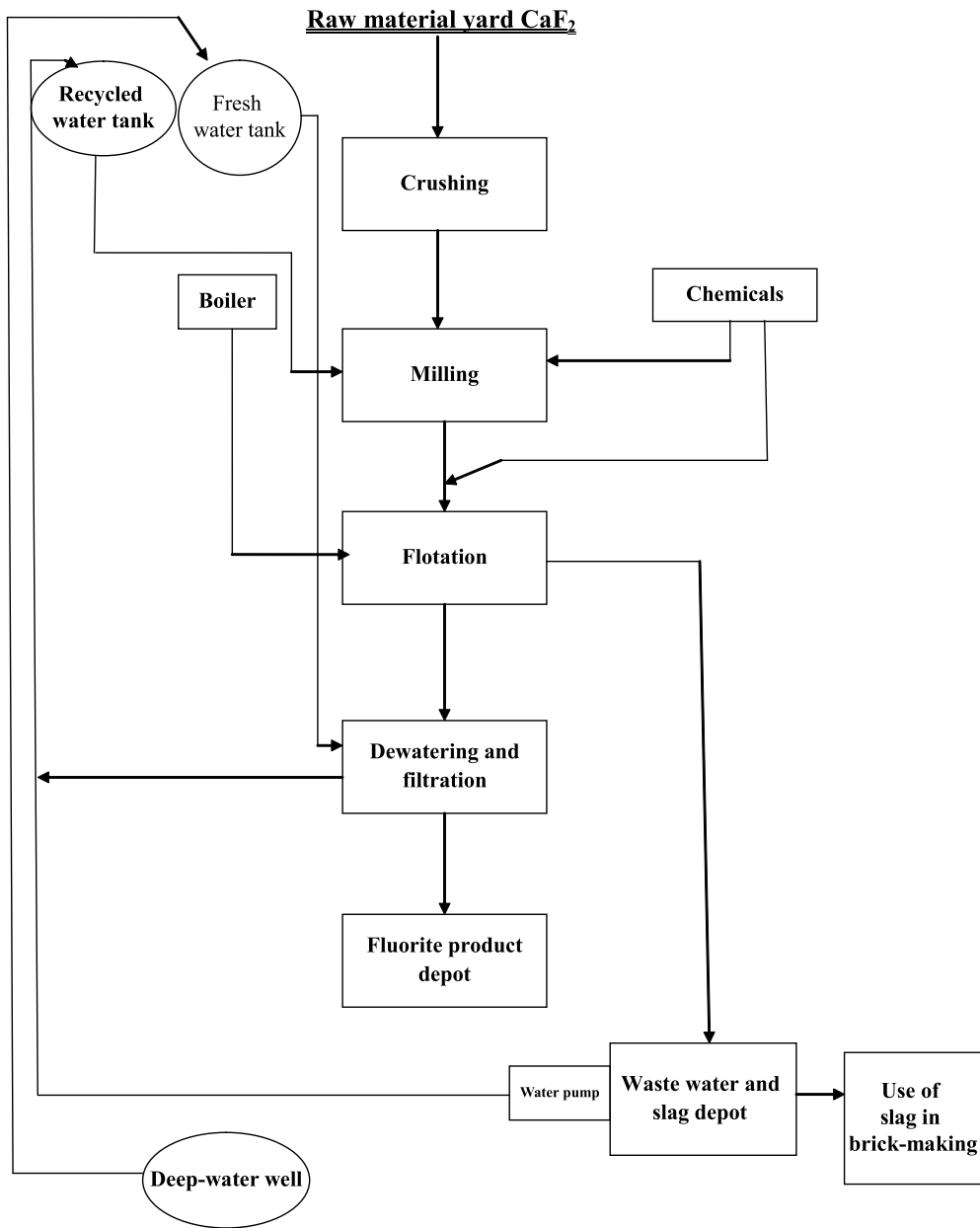
The Target Group is able to process fluorite ores with lower CaF₂ content into fluorite particles with higher CaF₂ content and sales of fluorite particles of different grades of products including the Metallurgical-grade fluorite, Ceramic-grade fluorite and Acid-grade fluorite (as introduced under the paragraph headed “Background of the Factory”). The purchasing team sources the pricing and availability of lower-fluorite content fluorite ores from over 10 independent suppliers within radiation of 300km from the Factory by trucks and railway and the Factory utilizes its production lines to produce and sell the fluorite particles in different grades based on management’s sales forecast and/or customer order. The detailed processing procedure is set out below in Diagram 3.

When receiving the customer order requisitions, the sales team will review the customer requirements and stock availability. If the available stock cannot satisfy the customer needs, the purchasing team will source the pricing and availability of lower-grade fluorite ores from suppliers for the Factory's processing. The Factory has procurement plans to maintain sufficient quantity of raw materials to meet at least one-month’s production. If the customers’ product specification, pricing and delivery schedule are confirmed, the Target Group will confirm orders with customers. Under the existing arrangement, the Target Group is responsible for arranging the custom clearance and the customers will be responsible for arranging their own transportation thereafter. Generally, the purchase proceeds to the suppliers are settled by cash on delivery and the sales proceeds from the customer are settled by bank transfer under credit term of approximately 60 days.

Since the incorporation of the Mongolia Co., there has been only one customer, which is a company incorporated in PRC and owned by parties who are connected with the shareholders of the Mongolia Co. Upon Completion, existing end customers of that single customer will be transferred to Mongolia Co. The Target Group is focusing on prospective customers engaging in the fluorine chemical industry in both PRC and overseas and expanding its sales network by direct approach and referral by customers. The selling price of the fluorite particles will be determined by market-oriented pricing approach based on the available market information and the quantity ordered by the customers. The major raw materials are fluorite ores with CaF₂ content around 50% and chemicals used in the processing procedure. The Target Group has no material capital commitment and intends to expand its production capacity by further investment on plant and machinery. The competitive advantages of the Target Group on the processing and sales of fluorite particles include: (i) the abundant supply of fluorite ores with lower CaF₂ content at low costs arisen from the low local demand for lower-CaF₂ content fluorite ores as a result of the local market characteristic that the fluorite mine owners in the region only focus on trading of higher-CaF₂ content fluorite ores which are generally considered of higher commercial value; (ii) scarcity of processing factory in the region concerned giving the high barrier of entrance for setting up new processing factory due to the lack of supplies of construction materials and relevant technicians in setting up a processing factory and the harsh weather in Winter season in Mongolia. As a result, it normally takes at least two to three years to set up a similar processing factory; (iii) the relatively lower cost for further expansion subsequent to the Factory establishment; and (iv) relatively lower logistics costs with a well-developed infrastructure and proximity to key railway station and highway for transportation. The disadvantage is its regular operation suspension during January to March each year, being the Winter season with harsh climate in Mongolia.

LETTER FROM THE BOARD

Diagram 3: Processing procedure



(i). Crushing process:

Crushed by coarse and fine crushers, coarse secondary ores (fluorite ores) are reduced into fine ore grains to provide suitable ore grains for use in milling process that follows.

(ii). Milling process:

Mills mill the qualified ores grains crushed by the crushers in the preceding process: In the ball mill, ores are impacted and grinded by steel balls with different specifications during dynamic rotation and further refined to achieve the separation of fluorite and gangue. Water is added to produce pulp of certain

LETTER FROM THE BOARD

concentration, which is then put into the spiral grader for grading; unqualified ores are collected and sent back to the mills for milling once again. Qualified mesh size maintain the consistency of pulp concentration for use in flotation process.

(iii). Flotation process:

In the flotator, collectors (grease), regulators and depressants (chemicals) are added to pulp milled by the ball mill with qualified mesh size and concentration and mixed mechanically and aerated to form bubbles. Steam is used to keep the pulp temperature suitable for dissolving grease in water completely.

(iv). Dewatering and filtration process for fluorite products:

Products from the flotation process (high CaF₂ content pulp) will flow into a concentrating pool with diameter of 12m for natural precipitation and clear water will spill over to the water pump pool and pump back to the storage pool. When the desire concentration of the precipitates reaches, the fluorite products will be sent to a filter for further dewatering in order to reduce the water content of the product, which is then packaged for delivery.

Procurement network and logistic arrangement

Since the establishment of Mongolia Co in 2005, Mongolia Co has been engaging in the fluorite ores trading business and most of fluorite ores were sourced from local mine owners. Certain of the key management team members including Mr. Huang, the founder of Mongolia Co, have established good relationship with these mine owners as well as the procurement network in sourcing of fluorite ores. Moreover, a liaison office located in Erlianhaote City, Inner Mongolia, PRC close to the border between Mongolia and Inner Mongolia, PRC, has also been set up by Mongolia Co and operated for years, which is responsible for the procurement of materials from PRC to Mongolia and the logistics arrangement for materials transported to and products transported out from Mongolia.

The existing management team members of the Target Group has extensive experience in the customer clearance in both Mongolia and PRC.

Sales channel

Since 1980's, Mr. Huang has been engaged in the fluorite trading business in PRC, and has extensive experience and sales network with both PRC and overseas customers. Tianjin Fluorspar is founded by Mr. Huang and a company incorporated in the tax-free zone in Tianjin, PRC for trading of fluorite business. As one of the condition of the Acquisition, the Vendors will procure those key management team members of the Target Group, including Mr. Huang himself; to sign a service contract with the Enlarged Group on terms of not less than three years from the date of Completion, and not to be engaged in a business which competes with the Enlarged Group's fluorite trading and processing business. Mr. Huang has confirmed to the Company that he will transfer all the resources, including all its customers, of Tianjin Fluorspar to the Enlarged Group upon Completion. The Group is also in the process of setting a new company in the tax-free zone in Tianjin, PRC to take up the role of Tianjin Fluorspar upon Completion.

LETTER FROM THE BOARD

On the other hand, as shown under the section heading “Management Experience on the Business” on page 33, the management team members of the Company also have the relevant expertise and experience in the management of mining companies and the sales of mining products to overseas customers. The management of the Enlarged Group also considered that since most of the overseas customers for fluorite products are normally well-known companies and large in size and the transactions with these customers are normally in U.S. dollars and the settlement procedure are mainly by letter of credit, therefore, the risks related to overseas sales are kept to be a minimum.

Currently, the major customers of Tianjin Fluorspar for fluorite ores are those overseas companies engaging in steel refinery business located in Europe, Taiwan, etc. The major customers of fluorite particles are those overseas companies engaging in fluorine chemical industry located in Europe and Japan. Due to the fact that these companies are normally well-known companies and large in size as well as their consumption of fluorite products, the management of the Enlarged Group is confident on the sales of fluorite products in the coming years. Currently, a potential customer from Japan has signed a letter of intent with the Target Group for approximately 15,000 tons of fluorite particles for 2013. Sales to this customer is expected to begin in July 2013.

Prospect

Upon the establishment of the Factory and starting of its operation in July 2012, up to the Latest Practicable Date, the management of the Enlarged Group considers that there is no material capital commitment of the Target Group. Based on the existing working capital structure of the Target Group, the management also considers that the working capital of the Target Group is adequate and sufficient.

Upon Completion, the management of the Enlarged Group will continue to monitor the market position and assess the feasibility to expand the processing capacity of the Factory so as to capture the opportunity emerging in the fluorite business.

The Group has recently set up a wholly-owned subsidiary in Shenzhen, Guangdong Province, PRC as its headquarter in PRC, this subsidiary will act as a platform for the Group’s business development, including the exploration of the Group’s investment in the fluorite business in PRC.

LETTER FROM THE BOARD

Financial Information of the Target Group

The Target Company was incorporated in BVI on 15 December 2011, and subsequent to its incorporation, in January 2012, the Target Company acquired all the equity interest of Mongolia Co from its ex-shareholders, who are connected parties of the Vendors. Set out below are the summary of audited financial information of the Target Company and Mongolia Co respectively, which were prepared in accordance with Hong Kong Financial Reporting Standards:

Target Company (for the period from 15 December 2011 (date of incorporation) to 31 December 2012)

	For the period from 15 December 2011 to 31 December 2012 <i>HK\$</i>
Turnover	0
Net loss before taxation and extraordinary items	291,915
Net loss after taxation and extraordinary items	291,915
	As at 31 December 2012 <i>HK\$</i>
Total assets	69,279,356
Net deficits	284,703

Mongolia Co (for the three years ended 31 December 2012)

	For the year ended 31 December		
	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	3,542,384	2,078,999	12,588,998
Net profit/(loss) before taxation and extraordinary items	1,079,757	(5,082,045)	(6,115,161)
Net profit/(loss) after taxation and extraordinary items	757,660	(5,154,149)	(6,321,979)
	As at 31 December		
	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Total assets	30,894,452	43,340,731	64,652,077
Net assets	14,751,636	8,653,711	2,340,206

LETTER FROM THE BOARD

The accountant's reports on the Target Company and Mongolia Co are set out in Appendices II and III to this circular respectively.

The management discussion and analysis of the Target Group is set out in Appendix IV to this circular.

INDUSTRY OVERVIEW

I. Overview of the Fluorite Industry

Introduction to Fluorite

Fluorite (calcium fluoride, CaF₂), also known as fluorspar, is a kind of ore mainly comprising calcium fluoride. Calcium fluoride is a basic raw material for downstream metallurgical, fluorine chemical and other industries.

Fluorite Prices

With the evolving technologies and economy, fluorite has become a major mineral material in the modern industry, and is taken as an important strategic material reserve in many developed countries. According to relevant statistics, fluorite powder price in the PRC peaked to RMB3,000 per tonne in 2011, compared to the level at approximately RMB320 per tonne in 2001. After a bottoming-off from the second half of 2012, domestic fluorite powder price has increased from RMB1,450 to RMB1,750 per tonne at present.

Global Distribution of Fluorite Ore Reserve

Fluorite resources worldwide are relatively concentrated. In the metallogenic geological perspective, the Pacific Rim metallogenic belt has the most abundant fluorite reserve which represents approximately more than half of the global total reserve.

According to the U.S. Geological Survey, fluorite resources are relatively concentrated around the globe. The fluorite basic reserve in the world was 470 million tonnes as of 2009, and the recoverable reserve as of 2012 was 230 million tonnes. South Africa, Mexico, China and Mongolia, with a total recoverable reserve representing approximately 45% in the world, are the global top four in terms of fluorite reserve whilst in major fluorite consumers such as the United States and Western Europe, the national fluorite resources have been depleted.

China's fluorite basic reserve accounts for 23.4% in the world. In particular, Hunan, Inner Mongolia and Zhejiang account for 38.90%, 16.70% and 16.10% of the total domestic basic reserve respectively, and other provinces only account for 27.80%. Despite its extensive fluorite basic reserve, China has only approximately 24 million tonnes of recoverable reserve, representing approximately 10% in the world as shown in the table below.

LETTER FROM THE BOARD

Global Distribution of Fluorite Reserve

Country	Ore production (kilo tonnes)		Recoverable reserve (kilo tonnes)
	2011	2012	
South Africa	240	220	41,000
Mexico	1,207	1,200	32,000
China	4,700	4,200	24,000
Mongolia	416	420	22,000
Spain	124	120	6,000
Namibia	80	80	3,000
Kenya	11.7	10.7	2,000
Brazil	26	25	1,000
Kazakhstan	67	60	N/A
Morocco	79	75	N/A
Russia	260	150	N/A
Others	200	190	110,000
Total of the world	<u>7,410.7</u>	<u>6,750.7</u>	<u>241,000</u>

Source: *Mineral Commodity Summaries 2012 published by the U.S. Geological Survey*

Mongolia – One of the Most Important Investment Targets of Fluorite Ore

Mongolia is advantageously adjacent to Russia and China, two major markets situated at its north and south respectively. Fluorite is one of the minerals with the largest proven reserve in Mongolia, which is also the third largest fluorite producer in the world with fluorite recoverable reserve only next to South Africa, China and Mexico.

Mongolia has 42 fluorite deposits where 60 kinds of fluorites and over 300 fluorite mines have been indentified, mainly located in the central and eastern regions. The proven area representing 16.4% of total land of Mongolia has approximately 80 million tonnes of fluorite ore. Taking into consideration of the remaining 83.6% area, a virgin land yet to be surveyed, its geological reserves of fluorite are very attractive.

According to a report of Chinese Academy of Land and Resource Economics, Mongolia has abundant fluorite resources that are mainly deposited at southern basin of Kherlen River in north Mongolia. Currently more than 500 mine sites have been identified, approximately 30 of which have been explored.

As fluorite is the source of the fluorine chemical industry, the rich fluorite resources are an advantage of China's fluorine chemical industry. Given its strategic value and non-renewableness, fluorite has been included into the list of strategic reserve resources in China since 1999. The

LETTER FROM THE BOARD

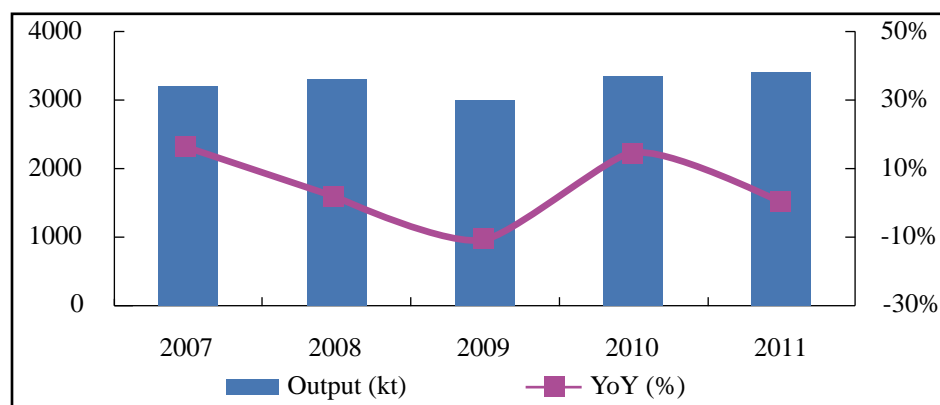
extensive fluorite resources, coupled with favourable investment environment, broad market and competitive production costs, have been driving foreign enterprises to rapidly transfer their fluorine chemical production capacity to China.

Growing Fluorite Consumption

China, Western Europe and the United States are major consumers of fluorite, representing approximately 80% of the global consumption. In particular, fluorite demands from Western Europe and the United States are mainly on acid-grade fluorite, which is mainly used for production of hydrofluoric acid. As for China, cement and glass industries are still the largest sources of fluorite demand, while the fluorine chemical industry has witnessed a surge in fluorite demand.

In China, fluorspar is mainly consumed by steel and iron, aluminium, chemical and cement/glass industries, which account for 13.3%, 7.3%, 29.4% and 40.0% respectively, together with 10% by other sectors, of the total consumption of approximately 6.5 million tonnes per year in China.

Fluorite Output and Annual Growth in China 2007-2011



Source: USGS; *Research In China Global and China Fluorite Industry Report, 2012-2014*

Rising Fluorite Demand

Backed by the fast growing economy over recent years, the annual growth of fluoride demand has exceeded 12% in China. Especially, the booming automobile, electronics and information, construction and petrochemical industries present an extensive market for the fluorine chemical industry. With the improving economic strength and living standards, China has posted a growth of fluorine demand much faster than the global average.

Protective Policies on Fluorite Resources

Fluorite, as one of the non-renewable resources, is regarded as a strategic resource worldwide under protective policies on limiting exploitation or prohibiting export. In recent years, Chinese government issued a number of measures to protect fluorite resources, including stricter mining disciplines and introduction of fluorite export quota management, the shift from export tax rebate to

LETTER FROM THE BOARD

imposing a high export tariff, the first introduction of total exploitation management on domestic fluorite ore in 2010, an increase in fluorite resources tax by over 6 times, adjusting the applicable resources tax rate on fluorite from RMB3 per tonne to RMB20 per tonne, ceasing to accept new applications for fluorite ore exploration and mining, etc.

The domestic policies launched in tandem during recent years are mainly designed to protect fluorite resources, control production capacity expansion of primary products, support development of high-end fine chemical products and guide the fluorite market direction. Meanwhile, to protect fluorite resources in their regions, local governments have introduced local fluorite resource consolidation policies to rectify small and unregulated mines, introduce large-scale fluorite processors and fluorine chemical companies in order to build up the fluorine chemical industry clusters.

According to the recent industrial policies of China, fluorite mineral resources will enjoy an increasingly important position, and the attempt to acquire fluorite resources, coupled with the hiking prices, will be increasing difficult in the long term. Therefore, the fluorine chemical industry players will have to own fluorite ore resources or an access to stable raw material supply sources at competitive costs for their long-term sustainability in the future.

II. Overview of the Fluorine Chemical Industry

Introduction to the Fluorine Chemical Industry

The fluorine chemical industry is an emerging high-technology industry. The State Economic and Trade Commission has included organic fluorine products into the National Catalogue of Industries, Products and Technologies Currently Prioritized in Development. The Ministry of Science and Technology has also included fluoride materials into the National Catalogue of High-technology Products, as one of the prioritized high-technology fields. Currently, the fluorine chemical industry has become one of the fastest growing sectors in China. As the fluorine chemical industry does not rely on petroleum or natural gas as major materials, fluorine products have shown better price performance amid the declining international crude oil supply and the hiking oil prices and witnessed surging market demand for fluorine products. Currently, the global annual fluoropolymer production capacity is approximately 220,000 tonnes, in which China accounts for approximately 40,000 tonnes or 18% and has become the second largest fluoropolymer producer in the world. Fluorine polymer materials have posted fast growths both in production capacity and consumption demands, registering annual consumption growths of approximately 4% and higher than 15% respectively in the world and China.

Fluorite Processing Flows

Similarly as other metallic and non-metallic ores, the fluorite ore dressing process comprises crushing, screening, milling, grading, flotation, filtration and drying flows. The main processing equipment include crusher (jaw crusher and hammer crusher), vibrating screen, feeder, mill (Raymond mill, Raymond grinding mill and ball mill), grader, flotator, thickener and filter, to produce different specifications of fluorite powder for different applications.

LETTER FROM THE BOARD

Fluorite concentrates are classified into several grades, including powdered concentrates with a minimum grade of 93%+ and block concentrates with a minimum grade of 65%+. In addition, the national and corporate standards on impurities should be met.

Given the booming domestic fluorine chemical industry with rapid growths in recent years, the competition on acquisition of fluorite resources has become an important means for enterprises to establish the competitive edge in the fluorine chemical industry. In the whole industry chain, domestic enterprises own certain competitiveness in the material upstream focusing on low-end products, while foreign enterprises have essentially dominated the end product sectors featuring high value addition, processing extent and technical requirements.

III. Focus in the Future

Increasing Scarcity of Fluorite Resources

China's fluorite reserve-production ratio is at 6, in striking contrast to the global level at 38 and Mongolian level at 31. With a slow growth in fluorite production volume, the major consuming countries have to depend on imports. The global fluorite production only maintains a growth at 18.43% over the recent 18 years.

Increasing Fluorite Demand

More than half of the global fluorite output is used for production of hydrofluoric acid. While hydrofluoric acid is the starting point of the fluorine chemical industrial chain, fluorine chemical products are one of the basic materials necessary for the high-technology industry. Internationally, the United States, Western Europe and Japan, the major fluorite consumption areas where fluorite is mainly used for production of hydrofluoric acid, essentially rely on imported fluorite as their fluorite resources are almost depleted. Based on the production capacity of hydrofluoric acid, 85%, 68% and 45% of fluorites are used for producing fluorine chemical products respectively in the United States, Europe and China.

Fluorite Prices on the Rise

The report "Critical raw materials for the EU" issued in 2010 sets out the warning on shortage of rare mineral materials and the countermeasures of the European Union, where 14 important minerals are identified in the "shortage" list: antimony, beryllium, fluorite, gallium, germanium, graphite, indium, magnesium, niobium, platinum group metals, rare earth metals, tantalum and tungsten.

Given the heightened discrepancy between supply and demand due to the diminishing global fluorite resources and the restricted export from China, fluorite prices soared on the back of exuberant market enthusiasm. Furthermore, fluorite is indeed scarcer and more precious than rare earth minerals as it is the major basic material for the fluorine chemical industry.

LETTER FROM THE BOARD

To protect its limited fluorite resources, China has formulated fluorite protective policies stricter than those for rare earth minerals. In 2011, the General Office of the State Council issued a document (Guo Tu Zi Fa (2011754)) which clearly required suspending the issuance of new fluorite exploration and mining licences to ensure the protection and disciplined exploitation of the national limited resources.

The rare earth situation has demonstrated the proposition: the economically critical and national security-concerned resources are in the national interest and of strategic value. As the horizon of a new round of economic growth, the rise of emerging strategic industries will push all scarce resources to the global competition arena. The government is to increasingly strengthen the protection on scarce resources and continuously tighten their supply. As the fluorite export tariff is to be revoked in 2013, fluorite prices may further rebound.

A fluorite undersupply will gradually emerge. According to national guidelines, the domestic annual mining quota for fluorite ore is expected to stay at around 10 million tonnes (equivalent to approximately 4 million tonnes of fluorite particles) in a prolonged period. According to the demand for fluorite particles for 2013 estimated at 4.08 million tonnes, a fluorite undersupply will gradually emerge. Therefore, the fluorite ore prices should be bullish in the long term.

REGULATORY FRAMEWORK

The operation of the Mongolia Co is subject to extensive regulations. The major laws and regulation regulating the business of Mongolia Co include: i) Construction Law (2008), ii) Mineral Law and iii) Environmental Impact Assessment Law.

1. Construction Law (2008)

The law prohibits exploitation of any construction that is not completed or is completed but is not accepted into exploitation.

The exploitation of the Factory is required to be accepted by the State Commission;

2. Minerals Law

Pursuant to the Regulation, the Factory must have an opinion from the Ministry Commission about being fully utilizing and processing the mined minerals and producing the mining products in accordance with a feasibility study.

3. Environmental Impact Assessment Law

Under the Environmental Impact Assessment Law (1998), the Factory must:

- i) have a general environmental impact assessment carried out and submit to the Ministry of Environment;

LETTER FROM THE BOARD

- ii) develop and submit to the Ministry of Environment an environmental protection plan and environment inspection and survey program, and environmental rehabilitation work reports; and
- iii) deposit monetary funds equal to 50% of the required rehabilitation expenses to a designated account.

RISK FACTORS

Risks relating to the Acquisition

Significant and continuous capital investment

The fluorite processing business requires significant and continuous capital investment, including capital expenditures required for the construction and/or purchase of equipment and processing plants. As a consequence of funding or other resources constraints, completion of such processing projects may suffer from delays, may not be completed as planned and may not achieve the intended economic results or commercial viability. Actual capital expenditures for the new business may also significantly exceed the Group's budgets because of various factors beyond the Group's control, including technical difficulties and manpower shortage. As such, the Group's financial condition may be affected and the intended economic benefits from the new processing business may not materialise as budgeted.

New business and short history of operation

Fluorite processing is a new business to the Group. The success of this new business is dependent on a number of factors, including the timely construction of the additional processing plants for expansion in the future, commencement of production, the recruitment of competent professionals and experienced personnel, stringent controls over production costs, and the constant supply of electricity and water to the processing plants. Since the Group does not have significant experience in the new business, it is not in a position to assure the timing and amount of return or benefits that may be generated from the new business. The Target Group commenced its fluorite processing operation in July 2012. There is no assurance the products of the Target Group will be able to gain acceptance from its existing and prospective customers. In the event that the Target Group fails to retain its existing customers or solicit new clients, or should there be any delays and/or adverse incidents against any processing projects in which the Group attempts to develop or if such development does not progress as planned, the Group may not recover the funds and resources it has spent and the results of operation of the Enlarged Group will be affected.

Potential loss of key personnel and failure to recruit qualified expert

The recruitment and retention of key management and technical personnel is a leading factor to the successful development and effective operation of the fluorite processing business of the Group. However, the human resources market only offers a limited number of persons with the required professional skills and mining expertise. Furthermore, as a result of the continuous increase in the number of new mining projects in Mongolia, competition within the Mongolian mining industry for such skilled persons is intense. If the Group shall fail to recruit sufficient qualified professionals and skilled processing staff and to retain its key personnel as its processing business grows, the Group's processing business and results of operations may be materially and adversely affected.

LETTER FROM THE BOARD

Fluctuations in prices of fluorspar

The profitability of the Enlarged Group's processing operations and earnings may be affected by fluctuations in the market prices of fluorspar. These fluctuations may be influenced by numerous factors beyond the control of the Enlarged Group, including global production and supply of fluorspar and the global economic conditions and industrial demands for fluorspar. Any sustained adverse movements in prices of fluorspar are expected to have a negative impact on the Enlarged Group's financial conditions and results of the operations of the Enlarged Group.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the manufacturing and sale of pharmaceutical products, provision of advertising and public relations services, research and development and assets investment.

In light of the volatile global economy as experienced during the past years, the Board has strived to diversify the Group's investment portfolio for the purpose of lowering the Group's investment risk and broadening its income base. After assessing the various factors in relation to the Acquisition (as detailed under the paragraph headed "The Consideration"), the Board believes that the Acquisition will not only meet the Group's development strategy, but also provide an opportunity for the Group to explore a new stream of business in the processing and trading of fluorites and other natural resources in the future. In addition, the Board considers that the prospect of fluorite powders, being the primary product of the Target Group, will be favorable, given its increasing demand and usage in various industries in the international market (as detailed in the paragraph headed "Industry Overview") and the corresponding rising trend in the selling prices for different grading of fluorite products over the past few years. The Board considered that the terms of the Acquisition are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

It is noted that Mongolia Co suffered a loss during the year 2012, such loss was attributable to the fact that (i) sales occurred only from August 2012, because the management of the Target Group put most of the resources and effort in the set-up of the Factory such that the Factory began its operation in July 2012; (ii) the processing line needed to be fine-tuned to ensure its smoothness and the finished products were up-to-standard, as a result, the production cost for the period is relative high; (iii) the sales of fluorite particles are new to Mongolia Co and ultimate customers, it needs time for customers to perform a detailed sample checking of the fluorite particles before its delivery; and (iv) the export of fluorite products were slowed down together with the decrease in the price of fluorite products during the second half of 2012, due to slow down of global economy. As a result, the gross profit contributed from the sales of fluorite particles and ores could not cover the administrative expenses for the year. It is also noted that from the beginning of 2013, the price of fluorite products has been increasing due to the increase in demand in the market. The Board, having considered the historical increasing trend of the selling price of fluorite products during the last five years and the important applications of fluorite products in the fluorine chemical industry and steel refinery industry, considers that the loss of Mongolia Co in 2012 is short term and is optimistic of the fluorite business in the coming years. On the other hand, the liquidity position of the Target Group will be improved by selling its inventory upon recovery of the fluorite business. The Board is of the view that the Acquisition represents an attractive opportunity for the Group to enter into the fluorite business as it will allow the Group to benefit from the operation of the Factory that is already in business production which otherwise would normally take two to three years to set up in the region. Furthermore, the Board considers that Mongolia Co enjoys other competitive advantages as set out on pages 20 of the circular. Having recorded a significant increase in

LETTER FROM THE BOARD

Mongolia Co's revenue for the year ended 31 December 2012 driven by the commencement of the Factory's operation since July 2012, the Board considers the Acquisition will broaden the Group's income base in the long-term and is in line with the Group's investment diversification strategy and is in the interests of the Company and the Shareholders as a whole.

A bill in relation to the restriction in foreign investment in the Mongolian mining sector

The Board is aware of that, on 10 May 2012, the South China Morning Post newspaper published an article which stated, inter alia, that the Mongolian parliament is discussing a bill to restrict foreign investment in strategically significant mining sector. The Company has been advised by its legal adviser in Mongolia that the new draft law relates specifically to 15 mineral deposits of strategic importance of which fluorite particles are not included. Accordingly, the new bill is not expected to have any effect or implication on the Acquisition.

BUSINESS PLAN ON THE TARGET GROUP

In view of the rising fluorite demand, the acquisition of the Target Group will be a milestone for the Group to enter into the fluorite business segment. Upon Completion, it is the intention of the Group to increase its investments in other fluorite processing factory and fluorite mines with proven reserve in both Mongolia and China, so as to increase the Group's market share of fluorite products in these regions and overseas. There is no proposed material change to the composition of the Board following Completion.

MANAGEMENT EXPERIENCE ON THE BUSINESSES

Management of the Target Group

The profiles of key members of the management team of Mongolia Co are summarised as below:-

Mr. Huang Tianhua, aged 48, being general manager and founder of Mongolia Co. Mr. Huang is an engineer graduated from Southwest University of Science and Technology, majoring in mining engineering. He has worked for Zhejiang Branch of China Non-metallic Minerals Corporation and accumulated over 20 years of experience in trading of non-metallic minerals including fluorites.

Mr. Huang Yunqiu, aged 48, being the legal representative and the deputy general manager of Mongolia Co. He has accumulated over 20 years of experience in mining and mine management.

Mr. Wei Li, aged 49, being the deputy general manager of Mongolia Co. Mr. Wei is a mining engineer graduated from Southwest University of Science and Technology, majoring in mining engineering. He was head of mining department, deputy chief engineer and deputy general manager of Xinjiang Urumqi Yuejin Steel Factory, Xinlong Vermiculite Company Limited of Delong Group and Yilong Andalusite Company Limited of WanXiang Group.

LETTER FROM THE BOARD

Mr. Wang Chengpu, aged 55, being the manager of the Factory. Mr. Wang is a senior engineer graduated from Shandong Mining Institute, majoring in mineral processing operation. He has worked for Shandong Yantai Fushan Copper Mineral Processing Plant as a factory manager of fluorite floatation plant, which was the second largest fluorite floatation plant in PRC in the 1990s with an annual production capacity of 80,000 tons.

Mr. Wang Jiayi, aged 51, being the chief engineer and manager of the mining department of Mongolia Co. Mr. Wang graduated from Wuhan University of Technology, majoring in mining operations. He has worked for Southwest University of Science and Technology and various other companies including Hubei Non-metallic Minerals Company, Hubei Foreign Trade Industrial Corporation, Hubei Hualong Group, Liaoning Haixi Mining and Jiangxi Leyuan Mining Co., Ltd. He has accumulated over 26 years of experience in teaching, development and management of mining operations.

Mr. Ni Hanjiang, aged 48, being assistant to general manager of Mongolia Co. Mr. Ni is an engineer graduated from Shanghai Fudan University, majoring in chemistry. He has accumulated over 20 years of experience in management and operation of chemical enterprises and trading of chemicals.

Management of the Company

In addition to the retaining of the key management of the Mongolia Co as stipulated in the Acquisition Agreement, the Board is of the view that the existing management of the Company possesses the relevant expertise in managing the businesses of the Target Group so that its operation will run smoothly after the Completion.

Mr. Chen Liang, aged 44, joined the Company as an executive director and chief executive officer on 28 December 2011. Mr. Chen holds a Doctoral Degree in Coal, Oil and Gas Geology and Exploration from China University of Petroleum (Beijing). Mr. Chen had been a vice president of CITIC Resources Holdings Limited (stock code: 1205), a company listed on the Main Board of the Stock Exchange, during the period from September 2005 to November 2006 and a vice president of CITIC Seram Energy Limited during the period from December 2006 to February 2010. During the period from April 2010 to July 2011, Mr. Chen had been an executive director of Goodtop Tin International Holdings Limited (formerly known as Vitar International Holdings Limited, stock code: 195), also a company listed on the Main Board of the Stock Exchange. Mr. Chen is also the executive director of Birmingham International Holdings Limited (stock code: 2309), a company listed on the Main Board of the Stock Exchange. Mr. Chen has accumulated over 15 years of working experience in petroleum exploration and development.

Mr. Chen Youhua, aged 41, joined the Company as an executive director on 26 November 2011. Mr. Chen holds the Bachelor Degree of Accountancy from Shandong Economics College, Shandong Province, PRC, and an Executive Master Degree of Business Administration from Inner Mongolia University, Inner Mongolia, PRC. Mr. Chen Youhua has worked for a number of mining companies in PRC, taking the positions of accounting manager or financial controller of such companies. Mr. Chen has accumulated over 15 years of working experience in the fields of cost accounting, financial and corporate management.

Mr. Yan Shengxian, aged 58, joined the Company as an independent non-executive director on 26 November 2012. Mr. Yan graduated from Hangzhou University, PRC. Mr. Yan is a domestic professional senior engineer who is qualified for carrying out geological survey and exploration. Mr. Yan has accumulated

LETTER FROM THE BOARD

over 35 years of experience in geological exploration. Mr. Yan and the projects under his supervision have obtained several awards in relation to geological mine searching. Mr. Yan is currently the judging panel expert of geological mine searching for Zhejiang Province, PRC. Mr. Yan has also published a number of articles regarding geology in national journals in PRC.

Mr. Cai Da, aged 38, joined the Company as an executive director and vice chairman on 16 May 2013. Mr. Cai holds a Civil Engineering Degree from Hunan University of Science and Technology. Mr. Cai is the vice president of Shenzhen General Chamber of Commerce. Mr. Cai has been working and taking the senior managerial positions in a number of mining companies incorporated in the PRC. Mr. Cai is also an executive director of Hong Kong Life Sciences and Technologies Group Limited (formerly known as ZMAY Holdings Limited, stock code: 8085), a company listed on the GEM of the Stock Exchange. Mr. Cai has accumulated over 10 years of experience in oil refinery, mining and corporate management field.

EFFECT OF THE ACQUISITION ON THE ASSETS AND LIABILITIES OF THE GROUP

Following Completion, the Target Company will become a subsidiary of the Company and its financial results will be consolidated into the Group.

According to the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix V to this circular, the total assets of the Group will increase from approximately HK\$483.37 million to approximately HK\$505.67 million whilst the total liabilities of the Group will increase from approximately HK\$77.16 million to approximately HK\$101.90 million, as if the Acquisition had taken place on 31 December 2012.

IMPLICATION UNDER THE GEM LISTING RULES

As the relevant ratios calculated under the GEM Listing Rules exceed 25% but are less than 100%, the Acquisition constitutes a major transaction for the Company and will be subject to the approval of the Shareholders at the EGM under Chapter 19 of the GEM Listing Rules.

The EGM will be convened to consider and, if thought fit, approve, among other things, the Acquisition Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the transaction contemplated under Acquisition Agreement. Accordingly, no Shareholder will be required to abstain from voting at the EGM, in respect of the resolution(s) relating to the Acquisition.

EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. The EGM will be held for the purpose of considering and, if thought fit, approving, among other things, the Acquisition Agreement and the transactions contemplated thereunder.

The voting of the Shareholders at the EGM will be taken by way of poll.

LETTER FROM THE BOARD

You will find enclosed a form of proxy for use at the EGM. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof, to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM in person should you so wish.

RECOMMENDATION

The Board considers that the terms of the Acquisition Agreement are fair and reasonable. The Board also considers that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Shareholders shall vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreement.

By Order of the Board
China Natural Investment Company Limited
Chen Liang
Chief Executive Officer

1. FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 30 June 2010, 2011 and 2012 are disclosed in the annual reports of the Company for the years ended 30 June 2010 (pages 26 to 98), 2011 (pages 29 to 110) and 2012 (pages 30 to 110) respectively, all of which have been published on both the GEM website (www.hkgem.com) and the website of the Company (www.chinanatural.com.hk).

2. INDEBTEDNESS STATEMENT

At the close of business on 31 May, 2013, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had obligation under finance lease approximately HK\$597,000 in relation to the purchase of machineries by Mongolia Co.

Save as mentioned above, the Enlarged Group did not have outstanding any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, finance lease, hire purchase commitments, guarantees or other material contingent liabilities, material contingent liabilities, and assets pledged to banks or other financial institutions.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances and other internal resources available and also the effect of the Acquisition, the Enlarged Group has sufficient working capital for its present requirements and for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 30 June 2012, being the date to which the latest published audited financial statements of the Group was made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP**Advertising and Public Relations Business**

As Hong Kong is the world's leading financial centre, and with the more dynamic growth of the Asian economies, demand for financial services is blooming and the public relations industry is growing concurrently. Benefited from the favorable market conditions and the Group's strategic deployment, PR Asia Consultants Ltd ("PR Asia") achieved to gain growing reputation and stronger foothold in the financial public relations industry in both Hong Kong and the PRC, and PR Asia continues to contribute stable source of income to the Group.

PR Asia is a HK based public relations consultancy company focusing on financial communications. PR Asia provides strategic counselling services in corporate communications, media relations, investor relations, issue/crisis management, media training and event management to different clients including the companies listed in HK, private banks, quasi-government bodies and multi-national corporations with headquarters in Asia, Europe and America respectively.

PR Asia devises and implements effective business and marketing strategies from a communication perspective for its clients, with a view to enabling them to successfully achieve brand-building and establish an appropriate image to the targeted customer base. It also provides training, through simulating different scenarios of TV and print media interviews, to its clients for different kinds of interviews, media conferences and promotion events to ensure that the key messages are communicated from its clients to the public.

In addition, PR Asia could render assistance to its client in reputation crisis management. The goal of PR Asia is to help its clients to manage crisis, balance the interests of different stakeholders and ensure corporate statements and undertakings are announced appropriately. PR Asia's income source is mainly divided into two major segments, namely retainer fees for services provided for a fixed period and project-based income.

With wider spectrum of clientele and increased public relations projects for both listed and non-listed companies, the Group intends to continue to broaden the customer base and strengthen our market position.

Assets Investment

According to the circular of the Company dated 29 October 2012, the Group and Town Health Asset Management Limited ("TH Property Holding") agreed to form a joint venture to consolidate each other's investment property portfolio so as to form a large property investment group, which can increase shareholder's value in long run. The transactions was approved by the Shareholders at the Company's extraordinary general meeting held on 30 November 2012.

On 15 May 2013, the Group received a funding notice from TH Property Holding pursuant to the terms of the SP Agreement relating to its intention to raise fund in the amount of HK\$17,000,000 ("Subscription Consideration") by way of allotment and issue of 17 ordinary shares ("First Right Shares") of HK\$1.00 each, representing approximately 1.85% of the issued share capital of TH Property Holding (as enlarged by the allotment and issue of the First Right Shares) for which Chemosino International Limited ("CN BVI") would have a First Right to subscribe in accordance with the terms of the SP Agreement. The transaction had been taken place on 16 May 2013.

The Company currently holds 26.39% of the issued share capital of TH Property Group. It is the current intention of the Group that all its future property investment business will be carried out under the enlarged TH Property Holding and its subsidiaries ("TH Property Group"). The Directors expects that the TH Property Group has a wide portfolio of property investment in Hong Kong and will continue to provide positive results to the Group, and as a result of the new administrative measures adopted by the Government including the Special Stamp Duty and the Buyer's Stamp Duty, the Directors are of the view that the property market in Hong Kong shall become stable and the

Group intends to hold the assets investment segment in order to share the profit from the TH Property Group. There are currently no further investment plan in and funding requirement of TH Property Group.

Investment in held-for-trading security

As at Latest Practicable Date, the Company had held-for-trading investments in the two listed securities in Hong Kong, the approximate market values amounted to approximately HK\$13,664,000. As disclosed in the third quarterly report of the Company dated 9 May 2013, a gain of approximately HK\$5,920,000 was recorded during the nine months period ended 31 March 2013. The investment in the listed securities is one of the treasury policy of the Group for the use of certain surplus funds retained by the Group. Currently, the Group has no plan for further investment in the held-for-trading securities.

Manufacturing and Selling Pharmaceutical Products Business

Nowadays with the pursuit of healthy living and increases in Hong Kong's senior population, the demand for pharmaceutical products is growing rapidly. The Directors are of the view that the public's demand for medicine will continue to increase while a sustainable expansion in the pharmaceutical market is expected. The demand is triggered by the rapidly aging population and rising the standard of living in Hong Kong. It is also believed that the Department of Health is looking into adopting PIC/S (The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme) standards to govern pharmaceutical manufacturing. PIC/S governance will imply higher GMP in a bid to bring the Hong Kong pharmaceutical environment on par with most western developed countries and some health authorities in the region, such as Singapore, Malaysia and Taiwan. Nevertheless, the Group will continue to review the development strategy in this business with respect to the new licensing requirement for the operation of a Good Manufacturing Practice certified factory in Hong Kong.

The pharmaceutical group comprises two sub-groups, namely:

- Vida Group: Manufacturing and sale of generic western medicines. The Vida Group's products are mainly branded generic medicines, such as remedies for cold and flu, cough, fever and skin infection. The Vida Group possesses a manufacturing licence and a wholesale poisons licence issued by the Department of Health of Hong Kong which is renewable annually, and is capable of producing medicines in different dosage forms including tablets, capsules, syrups, creams and ointments. Its major customers include private doctors, the Hospital Authority, over-the-counter retailers and medicine traders.
- Vida Group has taken steps to prepare for the imminent transition of the governance of Hong Kong pharmaceutical industry to PIC/S standards. Vida Group is evaluating the options either to upgrade its facilities (which may involve temporary production suspension) at the present site or in a suitable new location, or to outsource the production of some of its products to eligible third party producers.

- Kingston Group: Marketing and sale of health supplements, traditional Chinese medicines, slimming pills and beauty products. The company recently introduced a series of new health supplements, – including DHA and colostrum pills, in a bid to expand the product offering. The Kingston Group sells its products via popular retail chains, internal sales platform and selected private clinics in Hong Kong. No specific licence / permit is required for the business of the Kingston Group.

Fluorite Business

The Directors are of the view that the market demand for fluorite is significant and the prospect of the industry is promising. The Board believes the existing managements of the Group are able to identify and manage the local suppliers and explore potential customers in PRC and overseas. The Group expects that with the successful establishment of the customer base, the trading business can provide a new and steady stream of revenue to the Group. Furthermore, should the Acquisition be materialized, the Group could provide a full chain from upstream of fluorite processing to downstream of supplying fluorite particles of higher grade for customer consumption, which would enhance the competitive strength and further development in the industry.

The following is the text of an accountant's report on the Target Company received from the independent reporting accountant, CCTH CPA Limited, Certified Public Accountants, Hong Kong for inclusion in the circular.



28 June 2013

The Board of Directors
China Natural Investment Company Limited
Unit 1903, 19th Floor,
West Tower, Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Sino-Mongolia Fluorspar Mining Co., Ltd. (the "Target Company") which comprises the statement of financial position of the Target Company as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Target Company for the period from 15 December 2011 (date of incorporation of the Target Company) to 31 December 2012 (the "Relevant Period"), together with the notes therein, for inclusion in the circular of China Natural Investment Company Limited (the "Company") to its shareholders dated 28 June 2013 in connection with the acquisition by a subsidiary of the Company of the entire share capital of the Target Company.

The Target Company was incorporated in the British Virgin Islands as a BVI Business Company with limited liability on 15 December 2011 and is principally engaged in investment holding.

In January 2012, the Target Company acquired the entire equity interest in a subsidiary, MCTT Company Limited. Particulars of the subsidiary are set out in Note 13 of Section II below.

No audited statutory financial statements have been prepared for the Target Company since its date of incorporation.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") except for the failure to prepare consolidated financial statements of the Target Company and its subsidiary (together with the Target Company referred to as the "Target Group") in accordance with the requirements of Hong Kong Accounting Standard 27 (Revised) "Consolidated and Separate Financial Statements" ("HKAS 27") issued by the HKICPA. We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Statements on Auditing issued by the HKICPA and issued a qualified opinion on the Underlying Financial Statements relating to the failure to prepare consolidated financial statements of the Target Group.

The Financial Information has been prepared based on the Underlying Financial Statements, after making such adjustments as we consider appropriate.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Underlying Financial Statements are the responsibilities of the directors of the Target Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion, based on our examination and review, on the Financial Information, and to report our opinion to you.

We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

BASIS FOR QUALIFIED OPINION

Consolidated financial information of the Target Group for the Relevant Period has not been prepared in accordance with HKAS 27.

OPINION

In our opinion:

- The Financial Information together with the notes therein give, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2012, and of the results and cash flows of the Target Company for the Relevant Period.
- Because of the significance of the matter discussed above regarding the failure to prepare consolidated financial information of the Target Group, the Financial Information does not give a true and fair view of the state of affairs of the Target Group as at 31 December 2012 and of the results and cash flows of the Target Group for the Relevant Period.

EMPHASIS OF MATTERS

Without further qualifying our opinion, we draw attention to Note 2 of Section II below regarding the adoption of going concern basis on which the Financial Information has been prepared. At 31 December 2012, the Target Company had sustained net current liabilities and shareholders' deficit of HK\$12,974,446 and HK\$284,703 respectively.

The conditions set out in Note 2 of Section II indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Target Company to continue as a going concern. The Financial Information do not include any adjustments that would result from a failure to obtain the fundings as referred to in Note 2 to meet in full the financial obligations of the Target Company for the foreseeable future.

I. FINANCIAL INFORMATION

Statement of Comprehensive Income for the period from 15 December 2011 (date of incorporation of the Target Company) to 31 December 2012

	<i>Notes</i>	<i>HK\$</i>
Turnover	8	–
Other income	9	319
Administrative expenses		<u>(292,234)</u>
Loss before tax	10	(291,915)
Income tax expense	11	<u>–</u>
Loss for the period		<u><u>(291,915)</u></u>
Other comprehensive income		
Exchange difference arising from translation		<u>6,432</u>
Total comprehensive income for the period		<u><u>(285,483)</u></u>

Statement of Financial Position as at 31 December 2012

	<i>Notes</i>	<i>HK\$</i>
Non-current Asset		
Investment in a subsidiary	<i>13</i>	<u>12,689,743</u>
Current Assets		
Amount due from a subsidiary	<i>14</i>	56,406,980
Bank balances	<i>15</i>	<u>182,633</u>
		56,589,613
Current Liabilities		
Amounts due to shareholders	<i>16</i>	<u>69,564,059</u>
Net Current Liabilities		<u>(12,974,446)</u>
		<u>(284,703)</u>
Capital and Reserves		
Share capital	<i>17</i>	780
Reserves		<u>(285,483)</u>
		<u>(284,703)</u>

Statement of Changes in Equity for the period from 15 December 2011 to 31 December 2012

	Share capital	Exchange reserve	Accumulated losses	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Issue of shares during the period	780	-	-	780
Loss for the period	-	-	(291,915)	(291,915)
Other comprehensive income for the period				
Exchange difference arising from translation	-	6,432	-	6,432
At 31 December 2012	<u>780</u>	<u>6,432</u>	<u>(291,915)</u>	<u>(284,703)</u>

Statement of Cash Flows for the period from 15 December 2011 to 31 December 2012

	<i>HK\$</i>
Operating activities	
Loss before tax	(291,915)
Adjustment for interest income	<u>(319)</u>
Cash used in operating activities	<u>(292,234)</u>
Investing activities	
Investment in a subsidiary	(13,046,818)
Increase in amount due from a subsidiary	(57,681,093)
Interest received	<u>319</u>
Net cash used in investing activities	<u>(70,727,592)</u>
Financing activities	
Proceeds from issue of shares	780
Increase in amounts due to shareholders	<u>71,205,804</u>
Cash generated from financing activities	<u>71,206,584</u>
Net increase in cash and cash equivalents	186,758
Effect of foreign exchange rate changes	<u>(4,125)</u>
Cash and cash equivalents at end of the period	<u><u>182,633</u></u>
Analysis of cash and cash equivalents	
Bank balances	<u><u>182,633</u></u>

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated in the British Virgin Islands as a BVI Business Company with limited liability on 15 December 2011. The address of the registered office and principal place of business of the Target Company is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

The principal activity of the Target Company is investment holding, accordingly no segment information has been prepared.

The functional currency of the Target Company is Mongolian Togrog ("MNT") and the Financial Information is presented in Hong Kong dollar ("HK\$").

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

Notwithstanding the net current liabilities and shareholders' deficit at 31 December 2012 of HK\$12,974,446 and HK\$284,703 respectively sustained by the Target Company, the Financial Information has been prepared on a going concern basis as the Company has agreed, following the completion of the acquisition by a subsidiary of the Company of the entire share capital of the Target Company, to provide adequate funds to enable the Target Company to meet in full its financial obligations as and when they fall due for the foreseeable future. Alternatively, the present shareholders of the Target Company have agreed, in the event that the acquisition is not successful, to provide adequate funds to enable the Target Company to meet in full its financial obligations as and when they fall due for the foreseeable future.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Period, the Target Company has applied all of the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the financial year beginning on 1 January 2012, except for HKAS 27 (Revised) "Consolidated and Separate Financial Statements" ("HKAS 27") as referred to in Note 4 below.

The Target Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle ²
HKFRS 7 (Amendments) and HKFRS 9 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance ²
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities ³
HKFRS 9	Financial instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 1 (Amendments)	Presentation of Financial Statements ¹
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ³
HK (IFRIC) – INT 20	Stripping Costs in the Production Phase of a Surface Mine ²

- ¹ *Effective for annual periods beginning on or after 1 July 2012*
- ² *Effective for annual periods beginning on or after 1 January 2013*
- ³ *Effective for annual periods beginning on or after 1 January 2014*
- ⁴ *Effective for annual periods beginning on or after 1 January 2015*

The directors of the Target Company anticipate that the application of the new and revised HKFRSs will have no material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA except for the failure to prepare consolidated financial information in accordance with HKAS 27. In addition, the Financial Information includes all applicable disclosures required the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted by the Target Company are as follows:

Investment in a subsidiary

Investment in a subsidiary is included in the statement of financial position at cost less any identified impairment loss. The result of the subsidiary is accounted for on the basis of dividends received and receivable.

Impairment losses on tangible assets

At the end of the reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets of the Target Company comprise of loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amount due from a subsidiary and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment loss on financial assets

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

For the loans and receivables, objective evidence of impairment could include:

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

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

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

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the Target Company after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including amounts due to shareholders) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Revenue recognition

Interest income from bank deposits is recognised on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currencies

Transactions in currencies other than the functional currency of Target Company are recorded in its functional currency (i.e. the currency of the primary economic environment in which the Target Company operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the Financial Information, the assets and liabilities of the Target Company are translated into its presentation currency (i.e. Hong Kong dollar) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period unless the exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment loss on investment in a subsidiary

Investment in a subsidiary is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The assessment of the recoverability of the investment is based on the projected cash flows to be derived by the subsidiary discounted by suitable rates to arrive at their present values. Should the actual recoverable amount of the investment be less than its carrying amount, an impairment loss may arise.

Impairment loss on amount due from a subsidiary

The impairment on the amount due from the subsidiary is determined by reference to the aging analysis of the outstanding balance and management's judgment regarding the ultimate recoverability of the amount. If the financial position of the subsidiary was to deteriorate resulting in an impairment of its ability to make payments, impairment loss on the amount due from the subsidiary may arise.

6. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure that the Target Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance. The Target Company's overall strategy remains unchanged since its date of incorporation.

The capital structure of the Target Company consists of share capital and reserves.

Management of the Target Company reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Target Company will balance its overall capital structure through issue of new shares and raising of new debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<i>HK\$</i>
Financial assets	
Amount due from a subsidiary	56,406,980
Bank balances	182,633
	<u>56,589,613</u>
Financial liabilities	
Amounts due to shareholders	<u>69,564,059</u>

Financial risk management objectives and policies

As at the reporting date, the Target Company's financial instruments include amount due from a subsidiary, bank balances and amounts due to shareholders. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments are set out below:

(a) Market risk*Currency risk*

The Target Company is exposed to currency risk mainly arises from the amount due from a subsidiary, bank balances, and the amounts due to shareholders which are denominated in currencies other than MNT, the functional currency of the Target Company.

The monetary assets and monetary liabilities of the Target Company at the reporting date which were denominated in currency other than MNT are as follows:

	<i>HK\$</i>
Assets	
United States dollar ("US\$")	54,252,936
Renminbi ("RMB")	703,751
	<u><u>703,751</u></u>
Liabilities	
US\$	69,564,059
	<u><u>69,564,059</u></u>

The Target Company does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Target Company's sensitivity to a 5% increase and decrease in MNT against other currencies. 5% are the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive/negative number below indicates a decrease/an increase in post-tax loss, where US\$ and RMB weakening 5% against MNT. For a 5% strengthen of US\$ and RMB against MNT respectively, there would be an equal and opposite impact on the results of the Target Company.

	<i>HK\$</i>
US\$	
Sensitivity rate	5%
Profit or loss	765,556
	<u><u>765,556</u></u>
RMB	
Sensitivity rate	5%
Profit or loss	(35,188)
	<u><u>(35,188)</u></u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the period.

(b) Credit risk

The carrying amount of the amount due from a subsidiary represents the Target Company's maximum exposure to credit risk. Management of the Target Company monitors the financial position of the subsidiary to ensure that follow-up actions will be taken to recover the outstanding balance when required.

At 31 December 2012, the Target Company has significant concentration of credit risk arising from the amount due from a subsidiary of HK\$56,406,980.

The credit risk for bank balances is limited because the counterparties are banks with good reputation.

(c) Liquidity risk

Liquidity risk relates to the risk that the Target Company will not be able to meet its financial obligations. As the present shareholders or the Company have agreed to provide adequate funds to enable the Target Company to meet in full its financial obligations as and when they fall due for the foreseeable future, management of the Target Company is of the view that the liquidity risk exposed to the Target Company is not regarded significant.

The following table details the contractual maturities of the Target Company for their non-derivative financial liabilities, which are based on undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay.

	Within one year or on demand HK\$	Undiscounted cash flows HK\$	Carrying amount HK\$
At 31 December 2012			
Amounts due to shareholders	<u>69,564,059</u>	<u>69,564,059</u>	<u>69,564,059</u>

(d) Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the Financial Information approximate their fair values.

8. TURNOVER

No turnover was derived by the Target Company for the Relevant Period.

9. OTHER INCOME

	<i>HK\$</i>
Interest income from bank deposits	<u>319</u>

10. LOSS BEFORE TAX

	<i>HK\$</i>
Loss before tax is arrived at after charging:	
Auditor's remuneration	–
Exchange losses	219,816
	<u>219,816</u>

11. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been recognised as the Target Company has no assessable profits for the Relevant Period.

Deferred taxation has not been accounted for in the Financial Information as there are no material temporary differences.

The income tax expense can be reconciled to loss before tax per the statement of comprehensive income as follows:

	<i>HK\$</i>
Loss before tax	(291,915)
	<u>(291,915)</u>
Tax at the applicable income tax rate of 16.5%	(48,166)
Tax effect of income not taxable for tax purpose	(53)
Tax effect of expenses not deductible for tax purpose	48,219
	<u>48,219</u>
Income tax expense	–
	<u>–</u>

12. DIRECTORS' EMOLUMENTS

No directors received any fees or emoluments in respect of their services rendered to the Target Company during the Relevant Period.

13. INVESTMENT IN A SUBSIDIARY

	<i>HK\$</i>
Unlisted investment, at cost	12,689,743
	<u>12,689,743</u>

Particulars of the subsidiary at the reporting date are as follows:

Name of subsidiary	Place of incorporation and operations	Paid-in capital	Proportion of paid-in capital held by the Target Company directly	Principal activities
MCTT Company Limited	Mongolia	US\$1,672,669	100%	Mining, exploration, processing and trading of fluorites

The directors of the Target Company have not prepared consolidated financial statements in accordance with HKAS 27 (Revised) "Consolidated and Separate Financial Statements" issued by the HKICPA because the preparation of consolidated financial statements would involve expenses and delay out of proportion to the value to the members of the Target Company.

The post-acquisition losses of the subsidiary not consolidated attributable to the Target Company are as follows:

	<i>HK\$</i>
Dealt with in the financial statements of the Target Company	—
Not dealt with in the financial statements of the Target Company	<u>(6,321,979)</u>

14. AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary is unsecured, interest free and repayable on demand.

At 31 December 2012, the amount due from the subsidiary to the extent of HK\$54,070,303 and HK\$703,751 respectively were denominated in US\$ and RMB, with the remaining balance of HK\$1,632,926 denominated in the functional currency of the Target Company.

15. BANK BALANCES

The bank balances, which are denominated in US\$, carried interest at floating market rates.

16. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders, which is denominated in US\$, are unsecured, interest free and repayable on demand.

17. SHARE CAPITAL

	Number of shares	Nominal amount US\$
Authorised:		
Ordinary shares of US\$1 each	50,000	50,000
Issued and fully paid:		
Ordinary shares of US\$1 each	100	100
		HK\$
Equivalent to		780

The Target Company was incorporated on 15 December 2011 with an authorised share capital of US\$ 50,000 divided into 50,000 ordinary shares of US\$ 1 each. On 15 December 2011, 100 ordinary shares of US\$ 1 each were issued by the Target Company at par for cash to provide for its initial working capital.

18. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2012.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
CCTH CPA Limited
Certified Public Accountants
 Kwong Tin Lap
 Practising certificate number P01953
 Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza
 1 Science Museum Road, Tsim Sha Tsui
 Kowloon, Hong Kong

The following is the text of an accountant's report on Mongolia Co received from the independent reporting accountant, CCTH CPA Limited, Certified Public Accountants, Hong Kong for inclusion in the circular.



28 June 2013

The Board of Directors
China Natural Investment Company Limited
Unit 1903, 19th Floor,
West Tower, Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding MCTT Company Limited (“Mongolia Co”) which comprises the statements of financial position of Mongolia Co as at 31 December 2010, 2011 and 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of Mongolia Co for each of the years ended 31 December 2010, 2011 and 2012 (the “Relevant Periods”), together with the notes thereto, for inclusion in the circular of China Natural Investment Company Limited (the “Company”) to its shareholders dated 28 June 2013 in connection with the acquisition by a subsidiary of the Company of the entire share capital of Sino-Mongolia Fluorspar Mining Co., Ltd. (the “Target Company”), the holding company of Mongolia Co.

Mongolia Co was incorporated in Mongolia with limited liability on 31 August 2005 and is principally engaged in mining, exploration, processing and trading of fluorites. Mongolia Co has adopted 31 December as its financial year end date.

No audited statutory financial statements of Mongolia Co have been prepared since its date of incorporation.

For the purpose of this report, the directors of Mongolia Co have prepared the financial statements of Mongolia Co for each of the years ended 31 December 2010, 2011 and 2012 (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information has been prepared based on the Underlying Financial Statements, after making such adjustments as we consider appropriate.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Underlying Financial Statements are the responsibilities of the directors of Mongolia Co who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion, based on our examination and review, on the financial information, and to report our opinion to you.

We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

BASIS FOR QUALIFIED OPINION

In the absence of the related accounting records and other supporting documents, we are unable to verify whether the inventories of Mongolia Co with the carrying amounts of HK\$5,496,785 and HK\$9,285,775 as at 31 December 2010 and 31 December 2011 respectively presented in the statements of financial position and the notes thereto are not materially misstated. Any adjustments to the carrying amounts of the inventories at those dates may also have a consequential significant effect on the results of Mongolia Co for each of the years ended 31 December 2010, 2011 and 2012.

OPINION

In our opinion, except for the effects on the financial information of the matters described in the paragraph headed "Basis for Qualified Opinion", the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of Mongolia Co as at 31 December 2010, 2011 and 2012 and of the results and cash flows of Mongolia Co for each of the Relevant Periods.

EMPHASIS OF MATTERS

Without further qualifying our opinion, we draw attention to Note 2 of Section II below regarding the adoption of going concern basis on which the financial information has been prepared. At 31 December 2010, 2011 and 2012, Mongolia Co had sustained net current liabilities of HK\$5,714,983, HK\$21,846,962 and HK\$32,946,294 respectively.

The conditions set out in Note 2 of Section II indicate the existence of a material uncertainty which may cast significant doubt on the ability of Mongolia Co to continue as a going concern. The financial information does not include any adjustments that would result from a failure to obtain the fundings as referred to in Note 2 to meet in full the financial obligations of Mongolia Co for the foreseeable future.

I. FINANCIAL INFORMATION OF MONGOLIA CO

The following is the financial information of Mongolia Co for each of the years ended 31 December 2010, 2011 and 2012:

Statements of Comprehensive Income

	<i>Notes</i>	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Turnover	8	3,542,384	2,078,999	12,588,998
Cost of goods sold		<u>(1,332,316)</u>	<u>(1,014,674)</u>	<u>(9,879,008)</u>
		2,210,068	1,064,325	2,709,990
Other income and gains	10	187,257	-	-
Selling and distribution costs		(44,511)	(53,321)	(1,371,336)
Administrative and other expenses		(1,273,057)	(6,093,049)	(7,387,313)
Finance costs	11	<u>-</u>	<u>-</u>	<u>(66,502)</u>
Profit/(loss) before tax	12	1,079,757	(5,082,045)	(6,115,161)
Income tax expense	13	<u>(322,097)</u>	<u>(72,104)</u>	<u>(206,818)</u>
Profit/(loss) for the year		<u>757,660</u>	<u>(5,154,149)</u>	<u>(6,321,979)</u>
Other comprehensive income				
Exchange difference arising from translation		<u>2,966,005</u>	<u>(907,776)</u>	<u>8,474</u>
Total comprehensive income for the year		<u>3,723,665</u>	<u>(6,061,925)</u>	<u>(6,313,505)</u>

Statements of Financial Position

	Notes	2010 HK\$	2011 HK\$	2012 HK\$
Non-current Assets				
Property, plant and equipment	16	18,805,895	28,958,601	33,772,337
Exploration and evaluation assets	17	<u>1,903,524</u>	<u>1,735,526</u>	<u>1,709,220</u>
		<u>20,709,419</u>	<u>30,694,127</u>	<u>35,481,557</u>
Current Assets				
Inventories	18	5,496,785	9,285,775	17,871,382
Receivables, deposits and prepayments	19	1,606,687	1,438,388	2,635,151
Amount due from a related company	20	2,296,912	222,210	7,502,422
Bank balances and cash	21	<u>784,649</u>	<u>1,700,231</u>	<u>1,161,565</u>
		<u>10,185,033</u>	<u>12,646,604</u>	<u>29,170,520</u>
Current Liabilities				
Accounts payable and accrued charges	22	488,018	651,287	2,486,528
Amount due to a holding company	23	14,570,324	32,948,083	56,406,980
Short term borrowing	24	–	–	1,560,000
Obligations under finance lease	25	–	–	596,894
Income tax payable		<u>841,674</u>	<u>894,196</u>	<u>1,066,412</u>
		<u>15,900,016</u>	<u>34,493,566</u>	<u>62,116,814</u>
Net Current Liabilities		(5,714,983)	(21,846,962)	(32,946,294)
Non-current Liabilities				
Deferred tax liabilities	26	<u>(278,800)</u>	<u>(193,454)</u>	<u>(195,057)</u>
		<u>14,715,636</u>	<u>8,653,711</u>	<u>2,340,206</u>
Capital and Reserves				
Paid-in capital	27	13,046,818	13,046,818	13,046,818
Reserves		<u>1,668,818</u>	<u>(4,393,107)</u>	<u>(10,706,612)</u>
		<u>14,715,636</u>	<u>8,653,711</u>	<u>2,340,206</u>

Statements of Changes in Equity

	Paid-in capital HK\$	Exchange reserve HK\$	(Accumulated losses)/ retained profits HK\$	Total HK\$
At 1 January 2010	5,207,818	(1,579,007)	(475,840)	3,152,971
Profit for the year	–	–	757,660	757,660
Other comprehensive income for the year				
Exchange difference arising from translation	–	2,966,005	–	2,966,005
Capital contributed during the year	<u>7,839,000</u>	<u>–</u>	<u>–</u>	<u>7,839,000</u>
At 31 December 2010	13,046,818	1,386,998	281,820	14,715,636
Loss for the year	–	–	(5,154,149)	(5,154,149)
Other comprehensive income for the year				
Exchange difference arising from translation	<u>–</u>	<u>(907,776)</u>	<u>–</u>	<u>(907,776)</u>
At 31 December 2011	13,046,818	479,222	(4,872,329)	8,653,711
Loss for the year	–	–	(6,321,979)	(6,321,979)
Other comprehensive income for the year				
Exchange difference arising from translation	<u>–</u>	<u>8,474</u>	<u>–</u>	<u>8,474</u>
At 31 December 2012	<u>13,046,818</u>	<u>487,696</u>	<u>(11,194,308)</u>	<u>2,340,206</u>

Statements of Cash Flows

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Operating activities			
Profit/(loss) before tax	1,079,757	(5,082,045)	(6,115,161)
Adjustments for:			
Depreciation of property, plant and equipment	135,269	280,041	223,636
Impairment loss on receivables	57,641	642,406	247,258
Finance costs	—	—	66,502
Operating cash flows before movements in working capital	1,272,667	(4,159,598)	(5,577,765)
Increase in inventories	(2,552,477)	(4,539,054)	(8,025,969)
Increase in receivables, deposits and prepayments	(1,525,019)	(613,733)	(1,493,346)
(Increase)/decrease in amount due from a related company	(6,627)	2,025,644	(7,448,092)
Increase in accounts payable and accrued charges	285,075	223,277	1,847,788
Cash used in operations	(2,526,381)	(7,063,464)	(20,697,384)
Income tax paid	(79,070)	(616)	(12,216)
Net cash used in operating activities	<u>(2,605,451)</u>	<u>(7,064,080)</u>	<u>(20,709,600)</u>
Cash used in investing activities			
Acquisition of property, plant and equipment	(15,446,923)	(13,148,005)	(4,812,249)
Financing activities			
Capital contributed	7,839,000	—	—
Finance charges on finance lease paid	—	—	(27,502)
Repayment of obligations under finance leases	—	—	(1,069,792)
Increase in amount due to a holding company	10,617,200	21,277,755	24,499,426
Short term borrowing raised	—	—	1,595,235
Net cash generated from financing activities	<u>18,456,200</u>	<u>21,277,755</u>	<u>24,997,367</u>
Net increase/(decrease) in cash and cash equivalents	403,826	1,065,670	(524,482)
Cash and cash equivalents at beginning of the year	300,224	784,649	1,700,231
Effect on foreign exchange rate changes	80,599	(150,088)	(14,184)
Cash and cash equivalents at end of the year	<u>784,649</u>	<u>1,700,231</u>	<u>1,161,565</u>
Analysis of cash and cash equivalents			
Bank balances and cash	<u>784,649</u>	<u>1,700,231</u>	<u>1,161,565</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

MCTT Company Limited ("Mongolia Co") was incorporated and registered as a limited liability company in Mongolia on 31 August 2005. The address of the registered office and principal place of business of Mongolia Co is Apartment 26, building 72A, Enhtaivanii Avenue, 13th horoolol 2-1, 15th horoo, Bayanzurh District, Ulaanbaatar, Mongolia.

The principal activities of Mongolia Co are mining, exploration, processing and trading of fluorites.

The functional currency of Mongolia Co is Mongolian Togrog ("MNT") and the financial information is presented in Hong Kong dollar ("HK\$").

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

Notwithstanding the net current liabilities at 31 December 2010, 2011 and 2012 of HK\$5,714,983, HK\$21,846,962 and HK\$32,946,294 respectively sustained by Mongolia Co, the Financial Information has been prepared on a going concern basis as the Company has agreed, following the completion of the acquisition by a subsidiary of the Company of the entire issued share capital of the Target Company, to provide adequate funds to enable Mongolia Co to meet in full its financial obligations as and when they fall due for the foreseeable future. Alternatively, the present shareholders of the Target Company have agreed, in the event that the acquisition is not successful, to provide adequate funds to enable Mongolia Co to meet in full its financial obligations as and when they fall due for the foreseeable future.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the financial information for the Relevant Periods, Mongolia Co has consistently applied all of the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the financial year beginning on 1 January 2012.

Mongolia Co has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle ²
HKFRS 7 (Amendments) and HKFRS 9 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance ²
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities ³
HKFRS 9	Financial instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 1 (Amendments)	Presentation of Financial Statements ¹
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities ³
HK (IFRIC) – INT 20	Stripping Costs in the Production Phase of a Surface Mine ²

- ¹ Effective for annual periods beginning on or after 1 July 2012
- ² Effective for annual periods beginning on or after 1 January 2013
- ³ Effective for annual periods beginning on or after 1 January 2014
- ⁴ Effective for annual periods beginning on or after 1 January 2015

The directors of Mongolia Co anticipate that the application of the new and revised HKFRSs will have no material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes all applicable disclosures required by the Rules Governing The Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The financial information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted by Mongolia Co are as follows:

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less impairment loss, if any. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Exploration and evaluation assets include the cost of mining and exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. When the technical feasibility and commercial viability of extracting

mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as mining structures and mineral properties under property, plant and equipment. These assets are assessed for impairment annually and before reclassification.

Impairment losses on tangible and intangible assets

At the end of the reporting period, Mongolia Co reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, Mongolia Co estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost method and comprises all costs of purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the costs necessary to make the sale.

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

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when Mongolia Co becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets of Mongolia Co comprise of loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including receivables and deposits, amount due from a related company and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment loss on financial assets

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

For the loans and receivables, objective evidence of impairment could include:

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

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

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

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of Mongolia Co after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including accounts payable and accrued charges, amount due to a holding company, short term borrowing and obligations under finance lease) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Revenue recognition

Revenue from the sale of goods is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Company, the quantity and quality of the goods have been determined with reasonable accuracy, the price is fixed or determinable, and collectability is reasonably assured. This is generally when title passes.

Leases

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

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

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

Foreign currencies

Transactions in currencies other than the functional currency of Mongolia Co (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which Mongolia Co operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the financial information, the assets and liabilities of Mongolia Co are translated into its presentation currency (i.e. Hong Kong dollar) at the rates of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Taxation

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

The tax currently payable is based on taxable profit for each of the reporting periods. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The liability for current tax of Mongolia Co is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting periods.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Mongolia Co expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Mongolia Co's accounting policies, which are described in Note 4, the directors of Mongolia Co are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Useful life of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down in future periods.

Impairment of assets

Property, plant and equipment and exploration and evaluation assets are assessed annually to determine for any indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions regarding applicable discount rates, future capital requirements and cash flows from future business operations and underlying operating circumstances. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Impairment of debtors' balances (including amount due from a related company)

Mongolia Co regularly reviews the recoverability of debtors' balances. Mongolia Co makes its estimates based on the ageing of such balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, Mongolia Co would be required to revise the basis of making the allowance and its future results would be affected. As at 31 December 2010, 2011 and 2012, the carrying amounts of receivables (excluding the amount due from a related company) are HK\$1,318,364, HK\$1,066,438 and HK\$1,962,486 respectively and the impairment losses on these receivables amounted to HK\$57,641, HK\$642,406 and HK\$247,258 have been recognised to profit or loss for each of the years ended 31 December 2010, 2011 and 2012 respectively. No impairment loss on the amount due from a related company has been recognised to profit or loss.

Allowance for inventories

Net realisable value of inventories is estimated based on an assessment of their realisability. Write-downs of inventories to their net realisable value are recognised to profit or loss where events or changes in circumstances indicate that the inventories may not be realised above costs. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have impact on the carrying amount of Mongolia Co's inventories and its results for the period in which such write-down is recognised. In respect of each of the years ended 31 December 2010, 2011 and 2012, no allowance for inventories has been recognised to profit or loss.

6. CAPITAL RISK MANAGEMENT

Mongolia Co manages its capital to ensure that Mongolia Co will be able to continue as a going concern while maximising the return to its investor through the optimisation of debt and equity balance. Mongolia Co's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of Mongolia Co consists of paid-in capital and reserves.

Management of Mongolia Co reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, Mongolia Co will balance its overall capital structure through capital contribution and raising of new debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 HK\$	2011 HK\$	2012 HK\$
Financial assets			
Receivables and deposits	1,587,268	1,438,388	2,635,151
Amount due from a related company	2,296,912	222,210	7,502,422
Bank balances and cash	784,649	1,700,231	1,161,565
	<u>4,668,829</u>	<u>3,360,829</u>	<u>11,299,138</u>
Financial liabilities			
Accounts payable and accrued charges	448,018	651,287	2,486,528
Amount due to a holding company	14,570,324	32,948,083	56,406,980
Short term borrowing	–	–	1,560,000
Obligations under finance lease	–	–	596,894
	<u>15,018,342</u>	<u>33,599,370</u>	<u>61,050,402</u>

Financial risk management objectives and policies

Mongolia Co's financial instruments include receivables and deposits, amount due from a related company, bank balances and cash, accounts payable and accrued charges, amount due to a holding company, short term borrowing and obligations under finance lease. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments are set out below:

(a) Market risk

Currency risk

Mongolia Co is exposed to currency risk mainly arises from receivables and deposits, amount due from a related company, bank balances and cash, accounts payable and accrued charges, amount due to a holding company, short term borrowing and obligations under finance lease denominated in currencies other than the functional currency of Mongolia Co (MNT).

The monetary assets and monetary liabilities of Mongolia Co at the end of each of the reporting periods which were denominated in currencies other than MNT are as follows:

	2010 HK\$	2011 HK\$	2012 HK\$
Assets			
United States dollars ("US\$")	2,761,418	660,403	8,646,916
Renminbi ("RMB")	216,921	81,119	48,928
	<u>2,978,339</u>	<u>741,522</u>	<u>8,695,844</u>
Liabilities			
US\$	10,859,745	30,181,258	56,265,335
RMB	2,430,562	1,722,934	1,685,353
	<u>13,290,307</u>	<u>31,904,192</u>	<u>57,950,688</u>

Mongolia Co does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details Mongolia Co's sensitivity to a 5% increase and decrease in MNT against the other currencies. 5% are the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive number below indicates a decrease in post-tax loss or an increase in post-tax profit, where US\$ and RMB weakening 5% against MNT. For a 5% strengthen of US\$ and RMB against MNT respectively, there would be an equal and opposite impact on the results of Mongolia Co.

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
US\$			
Sensitivity rate	5%	5%	5%
Profit or loss	<u>364,425</u>	<u>1,328,438</u>	<u>2,142,829</u>
RMB			
Sensitivity rate	5%	5%	5%
Profit or loss	<u>99,614</u>	<u>73,882</u>	<u>73,639</u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of each of the reporting periods does not reflect the exposure during the relevant years.

Interest rate risk

As Mongolia Co has no significant interest-bearing assets and liabilities except for the short term borrowing (Note 24) which was raised in October 2012 and was settled subsequent to 31 December 2012. Any change in interest rates in respect of the short term borrowing is regarded insignificant. Accordingly, no sensitivity analysis to interest rate risk is presented. Mongolia Co has not used interest rate swaps to hedge its exposure to interest rate risk.

(b) Credit risk

The carrying amounts of the receivables mainly represent value-added tax recoverable, the credit risk of which is not considered significant. Mongolia Co's exposure to credit risk regarding other debtors' balances and concentration of such credit risk mainly arose from the amount due by a related company to Mongolia Co (Note 20) amounted to HK\$2,296,912, HK\$222,210 and HK\$7,502,422 at 31 December 2010, 2011 and 2012 respectively. Mongolia Co manages the credit risk by setting up a team responsible for the determination of credit terms, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover any overdue debts.

The credit risk for bank balances is limited because the counterparties are banks with good reputations.

(c) Liquidity risk

Liquidity risk mainly represents the risk that Mongolia Co will not be able to meet its financial obligations. As the Company or the present shareholders of the Target Company have agreed to provide adequate funds to enable Mongolia Co to meet in full its financial obligations as and when they fall due for the foreseeable future, management of Mongolia Co is of the view that the liquidity risk exposed to Mongolia Co is not regarded significant.

The following tables detail the contractual maturities of Mongolia Co for their non-derivative financial liabilities, which are based on undiscounted cash flows of financial liabilities based on the earliest date on which Mongolia Co can be required to pay.

	Within one year or on demand HK\$	Undiscounted cash flows HK\$	Carrying amount HK\$
At 31 December 2010			
Accounts payable and accrued charges	488,018	488,018	488,018
Amount due to a holding company	14,570,324	14,570,324	14,570,324
Short term borrowing	–	–	–
Obligations under finance lease	–	–	–
	<u>15,058,342</u>	<u>15,058,342</u>	<u>15,058,342</u>
At 31 December 2011			
Accounts payable and accrued charges	651,287	651,287	651,287
Amount due to a holding company	32,948,083	32,948,083	32,948,083
Short term borrowing	–	–	–
Obligations under finance lease	–	–	–
	<u>33,599,370</u>	<u>33,599,370</u>	<u>33,599,370</u>
At 31 December 2012			
Accounts payable and accrued charges	2,486,528	2,486,528	2,486,528
Amount due to a holding company	56,406,980	56,406,980	56,406,980
Short term borrowing	1,612,000	1,612,000	1,560,000
Obligations under finance lease	623,789	623,789	596,894
	<u>61,129,297</u>	<u>61,129,297</u>	<u>61,050,402</u>

(d) Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the financial information approximate their fair values.

8. TURNOVER

Turnover represents revenue from the net invoiced value of goods sold, after allowances for trade discounts and returns.

9. SEGMENT REPORTING**Segment information**

Mongolia Co is principally engaged in the mining, exploration, processing and trading of fluorites during the Relevant Periods. Management considers that it is not meaningful to prepare segment information regarding Mongolia Co for the purpose of its resource allocation and performance assessment.

Geographical information

All the revenue of Mongolia Co for the Relevant Periods is derived from a customer based in the People's Republic of China ("PRC"). All non-current assets of Mongolia Co are located in Mongolia.

Information about major customers

Revenues from customers contributing over 10% of the total revenue of Mongolia Co are as follows:

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Customer A	<u>3,542,384</u>	<u>2,078,999</u>	<u>12,588,998</u>

10. OTHER INCOME AND GAINS

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Exchange gains, net	<u>187,257</u>	<u>—</u>	<u>—</u>

11. FINANCE COSTS

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Finance charges on finance lease	—	—	27,502
Interest on short term borrowing	<u>—</u>	<u>—</u>	<u>39,000</u>
	<u>—</u>	<u>—</u>	<u>66,502</u>

12. PROFIT/(LOSS) BEFORE TAX

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Profit/(loss) before tax is arrived at after charging:			
Staff costs:			
Salaries and other benefits	746,925	428,527	2,769,254
Retirements benefits scheme contributions (<i>Note</i>)	115,353	51,423	329,592
Less: amount included in inventories	<u>(418,279)</u>	<u>(363,273)</u>	<u>(2,843,810)</u>
	443,999	116,677	255,036
Depreciation of property, plant and equipment	213,384	365,941	1,121,117
Less: amount included in inventories	<u>(78,115)</u>	<u>(85,900)</u>	<u>(897,481)</u>
	135,269	280,041	223,636
Auditor's remuneration	–	–	–
Impairment loss on receivables	57,641	642,406	247,258
Exchange losses, net included in administrative and other expenses	<u>–</u>	<u>4,117,779</u>	<u>703,032</u>

Note: Pursuant to the relevant labour rules and regulations in Mongolia, Mongolia Co participates in defined contribution retirement benefit schemes (the "Schemes") organised by the Government of Mongolia whereby the Company is referred to make contributions to the Schemes at a rate of 11% to 13% of the eligible employees' salaries. Contribution to the Schemes vest immediately.

Mongolia Co has no other material obligation for the payment of retirement benefits beyond the annual contribution described above.

13. INCOME TAX EXPENSE

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Mongolian Enterprise Income Tax	249,462	137,830	202,180
Deferred tax	<u>72,635</u>	<u>(65,726)</u>	<u>4,638</u>
Income tax expense	<u>322,097</u>	<u>72,104</u>	<u>206,818</u>

Pursuant to the income tax rules and regulations of Mongolia, Mongolia Co is liable to Mongolian Enterprise Income Tax at the rate of 10% of the first MNT 3 billion taxable income and 25% of the remaining taxable income for each of the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled to profit/(loss) before tax per the statements of comprehensive income as follows:

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Profit/(loss) before tax	<u>1,079,757</u>	<u>(5,082,045)</u>	<u>(6,115,161)</u>
Tax at the applicable income tax rate of 10%	107,976	(508,205)	(611,516)
Tax effect of expenses not deductible for tax purpose	195,953	580,309	818,334
Tax effect of tax loss not recognised	<u>18,168</u>	<u>–</u>	<u>–</u>
Income tax expense	<u>322,097</u>	<u>72,104</u>	<u>206,818</u>

Details of deferred tax are set out in Note 26.

14. DIRECTORS' EMOLUMENTS

No directors received any fees or emoluments in respect of their services rendered to Mongolia Co during the Relevant Periods.

15. EMPLOYEES' EMOLUMENTS

The five employees of Mongolia Co with the highest emoluments for the Relevant Periods are as follows:

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Salaries and benefits-in-kind	52,228	97,080	179,642
Contribution to retirement benefits scheme	<u>6,267</u>	<u>11,650</u>	<u>21,557</u>
	<u>58,495</u>	<u>108,730</u>	<u>201,199</u>

16. PROPERTY, PLANT AND EQUIPMENT

	Building HK\$	Plant and machinery HK\$	Furniture and fixtures HK\$	Motor vehicles HK\$	Construction in progress HK\$	Total HK\$
Cost						
At 1 January 2010	–	991,918	92,187	552,172	470,130	2,106,407
Additions	995,133	5,656,206	51,650	744,655	7,999,279	15,446,923
Exchange realignment	84,387	632,797	18,613	148,402	750,927	1,635,126
At 31 December 2010	1,079,520	7,280,921	162,450	1,445,229	9,220,336	19,188,456
Additions	–	574,023	42,480	363,780	12,167,722	13,148,005
Exchange realignment	(95,275)	(686,133)	(17,561)	(155,146)	(1,736,764)	(2,690,879)
At 31 December 2011	984,245	7,168,811	187,369	1,653,863	19,651,294	29,645,582
Additions	–	2,082,489	211,804	–	4,198,123	6,492,416
Transfer from construction in progress	–	23,677,964	–	–	(23,677,964)	–
Exchange realignment	(14,918)	(677,648)	(7,518)	(25,068)	132,411	(592,741)
At 31 December 2012	969,327	32,251,616	391,655	1,628,795	303,864	35,545,257
Accumulated depreciation						
At 1 January 2010	–	62,013	32,625	36,237	–	130,875
Charge for the year	14,512	103,110	13,055	82,707	–	213,384
Exchange realignment	1,231	18,319	6,144	12,608	–	38,302
At 31 December 2010	15,743	183,442	51,824	131,552	–	382,561
Charge for the year	26,626	165,747	15,827	157,741	–	365,941
Exchange realignment	(3,409)	(28,763)	(5,773)	(23,576)	–	(61,521)
At 31 December 2011	38,960	320,426	61,878	265,717	–	686,981
Charge for the year	24,781	902,395	27,383	166,558	–	1,121,117
Exchange realignment	(1,139)	(24,789)	(1,544)	(7,706)	–	(35,178)
At 31 December 2012	62,602	1,198,032	87,717	424,569	–	1,772,920
Carrying amount						
As at 31 December 2010	1,063,777	7,097,479	110,626	1,313,677	9,220,336	18,805,895
As at 31 December 2011	945,285	6,848,385	125,491	1,388,146	19,651,294	28,958,601
As at 31 December 2012	906,725	31,053,584	303,938	1,204,226	303,864	33,772,337

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis at the following rates per annum:

Building	2.5%
Plant and machinery	5%
Furniture and fixtures	10%
Motor vehicles	10%

The carrying amount of the plant and machinery at 31 December 2012 includes an amount of HK\$1,456,346 in respect of machinery held under finance lease.

17. EXPLORATION AND EVALUATION ASSETS

	Mining rights <i>HK\$</i>
Cost	
At 1 January 2010	1,648,930
Exchange realignment	<u>254,594</u>
At 31 December 2010	1,903,524
Exchange realignment	<u>(167,998)</u>
At 31 December 2011	1,735,526
Exchange realignment	<u>(26,306)</u>
At 31 December 2012	<u><u>1,709,220</u></u>

The mining rights represent the cost of the acquisition of the licences granted by Mongolia government for the exploration of minerals within two mines located in Mongolia, being the first mine with an aggregate area of approximately 50 hectares for the licence period from 29 January 2007 to 28 January 2037 ("Mine 1") and the second mine with an aggregate area of approximately 314 hectares for the licence period from 1 August 2007 to 30 July 2037 ("Mine 2"). Small scale exploration prior to commercial production stage has been conducted relating to the Mine 1 and no production has been commenced for the Mine 2.

Having considered that no substantive exploration works and evaluation of mineral reserves/resources in respect of the Mine 1 and Mine 2 have been conducted, management of Mongolia Co is of the view that the technical feasibility and commercial viability of these two mines are yet to become demonstrable, these exploration and evaluation assets have not been reclassified to property, plant and equipment and depreciation on such assets has not commenced.

18. INVENTORIES

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Finished goods	5,193,187	8,725,870	16,911,793
Materials and supplies	303,598	559,905	959,589
	<u>5,496,785</u>	<u>9,285,775</u>	<u>17,871,382</u>

19. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Value-added tax recoverable	860,258	1,544,547	2,353,381
Other receivables	520,635	175,091	486,469
	1,380,893	1,719,638	2,839,850
Less: Allowance for doubtful debts	<u>(62,529)</u>	<u>(653,200)</u>	<u>(877,364)</u>
Net receivables	1,318,364	1,066,438	1,962,486
Deposits paid and prepayments	288,323	371,950	672,665
	<u>1,606,687</u>	<u>1,438,388</u>	<u>2,635,151</u>

Mongolia Co has granted a credit period of 60 days to its customers.

Movements in the allowance for doubtful debts are as follows:

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At beginning of year	–	62,529	653,200
Impairment losses recognised for the year	57,641	642,406	247,258
Exchange realignment	4,888	(51,735)	(23,094)
At end of year	<u>62,529</u>	<u>653,200</u>	<u>877,364</u>

At 31 December 2010, 2011 and 2012, receivables and deposits to the extent of HK\$253,500, HK\$308,100 and HK\$431,003 respectively were denominated in US\$ with the remaining balances at those dates denominated in the functional currency of Mongolia Co.

20. AMOUNT DUE FROM A RELATED COMPANY

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Amount due from Tianjin Fluorspar International Trading Co., Ltd. ("Tianjin Fluorspar")	2,296,912	222,210	7,502,422

Particulars regarding the amount due from Tianjin Fluorspar are as follows:

	Balance at beginning of the year <i>HK\$</i>	Balance at end of the year <i>HK\$</i>	Maximum balance outstanding during the year <i>HK\$</i>
In respect of:			
Year ended 31 December 2010	1,983,475	2,296,912	2,532,264
Year ended 31 December 2011	2,296,912	222,210	2,394,206
Year ended 31 December 2012	222,210	7,502,422	10,860,492

The amount due from Tianjin Fluorspar, which is denominated in US\$, is unsecured, interest free and repayable on demand.

Tianjin Fluorspar is 60% owned by Zhejiang Tianyang Holdings Group Co. Limited, the holding company of Mongolia Co during the Relevant Periods up to January 2012. Further, Mr. Huang Tianhua, a director of Mongolia Co and a shareholder of the Target Company, is also a director of Tianjin Fluorspar.

21. BANK BALANCES AND CASH

Bank balances and cash are non-interest bearing and include deposits with banks and cash on hand denominated in US\$ and RMB totalled HK\$427,927, HK\$211,212 and HK\$762,419 at 31 December 2010, 2011 and 2012 respectively. The remaining balances of the bank balances and cash as at those dates were denominated in the functional currency of Mongolia Co.

22. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Payables for:			
– exploitation of fluorites	–	–	898,645
– construction of plant and machinery	390,104	442,123	50,666
Other payables	2,030	20,810	230,966
Accrued charges	95,884	188,354	1,306,251
	<u>488,018</u>	<u>651,287</u>	<u>2,486,528</u>

The credit period on settlements of purchase of goods and exploitation of fluorites ranged from 60 days to 90 days.

An aged analysis of the payables for exploitation of fluorites based on invoice date is as follows:

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within 30 days	–	–	–
31 to 90 days	–	–	188,369
More than 90 days	–	–	710,276
	<u>–</u>	<u>–</u>	<u>898,645</u>

Accounts payable and accrued charges to the extent of HK\$256,152 at 31 December 2010 was denominated in US\$ while the remaining balance as at that date were denominated in the functional currency of Mongolia Co.

Accounts payable and accrued charges at 31 December 2011 were substantially denominated in the functional currency of Mongolia Co.

At 31 December 2012, accounts payable and accrued charges to the extent of HK\$38,138 and HK\$981,602 were denominated in US\$ and RMB respectively while the remaining balance was denominated in the functional currency of Mongolia Co.

23. AMOUNT DUE TO A HOLDING COMPANY

The amount due to a holding company is unsecured, interest free and repayable on demand.

At 31 December 2010, 2011 and 2012, the amount due to a holding company to the extent of HK\$10,603,593, HK\$30,181,258 and HK\$54,070,303 respectively were denominated in US\$, and to the extent of HK\$2,430,562, HK\$1,722,934 and HK\$703,751 respectively were denominated in RMB, with the remaining balances denominated in the functional currency of Mongolia Co.

24. SHORT TERM BORROWING

	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Unsecured short term loan	<u>–</u>	<u>–</u>	<u>1,560,000</u>

In October 2012, a short term loan of US\$200,000 was granted to Mongolia Co by a subsidiary of the Company (the "Purchaser"). The loan, which carried interest at 10% per annum, was settled in May 2013 through the deduction by the same amount regarding the deposit paid in connection with the proposed acquisition by the Purchaser of the entire issued share capital of the Target Company.

25. OBLIGATIONS UNDER FINANCE LEASE

In the year ended 31 December 2012, Mongolia Co leased certain of its machinery under finance lease. The Cost of the machinery amounted to HK\$1,680,167. The lease term is one year. Interest rate on obligations under the finance lease is fixed at the contract rate of 5% per annum. Mongolia Co has an option to purchase the machinery for a nominal amount at the end of the lease term. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments			Present value of minimum lease payments		
	2010 HK\$	2011 HK\$	2012 HK\$	2010 HK\$	2011 HK\$	2012 HK\$
Amounts payable under finance lease	-	-	623,789	-	-	596,894
Less: Future finance charges	-	-	(26,895)	N/A	N/A	N/A
Present value of lease obligations	-	-	596,894	-	-	596,894
Less: Amounts due for settlement within 12 months				-	-	(596,894)
Amounts due for settlement after 12 months				-	-	-

The obligations under finance lease was denominated in US\$.

26. DEFERRED TAX LIABILITIES

	Difference between depreciation charge and tax depreciation allowance	Inventories	Allowance for doubtful debts	Total
	HK\$			
At 1 January 2010	(10,347)	183,601	-	173,254
(Credited)/charged to profit or loss	(8,062)	86,461	(5,764)	72,635
Exchange realignment	(2,280)	35,680	(489)	32,911
At 31 December 2010	(20,689)	305,742	(6,253)	278,800
Credited to profit or loss	(14)	(1,471)	(64,241)	(65,726)
Exchange realignment	1,827	(26,873)	5,426	(19,620)
At 31 December 2011	(18,876)	277,398	(65,068)	193,454
(Credited)/charged to profit or loss	(13,394)	42,758	(24,726)	4,638
Exchange realignment	582	(5,148)	1,531	(3,035)
At 31 December 2012	(31,688)	315,008	(88,263)	195,057

27. PAID-IN CAPITAL

	<i>US\$</i>	Equivalent to <i>HK\$</i>
At 1 January 2010	667,669	5,207,818
Capital contributed during the year ended 31 December 2010	<u>1,005,000</u>	<u>7,839,000</u>
At 31 December 2010, 2011 and 2012	<u><u>1,672,669</u></u>	<u><u>13,046,818</u></u>

28. RELATED PARTY TRANSACTIONS

In addition to balances with a related company, Tianjin Fluorspar, and a holding company disclosed in Notes 20 and 23 respectively, Mongolia Co entered into the following transactions with Tianjin Fluorspar:

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Sales to Tianjin Fluorspar	<u>3,542,384</u>	<u>2,078,999</u>	<u>12,588,998</u>

Compensations of key management personnel of Mongolia Co are as follows:

	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Short-term benefits	52,228	97,080	179,642
Post-employment benefits	<u>6,267</u>	<u>11,650</u>	<u>21,557</u>
Total compensation paid to key management personnel	<u><u>58,495</u></u>	<u><u>108,730</u></u>	<u><u>201,199</u></u>

The emoluments of key management personnel are determined with regards to the performance of individuals.

In October 2012, a short term loan of US\$200,000 was granted to Mongolia Co by the Purchaser, details of which are disclosed in Note 24.

29. PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent company and the ultimate holding company of Mongolia Co as follows:

As at	Parent and ultimate holding company	Place of incorporation
31 December 2010 and 2011	Zhejiang Tianyang Holding Group Co. Limited	PRC
31 December 2012	Sino-Mongolia Fluorspar Mining Co., Ltd.	British Virgin Islands

30. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2012.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Mongolia Co have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
CCTH CPA Limited
Certified Public Accountants
Kwong Tin Lap
Practising certificate number P01953
Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza
1 Science Museum Road, Tsim Sha Tsui
Kowloon, Hong Kong

Set out below is the management discussion and analysis of the Target Group for each of the years ended 31 December 2012, 31 December 2011 and 31 December 2010 (the “**Periods**”). Since the Target Company has not conducted and does not have any business operation since the date of its incorporation, the management discussion and analysis below will be focused on the Mongolia Co. The following financial information is based on the financial information of the Target Company and the Mongolia Co as set out in Appendix II and III to this circular, respectively.

BUSINESS AND FINANCIAL REVIEW

The Target Company was incorporated in the BVI in December 2011. Save for acquiring its interest in the entire issued share capital of the Mongolia Co from its then shareholders and the advance of shareholder’s loan to the Mongolia Co, since its incorporation, the Target Company has not conducted and does not have any business operations since the date of its incorporation. Accordingly, it has not recorded any significant profit or loss from the date of its incorporation during the Periods.

The Mongolia Co was incorporated in Mongolia in August 2005. Its principal asset is its Factory and the mining licences of the Mines. There is no information on business segment as the Mongolia Co's revenue attributes to the processing and trading of fluorites.

Turnover of the Mongolia Co’s revenue, solely represents revenue from sales fluorite ores and fluorite particles. For the Periods, turnover of the Mongolia Co was approximately HK\$12,589,000, HK\$2,079,000 and HK\$3,542,000 in 2012, 2011 and 2010 respectively. Prior to the operation of the Factory from July 2012, the revenue of the Mongolia Co was solely from the income from trading of fluorite ores. The turnover for the year ended 31 December 2012 represents mainly the sales of fluorite particles. Upon the determination of establishing a processing factory in the middle of 2009, the management of the Mongolia Co contributed most of the resources and efforts in the set-up of the Factory, as a result, the trading business of fluorite ores showed a decreasing trend from 2010 to 2011.

The profit/(loss) after income tax of the Mongolia Co for the Periods was approximately (HK\$6,322,000), (HK\$5,154,000) and HK\$758,000 in 2012, 2011 and 2010.

For the year ended 31 December 2011, the net loss was mainly due to (i) the decrease in approximately 41.3% in turnover as compared to the previous year, as the management of Mongolia Co spent most of their effort in planning the construction of the Factory; (ii) extra administration expenses incurred for the planning and construction of the Factory; and (iii) increase in exchange loss of approximately HK\$3,415,000 resulted from the increase in advances from a holding company of Mongolia Co for the funding requirement of the Factory and currency depreciation in the Mongolia dollars to U.S. dollars.

For the year ended 31 December 2012, as the management contributes most of their efforts in the construction of the Factory, no sales occurred during the first half of the year. Moreover, as the Factory began its operation only July 2012, sales of fluorite particles, which contributed most of the revenue of Mongolia Co during the year, started from August 2012, as a result, the gross profit generated from the sales of fluorite particles and ores could not cover the administrative expenses, and resulting to a loss of approximately HK\$6,322,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, 31 December 2011 and 31 December 2010, the Mongolia Co recorded (a) net current liabilities of approximately HK\$32,946,000, HK\$21,847,000 and HK\$5,715,000 respectively; and (b) Amounts advanced from holding company of approximately HK\$56,407,000, HK\$32,948,000 and HK\$14,570,000 respectively. The advances from a holding company was interest free and repayable on demand.

As at 31 December 2012, 31 December 2011 and 31 December 2010, the Mongolia Co had cash and bank balances of approximately HK\$1,162,000, HK\$1,700,000 and HK\$785,000 respectively.

As at 31 December 2012, 31 December 2011 and 31 December 2010, the current ratios (defined as total current assets divided by total current liabilities) of the Mongolia Co were approximately 0.47, 0.37 and 0.64 times, respectively and its gearing ratios (expressed as a percentage of total liabilities over total assets) were approximately 96.38%, 80.03% and 52.37% respectively.

Subsequent to the year ended 31 December 2012, pursuant to a supplemental agreement entered between the Vendors and the Purchaser on 7 May 2013, an additional refundable deposit of HK\$9,500,000 was advanced to the Target Group from the Purchaser for Mongolia Co's working capital, especially for the sales of fluorite particles produced in 2012 and the operation of the Factory. As the fluorine chemical industry is recovering from the 2nd half of 2012, both the demand for and selling prices of fluorite particles and ores has been increasing during the 1st half of 2013. The management of Mongolia Co considered that the current working capital level is adequate.

It is considered by the management of the Group that, up to the Latest Practicable Date, there is no material adverse change on the Target Group's business operation, financial performance since 31 December 2012, being the date of which the latest audited report of the Mongolia Co was made up.

CAPITAL COMMITMENT

As at 31 December 2012, 31 December 2011 and 31 December 2010, the Mongolia Co had no material capital commitments.

TREASURY POLICIES

The Mongolia Co had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the Periods.

EXCHANGE RATE EXPOSURE

Since most of the receipts of Mongolia Co's revenue is denominated in US dollars, and its payments are either in Mongolia dollars or RMB, the fluctuation in exchange rates of these currencies in the international markets will pose a currency risk to the operation of the Mongolia Co. As the transaction

amounts are expected to increase, the management will closely monitor the applicable foreign currency changes especially the exchange rates between US dollars, RMB and the Mongolia dollars, and will consider any suitable financial arrangement for hedging.

CHARGE OF ASSETS

Save for the outstanding obligations under finance lease of approximately HK\$597,000 for the purchase of certain machinery of Mongolia Co at 31 December 2012, there is no pledge of assets of Mongolia Co at 31 December 2011 and 31 December 2010.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Save for the reorganization of the shareholding structures of the Mongolia Co, the Target Company did not have any material acquisition and disposal of subsidiaries during the Periods.

CONTINGENT LIABILITIES

As at 31 December 2012, 31 December 2011 and 31 December 2010, the Mongolia Co did not have any material contingent liabilities.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**Introduction**

Capitalised terms used herein shall have the same meanings as those defined in this circular, unless the context requires otherwise.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group (the “Unaudited Pro Forma Financial Information”) has been prepared by the Directors in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Acquisition, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2012).

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2012 as extracted from the Company’s published interim report for the six months ended 31 December 2012, the audited statement of financial position of the Target Company as at 31 December 2012 as extracted from the accountant’s report on the Target Company (as set out in Appendix II to this circular) and the audited statement of financial position of Mongolia Co as at 31 December 2012 as extracted from the accountant’s report on Mongolia Co (as set out in Appendix III to this circular), after incorporating the pro forma adjustment as described in the accompanying notes to illustrate the effect of the Acquisition.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2012 or any future dates.

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP

	The Group as at 31 December 2012 HK\$'000 (Unaudited)	Target Company as at 31 December 2012 HK\$'000 (Audited)	Mongolia Co as at 31 December 2012 HK\$'000 (Audited)	Pro forma adjustments HK\$'000 (Unaudited)	Notes	Pro forma Enlarged Group HK\$'000 (Unaudited)
Non-current assets						
Property, plant and equipment	4,361	-	33,772	18,732	1.6	56,865
Goodwill	22,262	-	-	25,956	1.5	48,218
Exploration and evaluation assets	-	-	1,709	-		1,709
Interest in an associate	202,068	-	-	-		202,068
Investment cost in Mongolia Co	-	12,689	-	(12,689)	1.3	-
	<u>228,691</u>	<u>12,689</u>	<u>35,481</u>			<u>308,860</u>
Current assets						
Inventories	5,537	-	17,871	9,629	1.6	33,037
Trade and other receivables	46,403	-	2,635	(23,000)	1.1	24,478
				(1,560)	1.4	
Held-for-trading investments	29,243	-	-	-		29,243
Early redemption option embedded in convertible note issued by the Company	15,854	-	-	-		15,854
Amount due from Mongolia Co	-	56,407	-	(56,407)	1.3	-
Amount due from a related company	-	-	7,503	-		7,503
Amount due from the Target Group	-	-	-	46,564	1.4	-
				(46,564)	1.4	
Income tax recoverable	148	-	-	-		148
Cash and cash equivalents	157,490	183	1,162	(51,000)	1.1	86,545
				(2,440)	1.2	
				(18,850)	1.8	
	<u>254,675</u>	<u>56,590</u>	<u>29,171</u>			<u>196,808</u>
Current liabilities						
Trade and other payables	5,339	-	2,487	-		7,826
Amounts due to the Vendors	-	69,564	-	(46,564)	1.4	-
				(4,150)	1.7	
				(18,850)	1.8	
Amount due to the Target Company	-	-	56,407	(56,407)	1.3	-
Income tax payable	-	-	1,066	-		1,066
Borrowing	-	-	1,560	(1,560)	1.4	-
Obligation under finance lease	-	-	597	-		597
	<u>5,339</u>	<u>69,564</u>	<u>62,117</u>			<u>9,489</u>
Net current assets/(liabilities)	<u>249,336</u>	<u>(12,974)</u>	<u>(32,946)</u>			<u>187,319</u>
Total assets less current liabilities	<u>478,027</u>	<u>(285)</u>	<u>2,535</u>			<u>496,179</u>
Non-current liabilities						
Convertible bonds	71,770	-	-	-		71,770
Contingent consideration payable	-	-	-	13,750	1.1	13,750
Deferred tax liabilities	46	-	195	6,647	1.6	6,888
	<u>71,816</u>	<u>-</u>	<u>195</u>			<u>92,408</u>
Net assets/(liabilities)	<u>406,211</u>	<u>(285)</u>	<u>2,340</u>			<u>403,771</u>

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

- 1.1 Pursuant to the Acquisition Agreement and the supplemental agreement dated 7 May 2013 entered into between Huge Discovery Limited (an indirect wholly-owned subsidiary of the Company, the “Purchaser”) and the Vendors, the Purchaser has conditionally agreed to acquire the entire issued share capital of the Target Company at an aggregate cash consideration of HK\$148,000,000 (subject to adjustments as set out in the section headed “Profit Guarantee, Share Charge and Liabilities” as set forth in the “Letter from the Board”). Pursuant to the agreements, the consideration for the acquisition is contingent on, inter alia, specified levels of net profits being achieved by the Target Group in future periods and will be satisfied in the following manners:

	<i>HK\$'000</i>
(i) Placement of a refundable deposit of HK\$23,000,000 (the “1st Deposit”) by the Group with the Vendors within 15 days following the signing of the Acquisition Agreement and the Vendors shall then place such amount in form of interest-free loans with the Target Company as general working capital of the Mongolia Co.	23,000
(ii) Placement of a refundable deposit of HK\$9,500,000 (the “2nd Deposit”) by the Group with the Vendor before the Completion	9,500
(iii) Settlement of HK\$41,500,000 in cash upon the Completion	41,500
(iv) Settlement of HK\$31,000,000 in cash (subject to adjustments) (the “First Post Completion Payment”) within 30 days after the satisfaction of the profit of HK\$31,000,000 (the “First Guaranteed Profit”) for the period from 1 July 2012 to 30 June 2013 (the “First Relevant Period”). In the event the profit for the First Relevant Period shall be less than HK\$31,000,000, the Vendors agree that the shortfall shall be deducted from the First Post Completion Payment. To the extent that the actual profit for the First Relevant Period exceeds the First Guaranteed Profit, the excess of the profit over the First Guaranteed Profit may be carried forward in calculating the profit for the Second Relevant Period.	31,000
(v) Settlement of HK\$43,000,000 in cash (subject to adjustments) (the “Second Post Completion Payment”) within 30 days after the satisfaction of the profit of HK\$43,000,000 (the “Second Guaranteed Profit”) for the period from 1 July 2013 to 30 June 2014 (the “Second Relevant Period”). In the event the profit for the Second Relevant Period shall be less than HK\$43,000,000, the Vendors agree that the shortfall shall be deducted from the Second Post Completion Payment.	<div style="border-top: 1px solid black;">43,000</div>
	<div style="border-top: 3px double black;">148,000</div>

As at 31 December 2012, the Group placed the 1st Deposit of HK\$23,000,000 with the Vendors.

For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the Consideration has been estimated by the Directors to be approximately HK\$87,750,000 in aggregate and the adjustments reflect (i) the partial settlement of the Consideration of HK\$23,000,000 by derecognition of the 1st Deposit for the Acquisition previously placed by the Group with the Vendors; (ii) the partial settlement of the Consideration of HK\$51,000,000 in cash; and (iii) the recognition of the contingent consideration payable of approximately HK\$13,750,000 estimated by the Directors with reference to a profit forecast prepared by the management of the Target Company, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2012). This adjustment is not expected to have a continuing effect on the Enlarged Group.

- 1.2 The adjustment reflects the settlement of the estimated legal and professional fees attributable to the Acquisition of approximately HK\$2,440,000, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2012). This adjustment is not expected to have a continuing effect on the Enlarged Group.
- 1.3 The adjustments reflect the elimination of (i) the Target Company's investment cost in Mongolia Co of approximately HK\$12,689,000 as at 31 December 2012 against the aggregate paid-up capital of Mongolia Co as at 31 December 2012 and (ii) the inter-company balances between the Target Company and Mongolia Co as at 31 December 2012 upon the consolidation of the Target Company and Mongolia Co. This adjustment is expected to have a continuing effect on the Enlarged Group.
- 1.4 Pursuant to the Acquisition Agreement and the supplemental agreement dated 7 May 2013, the Sale Loan includes all amounts owed by any member of the Target Group to the Vendors and excludes the aggregate amounts of the 1st Deposit and the 2nd Deposit placed by the Vendors with the Target Group.

The adjustments reflect (i) the recognition of the amount due from the Target Group of approximately HK\$46,564,000 by the Group upon the acquisition of the Sale Loan of approximately HK\$46,564,000 from the Vendors, (ii) the elimination of inter-company balances of approximately HK\$46,564,000 and the borrowing of approximately HK\$1,560,000 between the Group and the Target Group upon the Completion.

For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the amount of Sale Loan of approximately HK\$46,564,000 is calculated based on the difference between the amount owed by the Target Company to the Vendors of approximately HK\$69,564,000 as at 31 December 2012 and the amount of the 1st Deposit of approximately HK\$23,000,000 as at 31 December 2012 placed by the Vendors with the Target Group in form of interest-free shareholders' loan.

Since the actual amount of the Sale Loan as of the completion date of the Acquisition would be different from the assumed amount used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group presented above, the actual amount of the Sale Loan arising from the Acquisition to be recognised by the Group might be materially different from the estimated amount as shown in this appendix.

- 1.5 The adjustment reflects the recognition of goodwill of approximately HK\$25,956,000 arising from the Acquisition, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2012). This adjustment is not expected to have a continuing effect on the Enlarged Group.

The goodwill arising from the Acquisition is calculated as follows:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration for the Acquisition (<i>note 1.1</i>)		87,750
Less: Fair values of net identifiable assets, liabilities and contingent liabilities of the Target Group (<i>note 1.6</i>)	11,080	
Sales Loan (<i>note 1.4</i>)	46,564	
Amounts due from the Vendors (<i>note 1.7</i>)	4,150	
	<u>4,150</u>	<u>61,794</u>
Goodwill arising from the Acquisition		<u><u>25,956</u></u>

Since the actual fair values of assets, liabilities and contingent liabilities of the Target Group as of the completion date of the Acquisition would be different from the assumed amounts used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group presented above, the actual of goodwill arising from the Acquisition to be recognised by the Group might be materially different from the estimated amount as shown in this appendix.

The Group will perform annual impairment test for the cash generating unit to which the goodwill has been allocated in accordance with the Company's accounting policies and the requirements of HKAS 36 in future.

- 1.6 For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the carrying amounts of net identifiable assets and liabilities of the Target Group as at 31 December 2012 is calculated based on the audited statement of financial position of the Target Company as at 31 December 2012 as extracted from the accountants' report on the Target Company (as set out in Appendix II to this circular) and the audited statement of financial position of Mongolia Co as at 31 December 2012 as extracted from the accountants' report on Mongolia Co (as set out in Appendix III to this circular) after incorporating the pro forma adjustment as described in the accompanying notes.

The Acquisition is to be accounted for as a business combination in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" ("HKFRS 3") issued by the Hong Kong Institute of Certified Public Accountants and the Directors determined the fair values of identifiable assets and liabilities of the Target Group as at the date of Acquisition by reference to business valuation of the Target Group as at 31 December 2012 (as set out in Appendix VI to this circular) carried out by Roma Appraisals Limited ("RAL"), an independent professional qualified valuer not connected to the Group.

The carrying amounts, the fair values and the related fair value adjustments of net identifiable assets, liabilities and contingent liabilities of the Target Group as at 31 December 2012 are calculated as follows:

	Target Company as at 31 December 2012 HK\$'000 (Audited)	Mongolia Co as at 31 December 2012 HK\$'000 (Audited)	Pro forma adjustments HK\$'000 (Unaudited)	Notes	Carrying amounts of identifiable assets and liabilities of the Target Group as at 31 December 2012 HK\$'000 (Unaudited)	Fair value adjustment on identifiable assets and liabilities of the Target Group as at 31 December 2012 HK\$'000 (Unaudited)	Fair value of identifiable assets, liabilities and contingent liabilities of the Target Group as at 31 December 2012 HK\$'000 (Unaudited)
Non-current assets							
Property, plant and equipment	-	33,772			33,772	18,732	52,504
Exploration and evaluation assets	-	1,709			1,709		1,709
Investment cost in Mongolia Co	12,689	-	(12,689)	1.3	-		-
Current assets							
Inventories	-	17,871			17,871	9,629	27,500
Receivables deposit sand prepayments	-	2,635			2,635		2,635
Amount due from Mongolia Co	56,407	-	(56,407)	1.3	-		-
Amount due from a related company	-	7,503			7,503		7,503
Cash and cash equivalents	183	1,162			1,345		1,345
Current liabilities							
Trade and other payables	-	(2,487)			(2,487)		(2,487)
Amounts due to the Vendors	(69,564)	-			(69,564)		(69,564)
Amount due to the Target Company	-	(56,407)	56,407	1.3	-		-
Income tax payable	-	(1,066)			(1,066)		(1,066)
Borrowing	-	(1,560)			(1,560)		(1,560)
Obligation under finance lease	-	(597)			(597)		(597)
Non-current liabilities							
Deferred tax liabilities	-	(195)			(195)	(6,647)	(6,842)
Net assets/(liabilities)	<u>(285)</u>	<u>2,340</u>			<u>(10,634)</u>		<u>11,080</u>

- 1.7 Pursuant to the Acquisition Agreement, the Vendors have jointly and severally (i) warranted to the Group that the Target Group shall have no liabilities and/or debts due to any third parties (other than the Vendors) on Completion and (ii) agreed to indemnify the Group on a dollar-for dollar basis of any such liabilities.

The adjustment reflects the recognition of the amounts owing by the Vendors to the Group of approximately HK\$4,150,000 in respect of the indemnity given by the Vendors to the Group for any liabilities and/or debts due to any third parties (other than the Vendors) by the Target Group on Completion, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2012). This adjustment is not expected to have a continuing effect on the Enlarged Group.

For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the total liabilities (other than the amounts due to the Vendors) of the Target Group as at 31 December 2012 of approximately HK\$4,150,000 is calculated based on (i) trade and other payables of approximately HK\$2,487,000; (ii) income tax payable of approximately HK\$1,066,000 and (iii) obligation under finance lease of approximately HK\$597,000 as extracted from the audited statement of financial position of Mongolia Co as at 31 December 2012 (as set out in Appendix III to this circular).

- 1.8 The adjustment reflects the settlement of amounts owing by the Enlarged Group to the Vendors of approximately HK\$18,850,000 upon the Completion, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2012).

For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the amounts owing by the Enlarged Group to the Vendors of approximately HK\$18,850,000 immediately before the Completion is calculated based on the 1st Deposit of approximately HK\$23,000,000 placed by the Vendors with the Target Group as at 31 December 2012 and the amounts owing by the Vendors to the Group of approximately HK\$4,150,000 in respect of the indemnity given by the Vendors to the Group pursuant to the Acquisition Agreement (note 1.7).

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

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

28 June 2013

The Directors
China Natural Investment Company Limited

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**Introduction**

We report on the unaudited pro forma financial information of China Natural Investment Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), as enlarged by the acquisition of entire issued share capital of Sino-Mongolia Fluorspar Mining Co. Ltd (the "Target Company") (hereinafter collectively referred to as the "Enlarged Group") and the acquisition of the Sale Loan (as defined in the Circular), comprising the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), as set out in Section A entitled "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix V to the Company's circular dated 28 June 2013 (the "Circular"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Acquisition (as defined in the Circular) might have affected the financial information presented in the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix V to the Circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM 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.

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. 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. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors 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 7.31(1) of the GEM Listing Rules.

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, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2012 or any future date.

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 7.31(1) of the GEM Listing Rules.

Yours faithfully,

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Jonathan T. S. Lai

Practising Certificate Number: P04165

Hong Kong



Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
<http://www.romagroup.com>

28 June 2013

China Natural Investment Company Limited

Unit 1903, 19th Floor,
West Tower, Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Dear Sir/Madam,

RE: BUSINESS VALUATION OF 100% EQUITY INTEREST IN SINO-MONGOLIA FLUORSPAR MINING CO., LTD.

In accordance with the instructions from China Natural Investment Company Limited (hereinafter referred to as the “Company”), we have conducted a business valuation of 100% equity interest in Sino-Mongolia Fluorspar Mining Co., Ltd. (hereinafter referred to as the “Business Enterprise”). We are pleased to report that we have made relevant enquiries and obtained other information which we consider are relevant for the purpose of providing our valuation as at 31 December 2012 (hereinafter referred to as the “Date of Valuation”).

This report states the purpose and basis of valuation, scope of work, an overview of the Business Enterprise, major assumptions, valuation methodology, limiting conditions, and presents our opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. The Company is a public company listed on the Stock Exchange of Hong Kong Limited (Stock code: 8250.HK). In addition, Roma Appraisals Limited (hereinafter referred to as “Roma Appraisals”) acknowledges that this report may be made available to the Company for public documentation purpose and include in the Company’s circular only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and on information provided by the management of the Company and/or its representative(s) (together referred to as the “Management”).

In preparing this report, we have had discussions with the Management and the Company in relation to the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

3. THE BUSINESS ENTERPRISE

The Business Enterprise is an investment holding company for the purpose of holding the 100% equity interest in MCTT Company Limited (hereinafter referred to as the “Mongolia Company”). The Mongolia Company is a company established in Mongolia in August 2005 and legally holds the exploitation licences at two mines located at Bayankhagan County, Middle Gobi Province, Mongolia and Airag County, East Gobi Province, Mongolia (the “Mines”) respectively. The Mongolia Company also holds the legal title to a fluorite processing factory situated at the Qiaoyier City, Gobi Sumubeier Province, Mongolia. The principal business of the Business Enterprise and the Mongolia Company is the exploitation, exploration, processing and trading of fluorites. Photos of the buildings and structures held by the Business Enterprises are appended in this report.

4. BASIS OF VALUATION

Our valuation is conducted on a fair value basis. **Fair value** is defined as “the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties”.

5. INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable. We have also consulted other sources of financial and business information.

The valuation of the Business Enterprise requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Business Enterprise;
- The financial and operating conditions of the Business Enterprise;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry, and market;

- Relevant licences and agreements;
- The business risks of the Business Enterprise such as the ability in maintaining competent technical and professional personnel; and
- Investment returns and market transactions of entities engaged in similar lines of business.

6. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the fair value of the Business Enterprise, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

6.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

6.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

6.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum

represents the value of a business entity and equals to the value of its invested capital (“equity and long term debt”). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (“equity”) and investors who lend money to the business entity (“debt”). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

6.4 Business Valuation

In the process of valuing the Business Enterprise, we have taken into account of the uniqueness of its operation and the nature of the fluorite mining and processing industry it is participating. Also, we have considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

In the course of our valuation, the Market-Based Approach was not adopted in this case because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were hidden. The Income-Based Approach was not adopted because a lot of assumptions will have to be made and the valuation could be largely influenced by any inappropriate assumptions made. We have therefore considered the adoption of the Asset-Based Approach in arriving at the fair value of the Business Enterprise.

Under Asset-Based Approach, we first obtained the value of each asset and liability of the Business Enterprise as at the Date of Valuation, and arrived at the net asset value of the Business Enterprise, which represented the fair value of the Business Enterprise.

We have adopted the appropriate valuation methodology for each different class of assets and liabilities of the Business Enterprise illustrated as follows:

Assets	Valuation Methodology
Property, plant and equipment	With reference to depreciated replacement costs and market prices if available.
Intangible assets	Based on book values. As advised by the Management, no substantive exploration works and evaluation of mineral reserves or resources in respect of the Mines have been conducted.
Inventories	Respectively based on market selling price for raw materials; and market selling price less costs to sell for products held for sale.
Other receivables, deposits paid and prepayments	Based on book values after checking the original contracts and/or invoices as provided by the Management.
Amount due from a related company	Based on book values after checking the original contracts and/or invoices as provided by the Management.

Bank balances and cash	Based on the book values with reference to the bank statements.
Liabilities	Valuation Methodology
Accounts payables and accrued charges	Based on book values after checking the original contracts and/or invoices as provided by the Management.
Other payables	Based on book values after checking the original contracts and/or invoices as provided by the Management.
Amounts due to shareholders	Based on bank values before considering the adjustment for advances from the Vendors (as defined in the circular) waived as provided by the Management.
Profit tax payables	Based on book values after checking the original contracts and/or invoices as provided by the Management.
Obligations under finance lease	Based on book values after checking the original contracts and/or invoices as provided by the Management.

7. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- All relevant legal approvals and business certificates or licences to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry;
- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operates, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;
- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise;
- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing;
- In the course of our valuation, for the content and grading of calcium fluoride in inventories, we have relied on the production report provided by the Management. We are not able to comment the content and grading of calcium fluoride in inventories;

- During our sample inspection of the concerned assets which included on site visits performed by valuer, Mr. Jenkin Tsin, we observed that the concerned assets had been observed to be in generally good operating conditions. Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or other observable conditions distinguishing the appraised assets from concerned assets of like kind in new condition were noted and made part of our judgment in arriving at our opinion;
- The situation being such, we have to a substantial extent relied upon our best judgment, while giving full consideration to the local condition;
- It was assumed that prospective earnings would provide a reasonable return on the appraised values of the concerned assets, plus the values of any assets not included in the valuation, and adequate net working capital;
- It must be noted that our valuation is relied on the information supplied by the Management that the concerned assets are in reasonable operating conditions. We did not attempt to operate or test the concerned assets. In addition, our valuation has been prepared based upon the assumptions that the concerned assets will continue in the existing use and the concerned assets will be used in the existing state with the benefit of continuity of tenure of land and buildings in the foreseeable future;
- We have not carried out a mechanical survey, nor have we inspected covered or inaccessible areas of the concerned assets. Also no investigation was conducted as to whether the operation of specific pieces of concerned assets complied with the relevant environmental standard and ordinances; we have assumed that the concerned assets continue and will continue to comply with the current environmental standards and ordinances. We have made no allowance in our valuation for costs, if any, associated with the disposal or handling of materials required to comply with current or changing environment legislations; and
- We have made no investigation and assume no responsibility for titles or liabilities against the concerned assets.

8. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the fair value of the Business Enterprise. The factors considered included, but were not necessarily limited to, the following:

- The business nature of the Business Enterprise;
- Financial statements of the Business Enterprise;
- Historical information of the Business Enterprise;
- Market trends of the industry related to the Business Enterprise;
- General descriptions in relation to the Business Enterprise; and

- Economic outlook in China.

We have discussed the details with the Management. We have also conducted research from various sources to verify the reasonableness and fairness of information provided and we believe that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our opinion.

9. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events or circumstances have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on the historical and/or prospective information provided by the Management including but not limited to the sales records of the inventory and other third parties in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the Business Enterprise was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the fair value of the Business Enterprise.

We have not investigated the title to or any legal liabilities of the Business Enterprise, and have assumed no responsibility for the title to the Business Enterprise appraised.

Our conclusion of the fair value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

No change to any item in any part of this report shall be made by anyone except Roma Appraisals. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public without the written consent and approval of Roma Appraisals through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of Roma Appraisals.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report does not pass to the Company until all professional fee has been paid in full.

10. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the fair value of 100% equity interest in the Business Enterprise as at the Date of Valuation, in our opinion, was reasonably stated as HK\$57,643,158 (HONG KONG DOLLARS FIFTY SEVEN MILLION SIX HUNDRED FORTY THREE THOUSAND ONE HUNDRED AND FIFTY EIGHT ONLY).

Detailed breakdowns are illustrated in the table as follows:

As at 31 Decemrber 2012

	Book Value <i>HK\$</i>	Fair Value <i>HK\$</i>
Non-current Assets		
Property, plant and equipment	33,772,337	52,503,864
Intangible assets	1,709,220	1,709,220
Current Assets		
Inventories	17,871,382	27,500,000
Receivables, deposits and prepayments	2,635,151	2,635,151
Amount due from a related company	7,502,422	7,502,422
Bank balances and cash	<u>1,344,198</u>	<u>1,344,198</u>
Total Assets	<u>64,834,710</u>	<u>93,194,855</u>
Current Liabilities		
Accounts payables and accrued charges	2,486,528	2,486,528
Amounts due to shareholders	69,564,059	23,000,000
Short term borrowing	1,560,000	1,560,000
Income tax payable	1,066,412	1,066,412
Obligations under finance lease	596,894	596,894
Non-current Liabilities		
Deferred tax liabilities	<u>195,057</u>	<u>6,841,863</u>
Total Liabilities	<u>75,468,950</u>	<u>35,551,697</u>
Net Assets/(Liabilities)	<u>(10,634,240)</u>	<u>57,643,158</u>

11. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars (HK\$).

We hereby confirm that we have neither present nor prospective interests in the Company, the Business Enterprise, the Mongolia Company and their holding companies, subsidiaries and associated companies, or the values reported herein.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Kelvin Luk
CVA
Director

Alan Lee
B Com (Property) MFin
AAPI CPV CPV (Business)
Associate Director

Notes:

Mr. Luk is a member of the International Association of Consultants, Valuators and Analysts (IACVA). He has over eight years of experience in valuation and consultation related to companies engaged in similar business activities worldwide as that of the Business Enterprise.

Mr. Lee is a Certified Practising Valuer (Business) of Australian Property Institute and has over four years of experience in business valuation. He has involved in valuation related to companies engaged in similar business activities worldwide as that of the Business Enterprise.

Angela Kwan, Terry Hui, Stephen Chan, Harris Tam and Jenkin Tsin are contributing valuers of the valuation report.



1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

As at the Latest Practicable Date, none of the Directors and chief executive has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

(b) Substantial shareholders' interests

As at the Latest Practicable Date, so far as was known to any director of the Company, persons who have an interest or a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company pursuant to section 336 of the SFO were as follows:

Long positions in shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximate % to the issued share capital
Mr. Hu Zhixiong ("Mr. Hu")	Held by controlled entity	1,300,000,000 (Note)	27.88%
Tai Pu Mining International Co., Ltd ("Tai Pu")	Beneficial owner	1,300,000,000 (Note)	27.88%
Mr. Zhang Lijun	Beneficial owner	258,000,000	5.53%

Note: Tai Pu is wholly and beneficially owned by Mr. Hu.

Save as disclosed above, as at the Latest Practicable Date so far as was known to any director of the Company, no other persons had an interest or a short position in the shares, underlying shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

3. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Group.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

The Directors confirm that there was no contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested which was significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 30 June 2012, being the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. MATERIAL CONTRACTS

The following contracts have been entered into by the Enlarged Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular:

- (a) the memorandum dated 30 June 2011 entered into among Core Medical Technology Limited ("Core Medical"), an indirect wholly-owned subsidiary of the Company, and Linkfield Properties Limited in relation to the proposed acquisition of the property at a consideration of HK\$15,500,000;
- (b) the sales and purchase agreement dated 12 January 2012 entered into between the Target Company and the ex-shareholders of Mongolia Co. in relation to the acquisition of all the equity interest of Mongolia Co.;

- (c) the underwriting agreement dated 28 February 2012 entered into between the Company and Kingston Securities Limited in relation to the proposed issue of not less than 554,167,446 new Shares and not more than 554,274,003 new Shares by way of open offer;
- (d) the sale and purchase agreement dated 23 April 2012 entered into between Ms. Zee Helen and Fairy Empire Investment Limited in relation to the sale and purchase of 1 ordinary share of US\$1 each in the issued share capital of Fairy Global Investment Limited (“Fairy Global”) and all indebtedness, obligations and liabilities due, owing or incurred by Fairy Global to Fairy Empire Investment Limited as at the date of completion at an aggregate consideration of HK\$22,500,000;
- (e) the loan agreement dated 25 April 2012 entered into between the Company and an independent third party with a principal amount of HK\$12,000,000 at an interest rate of 12% per annum and repayable in October 2012 and the supplemental loan agreements dated 21 November 2012 and 26 April 2013, respectively entered into between the Company and the independent third party for the extension of the expiry date of the principal loan amount of HK\$10,000,000, at an interest rate of 12% per annum to 24 April 2013 and 24 October 2013, respectively;
- (f) the Acquisition Agreement;
- (g) the conditional placing agreement dated 9 May 2012 entered into between the Company and Kingston Securities Limited in respect of the placing of a maximum of 1,000,000,000 new Shares at HK\$0.05 per Share;
- (h) the convertible notes placing agreement dated 9 May 2012 entered into between the Company and Kingston Securities Limited in relation to the placing of the convertible notes in an aggregate maximum principal amount of HK\$100,000,000 with conversion price of HK0.05 per conversion share;
- (i) On 7 September 2012, a sale and purchase agreement was entered into between Chemosino International Limited (“CN BVI”) (a direct wholly-owned subsidiary of the Company), as vendor, and Town Health Asset Management Limited (“TH Property Holding”), as purchaser. Pursuant to that sale and purchase agreement, CN BVI has conditionally agreed to sell and TH Property Holding has conditionally agreed to acquire the entire issued share capital of Million Worldwide Investment Limited, a company wholly owned by CN BVI, at a consideration of HK\$195,000,000 which will be satisfied by the allotment and issue of new shares in the capital of TH Property Holding (the “Consideration Shares”) by TH Property Holding to CN BVI upon the completion of the aforesaid disposal. Immediately after the said completion, CN BVI would in turn own 25% of the issued share capital of TH Property Holding as enlarged by the issue of the Consideration Shares;
- (j) the deeds of variation dated 13 September 2012, 30 October 2012, 31 December 2012, 30 April 2013 and 7 May 2013 respectively, relating to the amendment of the longstop date and the increase of HK\$9,500,000 refundable deposit paid to the Vendors in the Acquisition Agreement; and

- (k) the loan agreement dated 8 January 2013 entered into between the Company and the borrower, an independent third party, with a principal loan amount of HK\$11,000,000 for a maximum of six months period with expiry date on 7 July 2013, at an interest rate of 12% per annum.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
CCTH CPA Limited	Certified Public Accountants
Roma Appraisals Limited	Independent professional valuer

Each of HLB Hodgson Impey Cheng Limited, CCTH CPA Limited and Roma Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its statement on the date and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, HLB Hodgson Impey Cheng Limited, CCTH CPA Limited and Roma Appraisals Limited: (i) did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group, since 30 June 2012, the date to which the latest audited financial statements of the Group was made up; and (ii) did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. MISCELLANEOUS

- (a) The registered office of the Company is situated at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The head office and the principal place of business of the Company in Hong Kong is situated at Unit 1903, 19th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

- (c) The company secretary of the Company is Mr. Luk Chi Shing, who is an Associate of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants.
- (d) The Company's Audit Committee is currently composed of all three independent nonexecutive Directors, namely, Mr. Tam B Ray, Billy, Mr. Chi Chi Hung, Kenneth and Mr. Yan Shengxian. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports; (b) to serve as a focal point for communication between Directors, the external auditors and internal auditors; (c) to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system; and (d) to review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditors.
- (e) The Company's compliance officer is Mr. Chen Liang, who is also an executive Director.
- (f) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road Central, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the head office and the principal place of business of the Company in Hong Kong during normal business hours from 9:00 a.m. to 6:00 p.m. on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) any material contracts disclosed in this Appendix;
- (c) the consolidated audited accounts of the Group for each of the 2 financial years immediately preceding the issue of this circular;
- (d) a written statement signed by the reporting accountants setting out the adjustments made by them in arriving at the figures shown in their report and giving the reasons therefor;
- (e) the Unaudited Pro Forma Financial Information of the Enlarged Group;
- (f) the valuation report;
- (g) the written consents and letters for incorporation in this circular of the experts referred to in the section headed "Experts and Consents" in this Appendix;
- (h) this circular; and
- (i) a copy of each circular issued pursuant to the requirements set out in Chapter(s) 19 and/or 20 of the GEM Listing Rules which has been issued since the date of the latest published audited accounts.

NOTICE OF EXTRAORDINARY GENERAL MEETING



China Natural Investment Company Limited 中國天然投資有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 8250)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of China Natural Investment Company Limited (the “**Company**”) will be held at 3/F, Nexxus Building, 77 Des Voeux Road Central, Hong Kong on Friday, 19 July 2013 at 2:30 p.m. to consider and, if thought fit, pass the following resolutions:

ORDINARY RESOLUTIONS

“**THAT:**

- (a) the acquisition agreement dated 7 May 2012 as amended from time to time (the “**Acquisition Agreement**”) entered into between Huge Discovery Limited, an indirect wholly-owned subsidiary of the Company and Ms. Chen Yejun and Mr. Huang Tianhua in relation to the acquisition of 100 issued and fully paid shares of US\$1.00 each in the capital of Sino-Mongolia Fluorspar Mining Co., Ltd. and all amounts owed by it and its wholly owned subsidiary, MCTT Company Limited, to the Vendors and all the transactions contemplated thereunder and all other matters of and incidental thereto or in connection therewith be and are hereby approved, ratified and confirmed in all respects;
- (b) the directors of the Company or any of them (the “**Directors**”) be and are hereby authorised to exercise all the powers of the Company and take all steps as might in his/their opinion be desirable, necessary or expedient in connection with the implementation of the transactions contemplated under the Acquisition Agreement, including, without limitation to, the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements.”

By Order of the Board
China Natural Investment Company Limited
Chen Liang
Chief Executive Officer

Hong Kong, 28 June 2013

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered office:
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

*Head office and principal place of
business in Hong Kong:*
Unit 1903, 19th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the extraordinary general meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the extraordinary general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the extraordinary general meeting or any adjournment thereof should he/she so wish.
- (3) Completion and return of an instrument appointing a proxy should not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) As required under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the resolutions will be decided by way of poll.

As at the date hereof, the Board comprises (i) five executive Directors namely, Mr. Li Wai Hung, Mr. Chen Liang, Mr. Cai Da, Mr. Chen Youhua and Ms. Xiong Yun Huan; and (ii) three independent non-executive Directors namely, Mr. Tam B Ray, Billy, Mr. Chi Chi Hung, Kenneth and Mr. Yan Shengxian.

This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this notice is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this notice misleading.

This notice will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least seven days from the date of its publication and is available for reference on the website of the Company at <http://www.chinanatural.com.hk>.